

**NATIONAL INDUSTRIALIZATION COMPANY
(SAUDI JOINT STOCK COMPANY)**

**CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017**

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

<u>INDEX</u>	<u>PAGE</u>
Independent auditor's report	2 – 9
Consolidated statement of financial position	10
Consolidated statement of profit or loss	11
Consolidated statement of other comprehensive income	12
Consolidated statement of changes in equity	13
Consolidated statement of cash flows	14
Notes to the consolidated financial statements	15 - 69

Independent auditor's report

To the shareholders of National Industrialization Company

Riyadh, Kingdom of Saudi Arabia

Opinion

We have audited the consolidated financial statements of National Industrialization Company ("Tasnee" or the "Company") a Saudi Joint Stock Company and its subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements from (1) to (38), including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") endorsed in the Kingdom of Saudi Arabia, and other standards and versions endorsed by Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the professional code of conduct endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with its 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 judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters include:

Key Audit Matters (continued)

Tronox transaction	
<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>In February 2017, a conditional transaction agreement was signed to sell to Tronox Limited A.C.N. a public limited company registered under the laws of the State of Western Australia and listed on the New York stock exchange (“Tronox”), the domestic and international titanium dioxide (TiO2) business of the National Titanium Dioxide Company (“Cristal”) (including but not limited to the sale of (a) all international subsidiaries of Cristal, (b) assets (including the Yanbu plant of Cristal) and liabilities relevant to such business; and (c) contracts, intellectual property and goodwill in respect of such business (the “Cristal Assets”)) in return for US\$ 1.673 billion (SR 6.274 billion) cash and 37,580,000 of newly issued Class A shares in Tronox (which represents approximately 24% of the shareholding in Tronox at closing).</p> <p>During December 2017, the Federal Trade Commission of United States has filed suit to block the transaction. This action is being challenged by the transacting counterparty. The regulatory process of European Commission is also currently in process.</p> <p>Management is of the view that the high probability test of transaction completion as required by IFRS had not been achieved at the statement of financial position date and consequently no reclassification has occurred.</p> <p>We considered this as a key audit matter as judgment is required by management to assess whether this transaction meets the “high probability” test described in IFRS 5 (“Non-Current Assets Held for Sale and Discontinued Operations”), which mandates how the assets subject to this conditional transaction agreement should be presented in these consolidated financial statements.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> - Assessing progress against milestones within the sales timeline to conclude on management’s determination when a reclassification of assets and liabilities was required under IFRS 5 as “Non-Current Assets Held for Sale and Discontinued Operations”; - In particular, our audit concentrated on assessing whether the “high probability” test under IFRS 5 had or had not been achieved; - Looking at the timing of approval of the transaction by Tronox shareholders, and progress in funding the transaction, and in clearing the transaction with regulators in a variety of jurisdictions; <p>The current circumstances and results of on our audit procedures support management’s assessment that the “high probability” test has yet to be passed.</p>
Refer to note 27 for related disclosures.	

Key Audit Matters (continued)

IFRS conversion	
<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>For all periods up to and including the year ended 31 December 2016, the Group prepared its consolidated financial statements in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia as issued by SOCPA ("Previous GAAP"). The Group adopted IFRS as from 1 January 2017, also early adopting IFRS 9 and 15 at that time.</p> <p>These consolidated financial statements for the year ended 31 December 2017 are the first annual consolidated financial statements prepared in accordance with IFRS as endorsed in Kingdom of Saudi Arabia and other standards and pronouncement issued by SOCPA.</p> <p>The Group has prepared these annual consolidated financial statements that comply with IFRS as endorsed in KSA as at 31 December 2017, as well as for presenting the relevant comparative period data for the period ended 31 December 2016. In compliance with requirements of IFRS 1 endorsed in KSA, the Group's opening statement of consolidated financial position was prepared as at 1 January 2016 ("transition date") after incorporating required adjustments to reflect the transition to IFRS as endorsed in KSA from the Previous GAAP.</p> <p>We considered this a key audit matter as the basis of accounting is fundamental to the presentation and preparation of the financial statements.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> - Considering the process to identify all necessary adjustments to opening balances and comparatives; - Examining management's categorization of major holdings in entities between subsidiaries, joint ventures, joint operations and associated companies, matching management's analysis against shareholder and other agreements, and the definition of control with IFRS 10 and the provisions of IFRS 10 ("Consolidated financial statements") and IFRS 11 ("Joint Arrangements") and IAS 28 ("Investments in Associates and Joint Ventures"); - Critically examining management's approach to estimates, including estimated useful life of property, plant and equipment, and residual value; - Testing these estimates against the advice from management experts, compared the useful lives to manufacturers' warranty terms where possible, and benchmarked estimates against industry peer groups; - Examining and tested business process changes necessary with respect to timing and quantum of revenue recognition.
<p>Refer to note 2.1 for accounting policy and note 7 for related disclosures.</p>	

Key Audit Matters (continued)

Carrying value of major assets	
<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The Group makes and has significant investments in tangible and intangible assets that are associated with its operations and business units around the world, together with major capital projects designed to enhance the future economic benefit of the Group. Management performs an annual impairment review of goodwill and intangible assets with indefinite life and performs an impairment assessment of the identified fixed assets when there are indicators of impairment. These valuations of the fixed assets, goodwill and indefinite life of intangible assets are performed by management using appropriate valuation models to determine the realizable values for the purposes of the impairment assessments.</p> <p>We considered this as a key audit matter since use of management assumptions and judgments could result in material over / understatement of the Group's profitability.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> - Considering management's testing of impairment of intangible and tangible assets; - Considering management's assessment of indications of impairment, and their view of cash generating units; - Critically reviewing the inputs and assumptions in the impairment tests performed, and performed sensitivity analysis as part of testing to determine headroom within tests and the residual risk of material misstatement; - Examining evidence from management that capital work in progress comprised only ongoing projects valued at amounts which were reasonably expected to produce positive economic returns in present day terms when completed; - Examining the development of the Gizan slagger which has experienced technical issues and is behind schedule and over original budget; - Discussing with management the actions they plan to complete the project, and examined third party evidence in support of the technical design of the plant; - Critically examining the current cash flow projections associated with the project, and the major project risks in order to determine the appropriateness of the year end carrying value.
Refer to note 2 for accounting policy and note 12 and 14 for related disclosures.	

Key Audit Matters (continued)

Revenue recognition	
<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>Revenue represents sale of goods and rendering of services. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. At 1 January 2017, the Group early-adopted IFRS 15 "Revenue from Contracts with Customers". The Group recognizes revenue when it transfers control over a product or service to a customer in line with the requirements of this standard.</p> <p>Revenue from sale of goods is recognized when control of the products has transferred, being when the products are delivered to the customers, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Revenue from providing services is recognized over a period of time as the related services are performed. For fixed-price contracts, revenue is recognized based on the 'percentage of completion' method which measures actual service provided to the end of the reporting period as a proportion of the total services to be provided.</p> <p>Revenue recognition is considered a key audit matter as the timing and amount of revenue recognized in a financial period can have a material effect on the financial performance.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> - Considering appropriateness of revenue recognition as per the Group policies including those relating to discounts and assessing compliance with applicable accounting standards; - Testing the design and effectiveness of internal controls implemented by the Group through the revenue cycle; - Testing sales transactions taking place at either side of the consolidated statement of financial position date to assess whether the revenue was recognized in the correct period; - Performing analytical review on revenue based on trends of monthly sales and profit margins.
Refer to note 2.4 for accounting policy.	

Key Audit Matters (continued)

Valuation of inventories	
<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>Inventories are stated at the lower of cost and net realizable value and an allowance of slow moving inventories is made by the Group's management, where necessary. The management estimates the level of obsolescence of inventories considering the nature, ageing and other sales expectation factors. Management reviews the valuation of inventories for the purpose of writing off the excess costs of inventories that are forecasted to be sold at below cost.</p> <p>Valuation of inventories is considered a key audit matter due to the significant judgment and main assumptions applied by the management in determining the allowance of slow moving inventories and inventories written off based on net realizable value assessment.</p> <p>Also, we considered this as a key audit matter since the existence and carrying value of inventory could be material to the performance of the Group and to the Group's assets.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> - Assessing the design and implementation, and testing the effectiveness of the Group's controls around the estimation and monitoring of the allowance of slow moving inventories; - Evaluating the Group's policies for slow moving inventories by performing backdated testing through comparing historical estimated by actual results; - Testing the validity of the inventories ageing reports used by management in the assessment of allowance of slow moving inventories; - Checking that the allowance of inventories is matching with the Group's policies based on inventories ageing reports; - Inquiring about any identified obsolete or slow moving inventories; - Testing the net realizable value of finished goods inventories to check whether inventories are stated at the lower of cost and net realizable value.
<p>Refer to note 2.14 for accounting policy and note 10 for related disclosures.</p>	

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and Those Charged With Governance for the financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or have no realistic alternative but to do so.

Those Charged With Governance, in particular the Audit Committee, are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 ISAs 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 consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, 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 Company's/Group's internal control.

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the management and 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 consolidated financial statements of the current period and are therefore the key audit matters. 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 a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In our opinion these financial statements, taken as a whole, comply with the Regulations for Companies and the Company's by-laws with respect to the preparation and presentation of consolidated financial statements.

For Dr. Mohamed Al-Amri & Co



Gihad Al-Amri
Certified Public Accountant
Registration No. 362



Riyadh, on 27 February 2018 G
Corresponding to: 11 Jumada II' 1439 H

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Consolidated statement of financial position
As at 31 December 2017
(SR in '000)

	<u>Note</u>	<u>31 December</u> <u>2017</u>	<u>31 December</u> <u>2016</u>	<u>01 January</u> <u>2016</u>
ASSETS				
Current assets				
Cash and cash equivalents	8	2,535,215	2,430,060	3,133,699
Trade and other receivables, net	9	2,726,665	2,008,177	1,978,606
Inventories	10	2,815,971	2,949,398	3,639,132
Prepayments and other current assets	11	1,562,309	1,087,305	1,066,408
Total current assets		9,640,160	8,474,940	9,817,845
Non-current assets				
Property, plant and equipment	12	9,328,349	9,119,412	9,073,873
Projects under progress	13	2,621,110	2,941,400	3,528,816
Intangible assets	14	2,817,793	2,815,421	2,794,409
Exploration and evaluation costs		374,685	392,337	229,815
Investments in equity accounted in associates and joint ventures	15	6,855,681	6,628,855	6,413,132
Investment in equity instruments designated as FVOCI	16	862,580	856,561	1,319,330
Deferred tax assets	17	287,107	233,426	307,334
Other non-current assets		1,205,729	1,123,119	63,864
Total non-current assets		24,353,034	24,110,531	23,730,573
Total assets		33,993,194	32,585,471	33,548,418
LIABILITIES AND EQUITY				
Current liabilities				
Short term facilities	18	17,440	68,018	2,017,770
Borrowings – current portion	19	813,994	2,392,116	3,195,820
Accounts payable	20	2,656,389	2,233,173	2,301,572
Provisions and other current liabilities	21	1,732,097	1,549,279	1,071,121
Zakat and income tax payable	17	354,108	311,895	296,775
Total current liabilities		5,574,028	6,554,481	8,883,058
Non-current liabilities				
Long term borrowings	19	14,785,848	14,135,185	12,459,344
Employee benefits	22	579,827	470,905	411,212
Deferred tax liabilities	17	271,094	260,156	460,789
Other non-current liabilities	23	992,845	619,957	527,179
Total non-current liabilities		16,629,614	15,486,203	13,858,524
Total liabilities		22,203,642	22,040,684	22,741,582
Equity				
Share capital	24	6,689,142	6,689,142	6,689,142
Statutory reserve	25	1,234,303	1,162,687	1,141,862
Other reserves	26	(450,155)	(753,722)	(689,974)
Retained earnings		877,792	233,252	152,654
Equity attributable to the equity holder of parent		8,351,082	7,331,359	7,293,684
Non-controlling interests		3,438,470	3,213,428	3,513,152
Total equity		11,789,552	10,544,787	10,806,836
Total liabilities and equity		33,993,194	32,585,471	33,548,418

Chief Financial Officer

Chief Executive Officer

Authorized Board Member

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Consolidated statement of profit or loss
For the year ended 31 December 2017
(SR in '000)

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Revenue		10,796,424	8,619,532
Cost of revenue		<u>(8,692,257)</u>	<u>(7,712,493)</u>
Gross profit		2,104,167	907,039
Operating expenses			
Selling and distribution expenses	28	(582,136)	(539,744)
General and administrative expenses	29	(1,057,002)	(1,013,774)
Share of net profit from associates and joint ventures	15	1,343,941	1,403,913
Impairment of non-current assets		<u>(185,136)</u>	<u>(9,895)</u>
Operating Profit		1,623,834	747,539
Other income / (expense), net	30	230,911	164,252
Finance cost		<u>(706,108)</u>	<u>(529,361)</u>
Profit before Zakat and income tax		1,148,637	382,430
Zakat and income tax expense	17	9,402	(74,396)
Net profit for the year		<u>1,158,039</u>	<u>308,034</u>
Attributable to:			
Equity holder of parent		716,156	101,423
Non-controlling interests		<u>441,883</u>	<u>206,611</u>
		<u>1,158,039</u>	<u>308,034</u>
Earnings per share			
Basic and diluted (SR)	31	<u>1.07</u>	<u>0.15</u>

Chief Financial Officer

Chief Executive Officer

Authorized Board Member

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Consolidated statement of other comprehensive income
For the year ended 31 December 2017
(SR in '000)

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Net profit for the year		1,158,039	308,034
Other comprehensive income			
<i>Items to be reclassified to profit or loss in subsequent periods:</i>			
Exchange adjustments on translation of foreign operations	7.4	333,300	(119,162)
Cash flow hedge reserve	7.4	(879)	(4,916)
Total items to be reclassified to profit or loss in subsequent periods		332,421	(124,078)
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>			
Re-measurement of defined benefit plan		24,229	-
Gains / (losses) on investments in equity instruments designated as FVOCI	7.4	41,013	56,251
Total items not to be reclassified to profit or loss in subsequent periods		65,242	56,251
Total comprehensive income for the year		1,555,70	240,207
Attributable to:			
Equity holder of parent		1,019,72	37,675
Non-controlling interests		535,979	202,532
		1,555,70	240,207

Chief Financial Officer

Chief Executive Officer

Authorized Board Member

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements

NATIONAL INDUSTRIALIZATION COMPANY

(A Saudi Joint Stock Company)

Consolidated statement of changes in equity

For the year ended 31 December 2017

(SR in '000)

	<u>Note</u>	Attributable to equity holder of parent				Total equity	Non-controlling interests	Total equity
		Share capital	Statutory reserve	Retained earnings	Other reserves			
As at 1st January 2016		6,689,142	1,141,862	152,654	(689,974)	7,293,684	3,513,152	10,806,836
Net profit for the year		-	-	101,423	-	101,423	206,611	308,034
Other comprehensive income		-	-	-	(63,748)	(63,748)	(4,079)	(67,827)
Net movements during the year		-	-	-	-	-	(502,256)	(502,256)
Transfer to statutory reserve		-	20,825	(20,825)	-	-	-	-
As at 31 December 2016	24	6,689,142	1,162,687	233,252	(753,722)	7,331,359	3,213,428	10,544,787
Net profit for the year		-	-	716,156	-	716,156	441,883	1,158,039
Other comprehensive income		-	-	-	303,567	303,567	94,096	397,663
Net movements during the year		-	-	-	-	-	(310,937)	(310,937)
Transfer to statutory reserve		-	71,616	(71,616)	-	-	-	-
As at 31 December 2017	24	6,689,142	1,234,303	877,792	(450,155)	8,351,082	3,438,470	11,789,552

Chief Financial Officer

Chief Executive Officer

Authorized Board Member

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Consolidated statement of cash flows
For the year ended 31 December 2017
(SR in '000)

	<u>Note</u>	<u>2017</u>	<u>2016</u>
<u>CASH FLOW FROM OPERATING ACTIVITIES</u>			
Net profit before Zakat and income tax		1,148,637	382,430
<i>Adjustments for:</i>			
Depreciation and amortization	12,14	853,088	858,310
Impairment of trade receivables	9	26,257	40,648
Impairment of non-current assets	12	185,136	9,895
Provision for slow moving inventories	10	14,037	35,437
Employee benefits, net		152,188	59,694
Share of net profit / (loss) from equity accounted associates and joint ventures		(1,343,941)	(1,403,913)
Finance costs		706,108	529,361
<i>Changes in operating assets and liabilities:</i>			
Inventories		119,390	654,299
Trade and other receivables		(744,745)	(70,219)
Prepayments and other current assets		(475,004)	(20,897)
Other non-current assets		(118,639)	(1,147,869)
Accounts payable		423,216	(68,399)
Other current liabilities		244,388	345,020
Other non-current liabilities		383,638	(107,855)
Zakat and income tax paid		(43,266)	(59,276)
Net cash flows from operating activities		1,530,488	36,666
<u>CASH FLOW FROM INVESTING ACTIVITIES</u>			
Additions to property, plant and equipment		(706,520)	(1,011,019)
Disposals of property, plant and equipment, net		11,551	139,140
(Additions) / deletion to projects under progress, net		(111,533)	587,416
(Additions) / deletion to intangible assets, net		(80,298)	(61,932)
Investments in equity accounted on associates and joint ventures		1,328,011	1,251,191
Investments in equity instruments designated as FVOCI, net		-	399,769
Net cash flows from investing activities		441,211	1,304,565
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Short term facilities, net		(50,578)	(1,917,613)
Borrowings, net		(927,270)	839,997
Finance costs paid		(671,855)	(460,919)
Non-controlling interests		(216,841)	(506,335)
Net cash flows used in financing activities		(1,866,544)	(2,044,870)
Net increase / (decrease) in cash and cash equivalents		105,155	(703,639)
Cash and cash equivalents at beginning of the year	8	2,430,060	3,133,699
Cash and cash equivalents at end of the year	8	2,535,215	2,430,060

Chief Financial Officer

Chief Executive Officer

Authorized Board Member

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

1. STATUS AND NATURE OF ACTIVITIES

National Industrialization Company (the "Company") is a Saudi Joint Stock Company registered in Riyadh under Commercial Registration no. 1010059693 dated 7 Shawwal 1405H (corresponding to 25 June 1985G). The Company was formed pursuant to the Ministerial Resolution no. 601 dated 24 Dhul Hijja 1404H (corresponding to 19 September 1984G).

The principal activities of the Company and its subsidiaries (collectively referred to as "the Group") comprises of industrial investment, transfer of advanced industrial technology to the Kingdom of Saudi Arabia, and to the Arab region in general, in the areas of manufacturing and transforming petrochemical and chemical, engineering and mechanical industries, management and ownership of petrochemical and chemical projects and marketing their products. The activities also comprise rendering technical industrial services and manufacturing of steel and non-steel castings, producing towed steel wires, spring wires, and steel wires for cables, twisted reinforcement wires to carry electrical conductors, twisted re-enforcement wires for concrete and welding wires. It also includes production and marketing of liquid batteries for vehicles and for industrial usage and the production and marketing of lead and sodium sulfate. It also includes conducting technical tests on industrial facilities, chemical, petrochemical and metal plants, and water desalination and electricity generating plants; setting up all types of plastic industries and production and marketing of acrylic boards; the production and marketing of titanium dioxide and the production of ethylene, polyethylene, propylene and polypropylene, owning mines and specialized operations for the production of Al-Rutayl which is the raw material for producing the titanium dioxide.

The registered office of the Company is as follows:
National Industrialization Company
P. O. Box 26707
Riyadh 11496, Kingdom of Saudi Arabia

1.1 Subsidiaries

The following are the subsidiaries included in these consolidated financial statements and the combined direct and indirect ownership percentages:

Company Name	Legal Form	Shareholding (%)	
		2017	2016
Tasnee and Sahara Olefins Company and its subsidiaries (1)	Closed joint stock	60.45	60.45
Rowad National Plastic Company ("Rowad") and its subsidiaries (2)	Limited liability	100	100
National Lead Smelting Ltd. Company ("Rassas") and its subsidiary (3)	Limited liability	100	100
National Batteries Company ("Battariat") (4)	Limited liability	90	90
National Operation and Industrial Services Company ("Khadamat") - under liquidation (5)	Limited liability	88.33	88.33
National Inspection and Technical Testing Company Ltd. ("Fahss") (6)	Limited liability	69.73	69.73
TUV – Middle East WLL (7)	Limited liability	69.73	69.73
Taldeen Plastic Solution Co. Ltd (8)	Limited liability	100	-
Al Khadra Environment Company for Industrials Waste Management ("Khadra") (9)	Limited liability	100	-
The National Titanium Dioxide Ltd. Company ("Cristal") and its subsidiaries (10 & 27)	Limited liability	79	79
Advanced Metal Industries Ltd Company (11)	Limited liability	89.50	89.50
National Industrialization Petrochemical Marketing Company (12)	Limited liability	100	100
National Worldwide Industrial Advancement Ltd. Company (13)	Limited liability	100	100
National Gulf Company for Petrochemical Technology (13)	Limited liability	100	100
National Industrialization Company for Industrial Investments (13)	Limited liability	100	100
Saudi Global Makasib for Trading and Industry Company (13)	Limited liability	100	100
National Petrochemical Industrialization Company (13)	Limited liability	100	100

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

1 STATUS AND NATURE OF ACTIVITIES (Contd.)

1.1 Subsidiaries (Contd.)

1. Tasnee and Sahara Olefins Company

Tasnee and Sahara Olefins Company ("TSOC") is a Saudi Limited Liability Company with its head office based in Riyadh. The main objectives of the company are the production and marketing of petrochemical and chemical materials.

Tasnee and Sahara Olefins Company owns 65% of Saudi Acrylic Acid Company ("SAAC"), a Saudi Limited Liability Company, which is registered in Riyadh, Saudi Arabia

2. Rowad National Plastic Company and its subsidiaries ("Rowad")

Rowad National Plastic Company is a Saudi Limited Liability Company with its head office based in Riyadh Saudi Arabia. The company is engaged in the manufacturing of all types of plastic productions and managing and operating the industrial plants.

Rowad National Plastic Company owns 97% and 62.5% of equity interests in Rowad International Geosynthetics Company Ltd. and Rowad Global Packing Company Ltd., respectively, which are Saudi Limited Liability Companies registered in Dammam, Saudi Arabia.

3. National Lead Smelting Company and its subsidiary ("Rassas")

National Lead Smelting Company is a Saudi Limited Liability Company with its head office based in Riyadh Saudi Arabia. The company is engaged in the manufacturing of lead as well as polypropylene and sodium sulfate.

National Lead Smelting Company Limited owns 100% of Technical Tetravalent Lead Smelting Company Limited ("TTLSP"), a Saudi limited liability company, which is registered in Jeddah, Saudi Arabia.

4. National Batteries Company ("Battariat")

National Batteries Company is a Saudi Limited Liability Company with its head office based in Riyadh, Saudi Arabia. The company is engaged in the manufacturing of dry and wet batteries for vehicles and industrial use.

5. National Operation and Industrial Services Company ("Khadamat") - under liquidation

National Operating and Industrial Services Company is a Saudi Limited Liability Company based in Riyadh, Saudi Arabia. The company is currently under liquidation.

6. National Inspection and Technical Testing Company Ltd. ("Fahss")

National Inspection and Technical Testing Company Ltd. is a Saudi Limited Liability Company based in Dammam, Saudi Arabia. The company is engaged in providing technical services in inspection, testing, calibration, maintenance, quality, environmental management systems, quality management and environment systems (ISO).

7. TUV – Middle East WLL

TUV - Middle East WLL is a Limited Liability Company incorporated in Kingdom of Bahrain. The company is engaged in inspection of mechanical equipment and industrial instruments, quality management and environment systems (ISO), academic trainings, information technology consultancy and laboratory testing services for various products. TUV - Middle East WLL owns a subsidiary, German Safety and Quality Inspection Company LLC, a limited liability company, which is registered in Doha, Qatar.

8. Taldeen Plastic Solution Company limited ("Taldeen")

Taldeen Plastic Solutions Company Ltd. is a Saudi Limited Liability Company based in Hail, Saudi Arabia. The company's objective includes four plants to producing plastic pallets, plastic pipes, agrifilm and waste water treatment units. The company has commenced its commercial operations partially.

9. Al Khadra Environment Company for Industrials Waste Management ("Khadra")

Al Khadra Environment Company for Industrials Waste Management ("Khadra") is a Saudi Limited Liability Company based in Riyadh, Saudi Arabia. The Company is engaged in sale, gathering and recycling of used and damaged batteries, lead, plastics, industrial materials and environmental waste.

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

1 STATUS AND NATURE OF ACTIVITIES (Contd.)

1.1 Subsidiaries (Contd.)

10. The National Titanium Dioxide Limited Company (“Cristal”)

The National Titanium Dioxide Limited Company (“Cristal”) is a Saudi Limited Liability Company with its head office based in Jeddah, Saudi Arabia. The main objectives of the company and its subsidiaries are the production and marketing of Titanium Dioxide and Sulphuric Acid, manufacturing of Titanium Metal Powder and mineral exploration and mining.

Cristal owns directly or indirectly owns 100% of equity interests of the following subsidiaries: Cristal Inorganic Chemicals Ltd., Cristal Australia Pty Ltd., Cristal Metals U.S.A., Cristal US Holding LLC and Hong Kong Titanium Products Company Limited. (refer note 27).

11. Advanced Metal Industries Ltd. Company (“AMIC”)

Advanced Metal Industries Ltd. Company (“AMIC”) has been established with direct ownership percentage of 50% each by National Industrialization Company and Cristal. AMIC is a Saudi Limited Liability Company and registered in Jeddah, Saudi Arabia. The company is engaged in setting up industrial projects related to Titanium metals of various type and other related substances including Titanium ore, Iron ore and manufacturing of Titanium dioxide through high pressure oxidation.

12. National Industrialization Petrochemical Marketing Company

National Industrialization Petrochemical Marketing Company is a Saudi Limited Liability Company based in Riyadh, Saudi Arabia. The company is engaged in the marketing and exporting services of chemical, petrochemical and plastic items including polypropylene and polyethylene.

13. These are direct subsidiaries and are incorporated in the Kingdom of Saudi Arabia. These subsidiaries are mainly holding companies for the Group’s investments.

1.2 Associates and Joint Arrangements

The following are the list of the Group’s associated companies and joint arrangements included in these consolidated financial statements and effective ownership percentages:

Company Name	Relationship	Legal Form	Shareholding (%)	
			2017	2016
Saudi Polyolefin Company	Joint Venture	Limited liability	75	75
Saudi Ethylene and Polyethylene Company	Joint Venture	Limited liability	45.34	45.34
Saudi Acrylic Monomer Company	Joint Venture	Limited liability	39.22	39.22
Saudi Acrylic Polymer Company	Joint Venture	Limited liability	39.22	39.22
Advanced Metal Industries Ltd. Company and Tohoo for Titanium Metal Ltd. Company	Joint Venture	Limited liability	58.18	58.18
Saudi Butanol Company	Joint Operations	Limited liability	17.43	17.43
National Metal Manufacturing and Casting Company	Associate	Saudi joint stock company	35.45	35.45
Saudi Claryant for Colorants Ltd Company	Associate	Limited liability	40	40

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

(i) Statement of Compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed in Kingdom of Saudi Arabia and other standards and pronouncement issued by Saudi Organization of Certified Public Accountants (SOCPA). These consolidated financial statements for the year ended 31 December 2017 are the first annual consolidated financial statements, accordingly, in preparation of these consolidated financial statements of the Group, IFRS 1 'First time Adoption of International Financial Reporting Standards', as endorsed in Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, have been applied.

Refer to note 7 for an explanation of how the transition from generally accepted accounting standards in the Kingdom of Saudi Arabia to IFRS has affected the Group's financial position, financial performance and cash flows.

(ii) Historical cost convention

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities (including derivative instruments) that are measured at fair value.

(iii) Basis of measurement

These consolidated financial statements are presented in Saudi Riyals, which is the Parent Company's functional currency. All amounts have been rounded to the nearest thousand (SR '000), unless otherwise indicated.

2.2 Basis of consolidation and equity accounting

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2017.

(i) Subsidiaries

Subsidiaries are all entities over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee).
- Exposure, or rights, to variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee.
- Rights arising from other contractual arrangements.
- The Group's voting rights and potential voting rights.
- Any additional fact and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time decisions need to be made, including voting patterns at previous shareholders' meetings.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.2 Basis of consolidation and equity accounting (Contd.)

(i) Subsidiaries (Contd.)

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. When Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in the profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary.
- Derecognises the carrying amount of any non-controlling interest.
- Derecognises the cumulative translation differences recorded in equity.
- Recognises the fair value of the consideration received.
- Recognises the fair value of any investment retained.
- Recognises any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

(ii) Associates

Associates are all entities over which the Group has significant influence but no control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method, after initially being recognized at cost.

(iii) Joint arrangements

Under IFRS 11 Joint Arrangements, joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The considerations made in determining whether joint control exists or not are similar to those necessary to determine control over subsidiaries.

Investments in joint arrangements are classified as either joint ventures or joint operations. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

The Group has both joint ventures and joint operations. (Refer note 1.2 for the details)

Joint ventures:

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

Interests in joint ventures are accounted for using the equity method, after initially being recognised at cost in the consolidated statement of financial position.

Joint operations:

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and liabilities of the joint operation.

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.2 Basis of consolidation and equity accounting (Contd.)

(iii) Joint arrangements (Contd.)

The Group recognizes its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the consolidated financial statements under the appropriate headings.

Equity method

Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investee in profit and loss, and the Group's share of other comprehensive income of the investee in other comprehensive income. After the share in the investee is reduced to zero, a liability is recognised only to the extent that there is an obligation to fund the investee's operations or any payments have been made on behalf of the investee. Dividends received or receivable from associates and joint ventures are recognized as a reduction in the carrying amount of the investment.

Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The consolidated statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in the other comprehensive income ("OCI") of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate and joint venture are eliminated to the extent of the interest in the associate or joint venture. The financial statements of the associate or joint venture are prepared for the same reporting period as the Group.

When necessary, adjustments are made to bring the accounting policies of the associate or joint venture in line with those of the Group. After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognises the loss as 'Share of profit of an associate and a joint venture' in the consolidated statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retaining investment and proceeds from disposal is recognised in profit or loss.

2.3 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of fair value of the consideration transferred, which is measured at the acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in general and administrative expenses.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss.

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.3 Business combinations and goodwill (contd.)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. All contingent consideration (except that which is classified as equity) is measured at fair value with the changes in fair value in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held, over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, then the gain is recognised in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which generally does not exceed one year from the date of acquisition, the Group retrospectively adjusts the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. Any additional assets or liabilities are also recognized during the measurement period if new information is obtained about facts and circumstances that existed as of the acquisition date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. CGU is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups thereof. A CGU is identified consistently from period to period for the same asset or types of assets, unless a change is justified.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash generating unit retained.

2.4 Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over a product or service to a customer.

(i) Sale of goods

The Group manufactures and sells a wide range of products including chemicals, polymers and plastics. Revenue is recognized when control of the products has transferred, being when the products are delivered to the customers, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs based on contractual terms of the contract, when the risks of obsolescence and loss have been transferred to the customer and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been met.

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.4 Revenue recognition (Contd.)

(i) Sale of goods (Contd.)

Revenue recognized is generally measured at the transaction price as agreed in the sales contract. Some of the joint venture companies market their products through subsidiaries of the Group (referred hereto as "the Marketers"). For all such arrangements, the Group reviews whether it acts as a principal or agent. Based on this review, the Group when acts as principal, record sale on gross basis, while net accounting is followed where it acts as an agent.

Further, sales made through distribution stations of the Marketers are recorded at provisional prices at the time of shipment of goods, and are subsequently adjusted. The transaction price is adjusted for any variable consideration in form of price concessions, discounts, rebates, refunds, credits etc. The Group estimates the variable consideration as the expected value of the likely transaction price adjustment. The Group includes in the transaction price some or all of an amount of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the associated variable consideration is subsequently resolved.

(ii) Rendering of services

Revenue from providing services is recognised over a period of time as the related services are performed. For fixed-price contracts, revenue is recognised based on the 'percentage of completion' method which measures actual service provided to the end of the reporting period as a proportion of the total services to be provided. Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

2.5 Selling, marketing and general and administrative expenses

Selling and marketing expenses principally comprise costs incurred in marketing and sale of the subsidiaries products. Other expenses are classified as general and administrative expenses.

General and administrative expenses include direct and indirect costs not specifically attributable to cost of revenue.

Allocations between general and administrative expenses and cost of revenue, when required, are made on a consistent basis.

2.6 Foreign currency translation

The Group's consolidated financial statements are presented in Saudi Riyals, which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rate at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transaction.

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.6. Foreign currency translation

(ii) Group companies

On consolidation, the assets and liabilities of foreign operations are translated into Saudi Riyals at the rate of exchange prevailing at the reporting date and their statement of profit or loss are translated at exchange rate prevailing at the date of the transactions or the average rate for the period. The exchange differences arising on the translation are recognised in consolidated statement of other comprehensive income. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

2.7 Zakat, income and deferred Taxes

Saudi and other Gulf Cooperation Council country shareholders in the Company and its subsidiaries in the Kingdom of Saudi Arabia are subject to Zakat which is then included in the consolidated statement of profit or loss.

(i) Zakat

Zakat is provided on an accruals basis and computed at the higher of adjusted net income for Zakat purposes for the year or Zakat base calculated per the GAZT Regulations. Any difference in the previously recorded estimate is recognized when the final assessment is approved by GAZT.

(ii) Current income tax

Foreign shareholders in the Company's subsidiaries in the Kingdom of Saudi Arabia are subject to income tax. Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

(iii) Deferred taxes

Deferred income tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.8 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment in value, except for land and assets under construction which are stated at cost and are not depreciated. Projects under progress represent costs relating directly to the new projects in progress and are capitalized as property, plant and equipment when the project is completed. Other costs are disclosed as capital work in progress which is shown as a part of property, plant and equipment. However, depreciation on such assets under construction commences when the asset becomes available for use.

Cost includes all expenditure directly attributable to the construction or purchase of the item of property, plant and equipment. Such costs include the cost of replacing parts of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, costs of major maintenance and repairs incurred as part of substantial overhauls or turnarounds of major units at the Group's manufacturing facilities are capitalized and generally amortized using the straight-line method over the period until the next planned turnaround, the cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated statement of profit or loss as incurred.

Any subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group and cost can be measured reliably.

Certain subsidiaries of the Group recognize provisions related to the expected cost for the decommissioning of certain assets and rehabilitation and mine closure costs. The present value of such expected costs for the decommissioning of the asset after its use or rehabilitation and mine closure costs, is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives as follows;

Asset class	Useful lives (in years)
Buildings	10-40
Leasehold improvements	Shorter of the lease term or useful life
Plant, machinery and equipment	2-40
Tools and capital spares	4-10
Furniture, fixtures and equipment	3-10
Motor vehicles	4-5
Computers	3-5
Mine development	5-30

Property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Stores and spares having a useful life of more than one year are depreciated over their estimated useful lives.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss when the asset is derecognized.

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

As required by IFRS, useful life and residual value have been reviewed at the date of transition, and based on this review the useful life for certain plant and machinery revised from 20 to 25 years and 14 to 20 years and residual value has been considered for computation of depreciation for certain plant and machinery. The impact of this change has been accounted for prospectively from 1 January 2016.

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.9 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.10 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Finance leases that transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between finance charges and a reduction in the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are recognised in finance costs in the consolidated statement of profit or loss. A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the consolidated statement of profit or loss on a straight-line basis over the lease term.

2.11 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is recognised in the consolidated statement of profit or loss when it is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over their useful economic lives 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 the end of each reporting period. 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 recognised in the consolidated statement of profit or loss in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives (see below note (iv) other intangibles) are not amortized, but are tested for impairment annually or at each reporting date when there is an indicator of impairment, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of profit or loss when the asset is derecognized.

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.11 Intangible assets (Contd.)

(i) Goodwill

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes.

(ii) Software Technologies

Computer software operation costs are amortized using the straight-line method over a period of 5 to 10 years from the date of commencement of operation.

(iii) Other intangible assets

Other intangible assets, consisting primarily of trademarks, research and development costs, arrangement fees for long term finances, trade names, technology and customer relationships.

Research and development costs are charged to the consolidated statement of profit or loss during the period incurred, except for the clear and specified projects, in which development costs can be recovered through the commercial activities generated by these projects. In this case, the development costs are considered intangible assets and are amortized using the straight-line method over a period of seven to fifteen years.

Other intangible assets also include patents and license costs. These assets are amortized using the straight-line method over the shorter of their estimated useful lives or the terms of the related agreements.

An intangible asset with an indefinite life is not being amortized but instead is measured for impairment at least annually, or when events indicate that impairment exists.

2.12 Exploration and evaluation costs

Pre-license costs are recognized in the consolidated statement of profit or loss.

Exploration and evaluation costs, including the costs of acquiring licenses, are capitalized as exploration and evaluation costs ("E&E assets") on an area of interest basis pending determination of the technical feasibility and commercial viability of the project. When a license is relinquished or a project is abandoned, the related costs are recognized in the consolidated statement of profit or loss immediately.

E&E assets are assessed for impairment if:

- (i) sufficient data exists to determine technical feasibility and commercial viability, and
- (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see the impairment of assets policy note).

For the purposes of impairment testing, E&E assets are allocated to cash-generating units consistent with the determination of areas of interest. Once the technical and commercial viability of extracting a mineral resource is determined, E&E assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to mine development assets within property and equipment.

Expenditure deemed to be unsuccessful is recognized in the consolidated statement of profit or loss immediately.

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.13 Impairment of non-financial assets

Goodwill and assets with indefinite life are tested for impairment annually.

For other assets, the Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating units ("CGU") fair value less costs of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment calculation is based on detailed budgets and forecasts which are prepared separately for each of the Group's CGU to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of profit or loss.

Impairment recognized previously on goodwill is not reversed.

The impairment testing conducted on the date of transition is based on the assumptions used under the previous GAAP as on that date. The estimates which were not required under the previous GAAP (for example the interest rate) are based on facts and circumstances existing as on the transition date.

2.14 Inventories

The cost of raw materials, consumables, spare parts and finished goods is determined on a weighted average cost basis. The cost of work in progress and finished goods includes cost of material, labor and an appropriate allocation of indirect overheads. Inventories are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs to sell.

2.15 Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits and murabaha with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

2.16 Employee benefits

(i) Short term obligations

Liabilities for wages and salaries and any other short-term benefits that are expected to be settled wholly within 12 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 the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated statement of financial position.

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.16 Employee benefits (Contd.)

(ii) Post-employment obligations

Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when the employees have rendered service entitling them to the contributions.

Defined benefit plans

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

The Group employees in KSA are entitled for End of Service benefits in accordance with the provisions of the Saudi Arabian law and the Group policy. In some subsidiaries, mainly outside KSA certain employees are entitle for pension plans which is govern in accordance with the respective law in these countries.

The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method, with actuarial valuation being carried out at regular interval. Re-measurements, comprising actuarial gains and losses, are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

The present value of the defined benefit obligation for entities in Saudi Arabia has been determined by discounting the estimated future cash outflows by reference to US bond yields (as the Saudi Riyal is pegged to the US dollar) adjusted for an additional risk premium reflecting the possibility of the linkage being broken.

Past service costs are recognised in the consolidated statement of profit or loss on the earlier of the date of the plan amendment or curtailment and the date on which the Group recognises related restructuring costs. Net interest is calculated by applying the discount rate to the net defined benefit liability. The Group recognises the changes in the net defined benefit obligation under 'cost of revenue, 'general and administrative expenses' and 'selling and distribution expenses' in the consolidated statement of profit or loss.

(iii) Employees House Ownership Program

Certain companies within the Group have established employees house ownership program where eligible employees after paying a series of payment over a particular number of years can purchase houses constructed by these companies. Cost which are not directly related to residential units will be absorbed by the Group. Ownership of these houses will be transferred to the employees at the completion of full payment.

Under the program, the amounts paid by the employees towards the houses are repayable back to the employee after certain adjustments in case of discontinued employment and the house is returned to the Group.

2.17 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of profit or loss net of any reimbursement.

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.17 Provisions and contingent liabilities (Contd.)

(i) Decommissioning liabilities

The Group records and estimated liability for the future cost to close its facilities under certain lease agreements and the scheduled closure of certain landfills and recognizes the cost over the useful life of the related asset. The Group records a discounted liability for the fair value of an asset retirement obligation and a corresponding increase to the carrying value of the related long-lived asset is recorded at the time the asset is acquired. The Group amortizes the amount added to property, plant and equipment and recognizes accretion expense in connection with the discounted liability over the estimated remaining life of the respective long-lived asset.

(ii) Rehabilitation and mine closure costs

Provision is made for anticipated costs of restoration and rehabilitation work necessitated by disturbance arising from exploration, evaluation, development and production activities. Costs included in the provision comprise land reclamation, plant removal and on-going re-vegetation programs. Rehabilitation and mine closure costs are provided for at the present value of the expenditures expected to settle the obligation at the reporting date, based on current legal requirements and technology. Future rehabilitation and mine closure costs are reviewed annually and any changes are reflected in the present value of the provision at the end of the reporting period.

The cost of rehabilitation and mine closure is capitalized as property and equipment to the extent it gives rise to future economic benefits. The amount capitalized is depreciated as part of property and equipment using the units of production method.

(iii) Restructuring provisions

A restructuring provision is recognized when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

(iv) Environmental remediation costs

Anticipated expenditures related to investigation and remediation of contaminated sites, which include current and former plant sites and other remediation sites, are accrued when it is probable a liability has been incurred and the amount of the liability can reasonably be estimated. Only ongoing operations and monitoring costs, the timing of which can be determined with reasonable certainty, are discounted to present value. Future legal costs associated with such matters, which generally cannot be estimated, are not included in these liabilities.

(v) Contingent liabilities

Contingent liabilities are disclosed when there is a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group or a present obligation that arises from past events where it is either not probable that an outflow of resources will be required to settle or a reliable estimate of the amount cannot be made.

(vi) Overburden costs

Expenditure associated with the removal of mine overburden is deferred and charged to the consolidated statement of profit or loss as the mineral is extracted. The balance of the amount deferred is reviewed at each reporting date to determine the amount which is no longer recoverable out of future revenue. Any amounts so determined are written off.

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.18 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. For impairment of financial assets, (refer to note 2.20 (iv)).

2.19 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial period, which are unpaid. The amounts are unsecured. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortized cost using the effective interest method.

2.20 Financial instruments

Financial instruments are recognised when the Group becomes a party to the contractual provisions of the instrument. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

The Group determines the classification of its financial assets at initial recognition. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

i. Classification

The financial assets are classified in the following measurement categories:

- a) Those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- b) Those to be measured at amortized cost.

For assets measured at fair value, gains and losses will either be recorded in the consolidated statement of profit and loss or other comprehensive income. For investments in equity instruments, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

ii. Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of profit or loss as incurred.

Debt Instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies debt instruments at mortised cost based on the below:

- a) The asset is held within a business model with the objective of collecting the contractual cash flows, and
- b) The contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. Employee loans, shareholder loans to joint venture entities are carried at amortized cost.

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.20 Financial instruments (Contd.)

Financial assets (Contd.)

Equity Instruments

If the Group elects to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss. Dividends from such investments shall continue to be recognised in the consolidated statement of profit and loss as other income when the Groups' right to receive payments is established. There are no impairment requirements for equity investments measured at fair value through other comprehensive income. Changes in the fair value of financial assets at fair value through profit or loss shall be recognised in other gain/(losses) in the consolidated statement of profit and loss as applicable.

iii. De-recognition of financial assets

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

iv. Impairment of financial assets

The Group applies expected credit loss (ECL) model for measurement and recognition of impairment loss on the financial assets and credit risk exposure that are debt instruments and are measured at amortized cost e.g., loans, deposits, trade receivables.

Expected Credit Losses are the probability-weighted estimate of credit losses (i.e. present value of all cash shortfalls) over the expected life of the financial asset. A cash shortfall is the difference between the cash flows that are due in accordance with the contract and the cash flows that the company expects to receive. The expected credit losses consider the amount and timing of payments and hence, a credit loss arises even if the Group expects to receive the payment in full but later than when contractually due. The expected credit loss method requires assessing credit risk, default and timing of collection since initial recognition. This requires recognising allowance for expected credit losses in the consolidated statement of profit and loss even for receivables that are newly originated or acquired.

Impairment of financial assets is measured as either 12 month expected credit losses or life time expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. '12 month expected credit losses' represent the expected credit losses resulting from default events that are possible within 12 months after the reporting date. 'Lifetime expected credit losses' represent the expected credit losses that result from all possible default events over the expected life of the financial asset.

Trade receivables are of a short duration, normally less than 12 months and hence the loss allowance measured as lifetime expected credit losses does not differ from that measured as 12 month expected credit losses. The Group uses the practical expedient in IFRS 9 for measuring expected credit losses for trade receivables using a provision matrix based on ageing of receivables.

The Group uses historical loss experience and derived loss rates based on the past twelve months and adjusts the historical loss rates to reflect the information about current conditions and reasonable and supportable forecasts of future economic conditions. The loss rates differ based on the ageing of the amounts that are past due and are generally higher for those with the higher ageing

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.20 Financial instruments (Contd.)

Financial assets (Contd.)

v. Income recognition

Interest income

For all financial instruments measured at amortized cost and interest bearing financial assets, interest income is recognised using the effective interest rate (EIR), which is the rate that discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original EIR of the instrument, and continues unwinding the discount as interest income. Interest income on impaired financial asset is recognised using the original EIR.

Dividends income

Dividends receivable from financial instruments are recognised in the consolidated statement of profit or loss only when the right to receive payment is established, it is probable that the economic benefits associated with the dividend will flow to the group, and the amount of the dividend can be measured reliably.

Financial liabilities

The Group determines the classification of its financial liabilities at initial recognition.

i. Classification

The financial liabilities are classified in the following measurement categories:

- a) Those to be measured as financial liabilities at fair value through profit or loss, and
- b) Those to be measured at amortized cost.

ii. Measurement

All financial liabilities are recognised initially at fair value. Financial liabilities accounted at amortized cost like borrowings are accounted at the fair value determined based on the effective interest rate method (EIR) after considering the directly attributable transaction costs.

The Group classifies all financial liabilities as subsequently measured at amortized cost, except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.

The effective interest rate ("EIR") method calculates the amortized cost of a debt instrument by allocating interest charge over the relevant effective interest rate period. The effective interest rate is the rate that exactly discounts estimated future cash outflow (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 debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. This category generally applies to borrowings, trade payables etc.

The Group's financial liabilities include trade and other payables, borrowings including bank overdrafts, financial guarantee contracts and derivative financial instruments. The Group measures financial liabilities (except derivatives) at amortised cost.

iii. Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss.

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.21 Derivative financial instruments and hedge accounting

Derivative financial instruments are initially measured at fair value on the contract date and are subsequently re-measured to fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged and the type of hedge relationship designated.

The Group's activities expose it to the financial risks of changes in foreign exchange rates and interest rates. The Group documents at the inception of the hedging transaction the economic relationship between hedging instruments and hedged items including whether the hedging instrument is expected to offset changes in cash flows of hedged items. The group documents its risk management objective and strategy for undertaking various hedge transactions at the inception of each hedge relationship.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; and classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

(i) Derivatives that are not designated as hedges

The Group enters into certain derivative contracts to hedge risks which are not designated as hedges. Such contracts are accounted for at fair value through profit and loss and are included in other income / (losses).

(ii) Derivatives that are designated as cash flow hedges

The effective portion of changes in the fair value of derivatives such as forward contracts and interest rate swaps that are designated and qualify as cash flow hedges is recognised in the other comprehensive income in cash flow hedging reserve within equity, limited to the cumulative change in fair value of the hedged item on a present value basis from the inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other income / (losses).

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss within other gains/ (losses).

If the hedge ratio for risk management purposes is no longer optimal but the risk management objective remains unchanged and the hedge continues to qualify for hedge accounting, the hedge relationship will be rebalanced by adjusting either the volume of the hedging instrument or the volume of the hedged item so that the hedge ratio aligns with the ratio used for risk management purposes. Any hedge ineffectiveness is calculated and accounted for in profit or loss at the time of the hedge relationship rebalancing.

2.22 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.23 Statutory reserve

In accordance with the by-laws, the Company must transfer 10% of the net income in each year to the statutory reserve until it has built a reserve equal to one-half of the capital. This reserve is not available for distribution.

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

3. USE OF CRITICAL ESTIMATES AND JUDGEMENTS

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual result may differ from these estimates. Estimates and judgments are regularly evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are addressed below:

(i) Impairment reviews

IFRS requires management to undertake an annual test for impairment of indefinite lived assets and, for finite lived assets, to test for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment testing is an area involving management judgment, requiring inter alia an assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including management's expectations of:

- a) growth in earnings before interest, tax, depreciation and amortization (EBITDA), calculated as adjusted operating profit before depreciation and amortization;
- b) timing and quantum of future capital expenditure;
- c) long-term growth rates;
- d) selection of discount rates to reflect the risks involved; and
- e) quantum of mining reserves expected to be extracted over the period under consideration.

Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect the Group's impairment evaluation and hence results.

(ii) Estimation of useful life and residual value

The useful life used to amortize or depreciate intangible assets or property, plant and equipment respectively relates to the expected future performance of the assets acquired and management's judgement based on technical evaluation of the period over which economic benefit will be derived from the asset. The charge in respect of periodic depreciation is derived after determining an estimate of an asset's expected useful life and the expected residual value at the end of its life. An asset's expected life residual value has a direct effect on the depreciation charged in the consolidated statement of profit or loss.

The useful lives and residual values of Group's assets are determined by management based on technical evaluation at the time the asset is acquired and reviewed annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events which may impact their life such as changes in technology.

(iii) Impairment losses on trade receivables

Trade receivables are stated at their amortized cost as reduced by appropriate allowances for estimated irrecoverable amounts. Estimated irrecoverable amounts are based on the ageing of the receivable balances and historical experience adjusted appropriately for the future expectations. Individual trade receivables are written off when management deems them not to be collectible.

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

3. USE OF CRITICAL ESTIMATES AND JUDGEMENTS (Contd.)

(iv) Measurement of defined benefit obligations

The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The present value of the obligation is determined based on actuarial valuation at the statement of financial position date by an independent actuary using the Projected Unit Credit Method, which recognises each period of service as giving rise to an additional unit of employee benefit entitlement and measures. The obligation is measured at the present value of the estimated future cash flows. In KSA, the discount rates used for determining the present value of the obligation under defined benefit plan are determined by reference to US bond yields, (as the Saudi Riyal is pegged to the US dollar) adjusted for an additional risk premium reflecting the possibility of the linkage being broken.

(v) Estimate of Zakat, current and deferred income tax

The Group's Zakat and tax charge on ordinary activities is the sum of the total Zakat, current and deferred tax charges. The calculation of the Group's Zakat and total tax charge necessarily involves a degree of estimation and judgment in respect of certain items whose treatment cannot be finally determined until resolution has been reached with the relevant tax authority or, as appropriate, through a formal legal process. The final resolution of some of these items may give rise to material profits/losses and/or cash flows.

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future, against which the reversal of temporary differences can be deducted. To determine the future taxable profits, reference is made to the latest available profit forecasts. Where the temporary differences are related to losses, relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits.

(vi) Determining whether the Group or component of the Group is acting as an agent or principal

Principles of IFRS 15 are applied by identifying each specified (i.e. distinct) good or service promised to the customer in the contract and evaluating whether the entity under consideration obtains control of the specified good or service before it is transferred to the customer. This assessment requires significant judgment based on specific facts and circumstances.

(vii) Determining the transfer of control for recognition of revenue from sale of goods

Revenue from sale of goods is recognized when the control of the goods has been transferred to the customer. In making this assessment, the Group has exercised judgment based on the terms and conditions of the underlying contracts.

(viii) Determining whether the joint arrangement is a joint operation or joint venture

Principles of IFRS 11 are applied to determine whether a joint operation should be classified as a joint operation or a joint venture depending on the rights and responsibilities of the joint ventures. This assessment requires significant judgment based on specific facts and circumstances. A list of such investments has been provided in note 1.2.

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

4. EARLY ADOPTION OF IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS AND IFRS 9 – FINANCIAL INSTRUMENTS

(i) IFRS 15 - Revenue from contracts with customers

The Group has opted to early adopt IFRS 15. Based on the transitional provisions provided under the standard 1 January 2017 is the date of initial application. Further, the Group has opted for full retrospective method along with the following practical expedients:

- Completed contracts that began and ended within the same reporting period have not been restated.
- Transaction price on the date of completion of the contract has been used instead of re-estimating the variable consideration for comparative periods.

(ii) IFRS 9 - Financial instruments

The Group has opted to early adopt IFRS 9. Based on the transitional provisions provided under the standard, the Group has applied the requirements of IFRS 9 retrospectively. Based on the optional exemptions provided under IFRS 1, investments in certain equity shares have been designated as fair valued through other comprehensive income (FVOCI). Further, the classification of financial assets has been made based on facts and circumstances existing as on 1 January 2016, the transition date.

5. NEW STANDARD AND AMENDMENTS TO EXISTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following standard is issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements:

(i) IFRS 16 Leases

The IASB has issued a new standard for the recognition of leases. This standard will replace:

- IAS 17 – 'Leases'
- IFRIC 4 – 'Whether an arrangement contains a lease'
- SIC 15 – 'Operating leases – Incentives'
- SIC-27 – 'Evaluating the substance of transactions involving the legal form of a lease'

Under IAS 17, lessees are required to make a distinction between a finance lease (on statement of financial position) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for all lease contracts apart from an optional exemption for certain short-term leases.

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The mandatory date of adoption for the standard is 1 January 2019.

In addition to the above standards, certain amendments to following existing standards are also issued but not yet, effective up to the date of issuance of the Group's consolidated financial statements:

- Amendment to IFRS 2 - Classification and Measurement of Share Based Payment Transactions-Effective for annual period beginning 1 January 2018;
- Amendment to IFRS 10 and IAS 28 - Sale or contribution of Assets between an Investor and its Associate or Joint venture - Effective date not yet determined;
- Amendment to IAS 40 - Transfer of Investment property - Effective for annual period beginning 1 January 2018;
- Annual improvements to IFRS standards 2014-2016 Cycle- Effective for annual period beginning 1 January 2018; and
- IFRIC 22 - Foreign currency transactions and advance consideration - Effective for annual period beginning 1 January 2018.

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

5. NEW STANDARD AND AMENDMENTS TO EXISTING STANDARDS ISSUED BUT NOT YET EFFECTIVE (Contd.)

(ii) IFRS 17 Insurance contracts

In May 2017, the IASB issued IFRS 17 – Insurance Contracts, which is effective for annual periods beginning on or after 1 January 2021. The standard introduces a new measurement model for insurance contracts. Early adoption is permitted if IFRS 9 and 15 have been applied as on the application date for this standard.

The Group has not yet undertaken an assessment to determine potential impacts on the amounts reported and disclosures to be made under the applicable new standards or amendments to existing standards.

6. APPLICATION OF NEW STANDARDS AND AMENDMENTS TO EXISTING STANDARDS

The Group has adopted, as appropriate, the following new and amended IASB Standards, effective 1 January 2017.

(i) Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require disclosures that enable users of the consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

Group's financing activities, as disclosed in consolidated statement of cash flows, represents only cash flow changes, except for finance cost paid for which non- cash change is reflected in cash flow from operating activities.

(ii) Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. Group does not hold any debt instruments measured at fair value; therefore, there is no impact of this amendment on these consolidated financial statements.

(iii) Annual Improvements to IFRSs 2014 - 2016 Cycle amendments IFRS 12 Disclosure of Interests in Other Entities

The amendments clarify that disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution. There is no impact of this amendment on these consolidated financial Statements.

7. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

For all periods up to and including the year ended 31 December 2016, the Group prepared its consolidated financial statements in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia as issued by SOCPA ("Previous GAAP"). These consolidated financial statements for the year ended 31 December 2017 are the first annual consolidated financial statements prepared in accordance with IFRS as endorsed in Kingdom of Saudi Arabia and other standards and pronouncement issued by SOCPA.

The Group has prepared these annual consolidated financial statements that comply with IFRS as endorsed in KSA as at 31 December 2017, as well as for presenting the relevant comparative period data for the period ended 31 December 2016. In compliance with requirements of IFRS 1 endorsed in KSA, the Group's opening statement of consolidated financial position was prepared as at 1 January 2016 ("transition date") after incorporating required adjustments to reflect the transition to IFRS as endorsed in KSA from the Previous GAAP.

An explanation of how the transition from previous GAAP to IFRS has affected the Group's consolidated financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

7. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Contd.)

Exemptions Applied

IFRS 1 allows first-time adopters certain mandatory and optional exemptions from the retrospective application of certain requirements under IFRS. Following are the applicable exemptions for the Group:

A) Accounting estimates

The estimates at 1 January 2016 and 31 December 2016 are consistent with those made for the same dates in accordance with previous GAAP (after adjustments to reflect any differences in accounting policies) apart from defined employee benefit obligation where application of previous GAAP did not require estimation. The estimates used by the Group to present these amounts in accordance with IFRS reflect conditions at 1 January 2016, the date of transition.

B) Business combinations

IFRS 1 provides an option to apply the principles of IFRS 3 - Business combinations, prospectively from the transition date or a specific date prior to the transition date to be determined by the management. Alternatively, a company might opt for full retrospective application of IFRS 3 requirements as well.

If the optional exemption to apply IFRS 3 from the transition date is applied, IFRS 1 also requires that the previous GAAP carrying amount of goodwill as at the transition date must be used in the opening IFRS statement of financial position (apart from adjustments for goodwill impairment and recognition or derecognition of intangible assets).

Use of this exemption means that the previous GAAP carrying amounts of assets and liabilities, that are required to be recognized under IFRS, is their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with IFRS. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS statement of financial position. Accordingly, the Group has opted to apply IFRS 3 prospectively from the transition date and not restate any business combinations with acquisition date prior to the transition date.

C) Cumulative translation adjustments

IFRS 1 provides an optional exemption to deem all the foreign currency translation differences that arose prior to the transition date to be nil. Accordingly, the Group has deemed all the cumulative foreign currency translation differences to be zero as at the transition date i.e. 1 January 2016. Consequently, an amount of SR 1,251 million has been adjusted against the retained earnings as disclosed in note no. 7.5. However, this does not have any impact on the total equity as on the transition date.

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

7. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Contd.)

7.1 Group reconciliation of equity as at 1 January 2016 (date of transition to IFRS)

	Note	IFRS adjustments		1 January 2016 (IFRS)	
		1 January 2016 (Previous GAAP)	Re-classification		Re-measurement
ASSETS					
Current assets					
Cash and cash equivalents	7.8.6	3,819,070	(685,371)	-	3,133,699
Trade and other receivables, net	7.8.5/6	3,214,500	(1,225,431)	(10,463)	1,978,606
Inventories	7.8.1/5/6	4,816,171	(1,149,271)	(27,768)	3,639,132
Prepayments and other current assets	7.8.6	1,169,035	(102,627)	-	1,066,408
Total current assets		13,018,776	(3,162,700)	(38,231)	9,817,845
Non-current assets					
Property, plant and equipment	7.8.1/6	22,749,453	(13,687,480)	11,900	9,073,873
Projects under progress	7.8.7/6	3,734,207	560,859	(766,250)	3,528,816
Intangible assets	7.8.6	2,945,584	(151,175)	-	2,794,409
Exploration and evaluation costs		229,815	-	-	229,815
Investments in equity accounted in associates and joint ventures	7.8.6	1,174,319	5,409,959	(171,146)	6,413,132
Investment in equity instruments designated as FVOCI	7.8.6	751,696	397,598	170,036	1,319,330
Deferred tax assets	7.8.6	307,334	-	-	307,334
Other non-current assets	7.8.6	63,864	-	-	63,864
Total non-current assets		31,956,272	(7,470,239)	(755,460)	23,730,573
Total Assets		44,975,048	(10,632,939)	(793,691)	33,548,418
LIABILITIES AND EQUITY					
Current liabilities					
Short term facilities		2,017,770	-	-	2,017,770
Borrowings – current portion	7.8.6	4,401,400	(1,205,580)	-	3,195,820
Accounts payable	7.8.6	1,758,048	543,524	-	2,301,572
Provisions and other current liabilities	7.8.6	1,500,205	(426,073)	(3,011)	1,071,121
Zakat and income tax payable	7.8.6	296,775	-	-	296,775
Total current liabilities		9,974,198	(1,088,129)	(3,011)	8,883,058
Non-current liabilities					
Long term borrowings	7.8.6/3	19,913,368	(7,454,060)	36	12,459,344
Employee benefits	7.8.6	354,059	-	57,153	411,212
Deferred tax liabilities	7.8.6	-	460,789	-	460,789
Other non-current liabilities	7.8.6	985,312	(458,133)	-	527,179
Total non-current liabilities		21,252,739	(7,451,404)	57,189	13,858,524
Equity					
Share capital		6,689,142	-	-	6,689,142
Statutory reserve		1,141,862	-	-	1,141,862
Other reserves	7.8.2	(2,112,006)	1,251,996	170,036	(689,974)
Retained earnings	7.5	2,249,167	(1,251,996)	(844,517)	152,654
Equity attributable to the equity holder of parent		7,968,165	-	(674,481)	7,293,684
Non-controlling interests		5,779,946	(2,093,406)	(173,388)	3,513,152
Total Equity		13,748,111	(2,093,406)	(847,869)	10,806,836
Total liabilities and equity		44,975,048	(10,632,939)	(793,691)	33,548,418

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

7. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Contd.)

7.2 Group reconciliation of equity as at 31 December 2016

	Note	IFRS adjustments			31 December 2016 (IFRS)
		31 December 2016 (Previous GAAP)	Re- classification	Re- measurement	
ASSETS					
Current assets					
Cash and cash equivalents	7.8.6	2,906,658	(476,598)	-	2,430,060
Trade and other receivables, net	7.8.5/6	3,257,423	(1,203,026)	(46,220)	2,008,177
Inventories	7.8.1/5/6	4,163,424	(1,192,716)	(21,310)	2,949,398
Prepayments & other assets	7.8.6	1,274,850	(187,545)	-	1,087,305
Total current assets		11,602,355	(3,059,885)	(67,530)	8,474,940
Non-current assets					
Property, plant and equipment	7.8.1/6	21,645,024	(12,537,476)	11,864	9,119,412
Projects under progress	7.8.7/6	4,959,216	(1,273,139)	(744,677)	2,941,400
Intangible assets	7.8.6	2,846,795	(31,374)	-	2,815,421
Exploration and evaluation costs		392,337	-	-	392,337
Investments in equity accounted in associates and joint ventures	7.8.6	1,221,966	5,575,087	(168,198)	6,628,855
Investment in equity instruments designated as FVOCI	7.8.6	273,342	403,629	179,590	856,561
Deferred tax assets	7.8.6	233,426	-	-	233,426
Other non-current assets	7.8.6	161,461	961,658	-	1,123,119
Total non-current assets		31,733,567	(6,901,615)	(721,421)	24,110,531
Total Assets		43,335,922	(9,961,500)	(788,951)	32,585,471
LIABILITIES AND EQUITY					
Current liabilities					
Short term facilities		68,018	-	-	68,018
Borrowings – current portion	7.8.6	2,805,911	(433,786)	19,991	2,392,116
Accounts payable	7.8.6	1,993,653	239,520	-	2,233,173
Provisions and other current liabilities	7.8.6	1,662,936	(128,739)	15,082	1,549,279
Zakat and income tax payable	7.8.6	506,675	(194,780)	-	311,895
Total current liabilities		7,037,193	(517,785)	35,073	6,554,481
Non-current liabilities					
Long term borrowings	7.8.6/3	21,260,187	(7,150,115)	25,113	14,135,185
Employee benefits	7.8.6	414,243	(11)	56,673	470,905
Deferred tax liabilities	7.8.6	-	260,156	-	260,156
Other non-current liabilities	7.8.6	1,109,291	(489,334)	-	619,957
Total non-current liabilities		22,783,721	(7,379,304)	81,786	15,486,203
Equity					
Share capital		6,689,142	-	-	6,689,142
Statutory reserve		1,162,687	-	-	1,162,687
Other reserves	7.8.2	(2,235,774)	1,252,197	229,855	(753,722)
Retained earnings	7.5	2,436,591	(1,252,197)	(951,142)	233,252
Equity attributable to the equity holder of parent		8,052,646	-	(721,287)	7,331,359
Non-controlling interests		5,462,362	(2,064,411)	(184,523)	3,213,428
Total Equity		13,515,008	(2,064,411)	(905,810)	10,544,787
Total liabilities and equity		43,335,922	(9,961,500)	(788,951)	32,585,471

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

7. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Contd.)
7.3 Group reconciliation of net profit for the year ended 31 December 2016

	Note	IFRS adjustments			31 December 2016 (IFRS)
		31 December 2016 (Previous GAAP)	Re-classification	Re-measurement	
Revenue	7.8.5/6	15,196,970	(3,722,643)	(2,854,795)	8,619,532
Cost of revenue	7.8.1/5/6	(11,724,510)	1,149,065	2,862,952	(7,712,493)
Gross profit		3,472,460	(2,573,578)	8,157	907,039
Operating expenses					
Selling and distribution expenses	7.8.2/6	(805,506)	269,356	(3,594)	(539,744)
General and administrative expenses	7.8.2/6	(1,060,953)	77,567	(30,388)	(1,013,774)
Share of net profit from associates and joint ventures	7.8.6	60,262	1,360,963	(17,312)	1,403,913
Impairment of non-current assets		(9,895)	-	-	(9,895)
Operating Profit		1,656,368	(865,692)	(43,137)	747,539
Other income / (expense), net		177,470	37,246	(50,464)	164,252
Finance cost	7.8.3	(801,063)	290,635	(18,933)	(529,361)
Profit before Zakat and income tax		1,032,775	(537,811)	(112,534)	382,430
Zakat and income tax expense		(242,806)	168,410	-	(74,396)
Net profit for the year	7.6, 7.4	789,969	(369,401)	(112,534)	308,034
Attributable to:					
Equity holder of parent		208,249	-	(106,826)	101,423
Non-controlling interest		581,720	(369,401)	(5,708)	206,611
	7.6	789,969	(369,401)	(112,534)	308,034

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

7. **FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Contd.)**
7.4 **Group reconciliation of comprehensive income for the year ended 31 December 2016**

	Note	IFRS adjustments		31 December 2016 (IFRS)	
		31 December 2016 (Previous GAAP)	Re- classification		Re- measurement
Net profit for the year	7.3	789,969	(369,401)	(112,534)	308,034
Other comprehensive income					
<i>Items to be reclassified to profit or loss in subsequent year:</i>					
Exchange adjustments on translation of foreign operations		-	(119,162)	-	(119,162)
Cash flow hedge reserve		-	(4,916)	-	(4,916)
Total items to be reclassified to profit or loss in subsequent year		-	(124,078)	-	(124,078)
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>					
Gains / (losses) on investments in equity instruments designated as FVOCI		-	56,251	-	56,251
Total items not to be reclassified to profit or loss in subsequent year		-	56,251	-	56,251
Total comprehensive income for the year	7.6	789,969	(437,228)	(112,534)	240,207
Attributable to:					
Equity holder of the parent		208,249	(63,748)	(106,826)	37,675
Non-controlling interest		581,720	(373,480)	(5,708)	202,532
		789,969	(437,228)	(112,534)	240,207

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

7. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Contd.)

7.5 Total equity reconciliation as at 31 December 2016 and 1 January 2016

	Note	31 December 2016	1 January 2016
Total equity under Previous GAAP as at the reporting date	7.1, 7.2	13,515,008	13,748,111
IFRS adjustments			
Impact on account of reclassification of items of stores and spares to property, plant and equipment and consequential depreciation	7.8.1	(21,309)	(27,768)
Impact on account of application of IFRS 9 to financial instruments:			
• Certain loans carried at amortized cost using EIR	7.8.3	(45,104)	36
• Transfer of AFS reserve to FVOCI	7.8.2	179,590	170,036
Impact on account of actuarial valuation of employees benefits	7.8.4	(56,673)	(57,153)
Impact for IFRS adjustments of entities previously accounted for as subsidiaries now accounted for as equity accounted joint ventures	7.8.6	(2,255,376)	(2,258,602)
Impact on account of application of IFRS 15 and deferral of revenue until transfer of control to the customer	7.8.5	(31,138)	(13,474)
Impact of impairment of non-current assets	7.8.7	(732,813)	(754,350)
Impact of setting currency translation adjustments on transition date to nil		1,251,996	1,251,996
Impact of currency translation adjustment transferred to retained earnings		(1,251,996)	(1,251,996)
Others		(7,398)	-
Total IFRS adjustments		(2,970,221)	(2,941,275)
Total equity under IFRS as at the reporting date		10,544,787	10,806,836

7.6 Comprehensive income reconciliation for the year ended 31 December 2016

	Note	31 December 2016
Net profit for the year under Previous GAAP	7.8.1	789,969
IFRS Adjustments		
Impact on account of reclassification of items of stores and spares to property, plant and equipment and consequential depreciation		(1,502)
Impact on account of application of IFRS 9 on certain loans amortized cost using EIR	7.8.3	(18,933)
Reclassification of AFS reserve to OCI		(40,477)
Impact on account of creation of provision for employee benefits	7.8.4	(43,319)
Impact for IFRS adjustments of entities previously accounted for as subsidiaries now accounted for as equity accounted joint ventures	7.8.6	(369,401)
Impact on account of application of IFRS 15 and deferral of revenue until transfer of control to the customer	7.8.5	(1,063)
Others	7.8.8	(7,240)
Total IFRS adjustments to consolidated statement of profit or loss		(481,935)
Net profit for the year under IFRS		308,034
Other comprehensive income		
Exchange adjustments on translation of net assets of foreign operations	7.4	(119,162)
Cash flow hedging reserve		(4,916)
Gains / (losses) on investments in equity instruments designated as FVOCI		56,251
Total comprehensive income for the year under IFRS	7.4	240,207

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

7. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Contd.)

7.7 Impact of transition to IFRS on the consolidated statement of cash flows for the year ended 31 December 2016 is as follows:

	Note	For the year ended 31 December 2016 (Previous GAAP)	IFRS adjustments	For the year ended 31 December 2016 (IFRS)
Net cash flow from/(used in) operating activities	7.8.6	3,755,751	(3,719,085)	36,666
Net cash flow from/(used in) investing activities	7.8.6	(1,438,718)	2,743,283	1,304,565
Net cash flow from/(used in) financing activities	7.8.6	(3,229,445)	1,184,575	(2,044,870)
Net decrease in cash and cash equivalents		(912,412)	208,773	(703,639)
Cash and cash equivalents as at 1 January 2016	7.8.6	3,819,070	(685,371)	3,133,699
Cash and cash equivalents as at 31 December 2016		2,906,658	(476,598)	2,430,060

7.8 Notes to the reconciliation of equity, net profit and loss and total comprehensive income presented above are as follows:

7.8.1 Stores and spares

Stores and spares meeting the definition of have been capitalized based on the requirements of IAS 16. Further, depreciation on certain capital spares that were capitalized and depreciated over the life of related asset has been computed from the date of purchase over the estimated life of the underlying capital spare. The consequential impact of this has been accounted for retrospectively on the transition date through the retained earnings. Accordingly, SR 27.77 million has reduced the retained earnings on the transition date. This has also resulted in a reduction in the total comprehensive income by SR 1.5 million in year ended 31 December 2016.

7.8.2 Application of IFRS 9 and fair valuation of certain equity investments through OCI

Under Previous GAAP, certain quoted inequity investments were carried at FV and the changes in fair valuation is credited to available for sale reserve, while certain unquoted equity investments were carried at cost being the fair value. As required by IFRS 9 - financial instruments, the Group has opted to designate these equity investments as FVOCI. This has resulted in an increase in retained earnings by SR 170 million on the transition date and increase in comprehensive income by SR 9.54 million in the year ended 31 December 2016. The movement in available for sale reserve amounting to SR 40.48 million for the year ended 31 December 2016 has been reclassified to other comprehensive income. This has no impact on total equity on the respective reporting dates.

7.8.3 Loans and borrowings

Under Previous GAAP, certain loans were accounted at the nominal value of cash received. Transaction costs (if any) were either generally expensed except for certain entities having qualifying assets where these were capitalized. As required by IFRS 9 such loans have been accounted at amortised cost using effective interest rate method (EIR). The transaction costs are included in the initial recognition amount of financial liability and charged to profit or loss. This has resulted in decrease in retained earnings by SR 0.04 million on the transition date and decrease in comprehensive decrease by SR 18.93 million in the year ended 31 December 2016.

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

7. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Contd.)

7.8 Notes to the reconciliation of equity, net profit and loss and total comprehensive income presented above are as follows: (Contd.)

7.8.4 Employee benefits provisions

Under Previous GAAP, the Group recognised costs related to its employee benefits provisions based on the Saudi labor law. Under IFRS, liabilities recognised based on actuarial valuation done by independent valuer. The actuarial valuation resulted in an additional employee benefits provisions liability as of the transition date which has been recognised in full against retained earnings based on actuarial valuation. This has reduced the retained earnings by SR 57.15 million on the transition date and increased the comprehensive income by SR 27.57 million for the year ended 31 December 2016.

7.8.5 Revenue recognition

Under Previous GAAP, certain export sales were recorded at the time of dispatch. Under IFRS 15, recognition of revenue on these transactions has been delayed till the transfer of control of the goods to customers. This has resulted in a net reduction in equity by SR 13.47 million as on the transition date and comprehensive income for the year ended 31 December 2016 has reduced by SR 1.06 million.

7.8.6 Accounting for joint ventures

Under the Previous GAAP, certain petrochemical entities were consolidated as subsidiaries. However, under IFRS 10 and IFRS 11, the contractual arrangements for these entities have been re-assessed and concluded these entities should be accounted for as investments in joint arrangements.

Accordingly, these entities have been de-consolidated and accounted for in these consolidated financial statements as investments in joint ventures using equity method of accounting or investments in jointly controlled operations using proportionate consolidation of accounting where the Group records its share of income, expenses, assets and liabilities. These changes in accounting methods have not resulted any impact on shareholder's equity or net-worth of the Group at the respective reporting date. The financial statement line items impacted have been disclosed at respective places in note 7.1 and 7.6 and the impacts of IFRS adjustments of each of these entities have been included in appropriate line items where necessary.

7.8.7 Impairment on non-current assets

Under Previous GAAP, wherever required the Group performed impairment assessment of its non-current assets in accordance with the requirement of local accounting standards. Under SOCPA guidelines the entity compares net carrying value of the assets with undiscounted cash flows as against the requirement of discounted cash flows under IFRS. In accordance with the requirements of IFRS 1 and IAS 36, impairment assessment of non-current assets was performed at transition date to determine whether any impairment loss for non-current assets existed at the date of transition to IFRS. Consequently, a subsidiary of the Group has recorded an impairment loss of SR 754 million for its non-current assets. This has resulted in a reduction of retained earnings by SR 754 million on the transition date.

7.8.8 Others

Based on the requirements of IFRS 9, the Group has applied an expected credit loss model for measurement and recognition of impairment losses on the financial assets. This resulted an additional impairment loss of SR 7.24 million on the trade receivables as of the date of transition. Consequently, this resulted a reduction of retained earnings by the same amount on the transition date.

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

8. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016	1 January 2016
Bank balances	966,956	1,043,591	2,875,891
Short term deposits and murabaha	1,568,259	1,386,469	257,808
	2,535,215	2,430,060	3,133,699

Short-term deposits and murabaha are placed for different periods (varying from one day to three months), based on the cash requirements of the Group and earn a commission at normal commercial rates.

9. TRADE AND OTHER RECEIVABLES, NET

	31 December 2017	31 December 2016	1 January 2016
Trade receivables	2,604,825	1,934,063	2,007,012
Due from related parties (note 32.2)	221,525	147,542	7,199
	2,826,350	2,081,605	2,014,211
Less: impairment of trade receivables	(99,685)	(73,428)	(35,605)
	2,726,665	2,008,177	1,978,606

The carrying value of the trade and other receivables approximates their fair value. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above

The Group sells a broad range of industrial and performance chemicals and plastic products to a diverse group of customers to various industries, operating throughout the world. The Group's credit risk management policies are disclosed in note 35.1.

Trade receivables disclosed above include amounts that are past due at the end of reporting period for which the Group has not recognized an allowance for doubtful receivables because there has not been a significant change in the credit quality and the amounts are considered fully recoverable. Ageing of receivables that are past due but not impaired are summarised below:

	31 December 2017	31 December 2016	1 January 2016
Between 0-90 days	198,668	175,557	152,742
Between 91-180 days	38,414	28,917	18,325
Between 181-360 days	9,026	10,991	11,057
More than 360 days	196	-	-
	246,304	215,465	182,124

The impairment in trade receivables is determined based on expected credit loss model and reviewed periodically. As at 31 December 2017, trade receivables with an initial carrying value of SR 99.7 million (31 December 2016: SR 73.4 million, 1 January 2016: SR 35.6 million) were impaired and fully provided for.

The movements in the provision for impairment of receivables are as below:

	31 December 2017	31 December 2016
Opening balance	73,428	35,605
Charge for the year	26,257	40,648
Less: write-offs / reversals	-	(2,825)
Closing balance	99,685	73,428

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

10. INVENTORIES

	31 December 2017	31 December 2016	1 January 2016
Finished goods	1,132,654	1,053,799	1,591,826
Raw materials	1,053,163	1,053,314	1,117,876
Consumables and spare parts	293,769	486,148	542,182
Work in progress	363,479	475,372	558,655
Process chemicals	-	1,692	683
	2,843,065	3,070,325	3,811,222
Less: provision for slow moving inventories	(27,094)	(120,927)	(172,090)
	2,815,971	2,949,398	3,639,132

Movements in the allowance for slow moving inventory items are as below:

	31 December 2017	31 December 2016
Opening balance	120,927	172,090
Charge for the year	14,037	35,437
Less: write-offs / reversals	(107,870)	(86,600)
Closing balance	27,094	120,927

During 2017, a write down of inventory amounting to SR 108 million (2016: SR 87 million) was recognised as an expense in the consolidated statement of profit or loss to reduce certain inventory items to their net realizable value.

11. PREPAYMENTS AND OTHER CURRENT ASSETS

	31 December 2017	31 December 2016	1 January 2016
Non-trade receivables	292,540	172,024	215,069
Prepaid expenses	842,327	503,022	422,650
Employees' receivables	245,800	230,271	212,381
Advances to suppliers	7,622	8,322	2,497
Due from related parties - non-trade (note 32.2)	174,020	162,110	207,919
Other current assets	-	11,556	5,892
	1,562,309	1,087,305	1,066,408

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

For the year ended 31 December 2017

(SR'000 unless otherwise noted)

12. PROPERTY, PLANT AND EQUIPMENT

	Land, buildings and construction	Plant, machinery and equipment	Tools and capital spares	Furniture, fixtures and equipment	Motor Vehicles	Computers	Mines development	Catalyst	Assets under construction	Total
<i>Cost</i>										
Balance as at 1 January 2016	2,233,645	8,990,534	7,619	53,848	38,025	12,424	1,111,486	-	1,877,640	14,325,221
Additions	23,667	569,234	26	1,398	590	-	19	28,201	387,884	1,011,019
Disposals	-	(36,164)	(603)	(2,251)	(1,936)	(739)	(1,471)	-	(3,185)	(46,349)
Transfers/ adjustments	385,561	356,793	-	9	-	-	(288,637)	-	(444,971)	8,755
Foreign currency translation adjustments, net	(27,256)	(149,566)	-	233	-	-	(7,636)	-	(3,017)	(187,242)
Balance as at 31 December 2016	2,615,617	9,730,831	7,042	53,237	36,679	11,685	813,761	28,201	1,814,351	15,111,404
Additions	165,279	187,755	312	3,806	2,496	4,286	3,495	-	508,095	875,524
Disposals	(27,857)	(100,251)	-	(7)	(3,782)	-	(28,006)	-	(18,347)	(178,250)
Transfers/ adjustments	42,442	442,634	17,641	5,129	-	-	58,052	-	(551,273)	14,625
Foreign currency translation adjustments, net	42,997	129,377	-	-	-	-	58,429	-	(70,145)	160,658
Balance as at 31 December 2017	2,838,478	10,390,346	24,995	62,165	35,393	15,971	905,731	28,201	1,682,681	15,983,961
<i>Accumulated depreciation</i>										
Balance as at 1 January 2016	564,439	4,139,200	3,460	39,012	26,770	9,916	468,551	-	-	5,251,348
Additions	119,982	583,302	7	5,143	3,802	758	95,167	9,229	-	817,390
Disposals	-	(754)	(507)	(1,790)	(1,641)	(739)	-	-	-	(5,431)
Transfers/ adjustments	116,055	(77,509)	-	(120)	(282)	(3)	(38,141)	-	-	-
Impairment of assets	-	9,895	-	-	-	-	-	-	-	9,895
Foreign currency translation adjustments, net	2,619	(76,728)	-	225	-	-	(7,326)	-	-	(81,210)
Balance as at 31 December 2016	803,095	4,577,406	2,960	42,470	28,649	9,932	518,251	9,229	-	5,991,992
Additions	115,468	584,158	2,788	5,502	3,058	1,345	81,179	10,614	-	804,112
Disposals	(25,923)	(91,917)	-	(5)	(3,668)	-	(27,960)	-	-	(149,473)
Transfers/ adjustments	806	(806)	-	-	-	-	-	-	-	-
Impairment of assets	-	11,582	-	-	-	-	-	-	-	11,582
Foreign currency translation adjustments, net	(4,676)	(40,940)	-	-	-	-	43,015	-	-	(2,601)
Balance as at 31 December 2017	888,770	5,039,483	5,748	47,967	28,039	11,277	614,485	19,843	-	6,655,612
<i>Net carrying value</i>										
As at 31 December 2017	1,949,708	5,350,863	19,247	14,198	7,354	4,694	291,246	8,358	1,682,681	9,328,349
As at 31 December 2016	1,812,522	5,153,425	4,082	10,767	8,030	1,753	295,510	18,972	1,814,351	9,119,412
As at 1 January 2016	1,669,206	4,851,334	4,159	14,836	11,255	2,508	642,935	-	1,877,640	9,073,873

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

12. PROPERTY, PLANT AND EQUIPMENT (Contd.)

- 12.1** Included in buildings is a cost of leasehold improvements with a net book value of SR 4.3 million (31 December 2016: SR 5.9 million, 1 January 2016: SR 7.3 million).
- 12.2** Assets under constructions as at 31 December 2017 and 2016 mainly consist of costs of expansion of facilities of production lines, safety and environment improvement costs. The capitalized borrowing costs during 2017 amounted to SR 2.1 million (2016: SR 3.2 million, 1 January 2016: SR 5.6 million).
- 12.3** Certain lands on which certain factories and facilities of some the subsidiaries are situated was leased from the government at nominal rents, for periods up to 30 years, and renewable for further periods.
- 12.4** Certain subsidiaries' property, plant and equipment are mortgaged as security against loans extended to those companies (notes 18 and 19).

13. PROJECTS UNDER PROGRESS

This mainly represents costs of establishing a project relating to Titanium metals of various types and other related substances including Titanium ore, Iron ore and manufacturing of Titanium dioxide through high pressure oxidation at Jizan by a subsidiary. During 2017, an amount of SR 5.76 million (2016: SR 53.3 million) has been capitalized, representing borrowing cost directly related to the projects under progress.

14. INTANGIBLE ASSETS

	Goodwill	Software technologies	Other intangible assets	Total
<i>Cost</i>				
Balance as at 1 January 2016	2,410,745	730,271	-	3,141,016
Additions	-	70,799	3,358	74,157
Disposals	-	(5,594)	-	(5,594)
Foreign currency translation adjustments, net	-	(35,472)	-	(35,472)
Balance as at 31 December 2016	2,410,745	760,004	3,358	3,174,107
Additions	-	46,924	-	46,924
Disposals	-	(47,703)	-	(47,703)
Transfer	-	8,548	-	8,548
Foreign currency translation adjustments, net	17,561	20,418	-	37,979
Balance as at 31 December 2017	2,428,306	788,191	3,358	3,219,855
<i>Amortization</i>				
Balance as at 1 January 2016	-	346,608	-	346,608
Additions	-	40,920	-	40,920
Foreign currency translation adjustments, net	5,231	(34,073)	-	(28,842)
Balance as at 31 December 2016	5,231	353,455	-	358,686
Additions	-	45,618	3,358	48,976
Disposals	-	(18,747)	-	(18,747)
Transfer	-	4,200	-	4,200
Foreign currency translation adjustments, net	-	8,947	-	8,947
Balance as at 31 December 2017	5,231	393,473	3,358	402,062
<i>Net carrying value</i>				
As at 31 December 2017	2,423,075	394,718	-	2,817,793
As at 31 December 2016	2,405,514	406,549	3,358	2,815,421
As at 1 January 2016	2,410,745	383,664	-	2,794,409

NATIONAL INDUSTRIALIZATION COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

For the year ended 31 December 2017

(SR'000 unless otherwise noted)

14. INTANGIBLE ASSETS (Contd.)

14.1 Goodwill impairment review

Goodwill is tested annually for any impairment by the Group's management, using discounted cash flow model. As a result of the goodwill assessment test performed during the year ended 31 December 2017, management found no evidence of impairment in goodwill.

The Group uses value in use as the basis to determine the recoverable amounts. The key assumptions used are as follows:

- The projected cash flows used were based on 5 years business plan forecasts approved by the management. This is the best available information on projected sales and production volumes, sales prices and production costs.
- The growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts was 2%. Management believes that the estimated growth rates used do not exceed the average growth rates over the long term on the company's activities.
- The discount rate of 8.4% was applied to the cash flow projections, based on the weighted average cost of capital.

15. INVESTMENTS IN EQUITY ACCOUNTED IN ASSOCIATES AND JOINT VENTURES

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Investments in equity accounted associates (note 15.2)	283,004	283,269	277,538
Investments in equity accounted joint ventures (note 15.1)	6,572,677	6,345,586	6,135,594
	<u>6,855,681</u>	<u>6,628,855</u>	<u>6,413,132</u>

15.1 Investments in joint ventures

Saudi Polyolefin Company

Saudi Polyolefin Company ("SPC") is a Saudi limited liability Company with its head office based in Jubail, Saudi Arabia. The authorized and issued capital of SPC is 600 million. The Company is 75% owned by National Industrialization Company (Tasnee) and 25% of share capital owned by Basell Holding Middle East GMBH. The main objectives of SPC are producing propylene and polypropylene.

Saudi Ethylene and Polyethylene Company

Saudi Ethylene and Polyethylene Company ("SEPC") is a Saudi limited liability company with its head office based in Jubail, Saudi Arabia. The authorized and issued capital of SEPC is 2,737.5 million. The Company is 75% owned by Tasnee and Sahara Olefins Company (TSOC) and 25% of share capital owned by Basell Moyen Orient Investments SAS. The main objectives of SEPC are producing ethylene, propylene, polyethylene.

Saudi Acrylic Monomer Company

Saudi Acrylic Monomer Company ("SAMCO") is a Saudi limited liability company with its head office based in Jubail, Saudi Arabia. The authorized and issued capital of SAMCO is 1,084.5 million. The Company is 75% owned by Saudi Acrylic Acids and 25% of share capital owned by Rohm & Haas Nederland B.V. The main objectives of SAMCO are producing Crude Acrylic Acid, Glacial Acrylic Acid, Butyl Acrylate and Ethylhexyl Acrylate.

Saudi Acrylic Polymer Company

Saudi Acrylic Polymer Company ("SAPCO") is a Saudi limited liability company with its head office based in Jubail, Saudi Arabia. The authorized and issued capital of SAPCO is 416.4 million. The Company is 75% owned by Saudi Acrylic Acids and 25% of share capital owned by Stockhausen Nederland B.V. The main objectives of SAPCO are producing Absorbent Polymer.

NATIONAL INDUSTRIALIZATION COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

For the year ended 31 December 2017

(SR'000 unless otherwise noted)

15. INVESTMENTS IN EQUITY ACCOUNTED IN ASSOCIATES AND JOINT VENTURES (Contd.)

15.1 Investments in joint ventures (contd.)

Advances Metal Industries Ltd. Company and Toho for Titanium Metal Ltd. Company

Advanced Metal Industries Ltd. Company and Toho for Titanium Metal Ltd Company ("ATTM") is a Saudi limited liability company with its head office based in Jeddah, Saudi Arabia. The authorized and issued capital of ATTM is 1,687.5 million. The company is 65% owned by Advanced Metal Industries Ltd. Company and 35% owned by Toho Titanium Company Limited. The main objectives of ATTM are producing Titanium sponge and its by-products.

The movements in investments in joint venture are as follows:

	31 December 2017	31 December 2016
Opening balance	6,345,586	6,135,594
Share in earnings, net	1,347,469	1,392,878
Addition/disposal, net	149,622	351,614
Dividends income	(1,270,000)	(1,534,500)
Closing balance	6,572,677	6,345,586

The joint ventures' financial statements are as follows:

	31 December 2017	31 December 2016	1 January 2016
Total Assets	19,442,496	19,277,755	19,113,219
Total Liabilities	10,882,444	10,515,891	10,633,193
Total Equity	6,637,100	6,827,542	7,468,219
Total Revenue	9,049,692	8,324,353	8,599,104
Total Expenses	7,126,740	6,390,031	7,587,297

15.2 Investments in associates

National Metal Manufacturing and Casting Company

National Metal Manufacturing and Casting Company ("Maadaniyah") is a Saudi joint stock company and listed in Saudi stock exchange. Its head office is based in Jubail, Saudi Arabia. The authorized and issued capital of Maadaniyah is SR 281 million. As at 31 December 2017, the Group own 35.46% of the issued share capital. The main objectives of the Company are manufacturing and marketing of drawn wire and related products, various sizes of axles and spare parts for trailers & dumping trucks, steel and non-steel casting, and trading in related products.

Saudi Clariant of Colorants Ltd. Company

Saudi Clariant of Colorants Ltd. Company ("Clariant") is a Saudi limited liability company with its head office based in Riyadh, Saudi Arabia. A subsidiary of the Group, Rowad own 40% of the issued share capital of SR 50 million. Clariant. The Company is engaged in manufacturing and sale of pigments master batch.

The movements in investments in associates are as follows:

	31 December 2017	31 December 2016
Opening balance	283,269	277,538
Share in earnings, net	(3,528)	11,035
Dividends income	(4,985)	(4,985)
Disposal/ Adjustment	8,248	(319)
Closing balance	283,004	283,269

NATIONAL INDUSTRIALIZATION COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

For the year ended 31 December 2017

(SR'000 unless otherwise noted)

16. INVESTMENTS IN EQUITY INSTRUMENTS DESIGNATED AS FVOCI

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Unquoted equity shares	578,661	583,219	567,634
Quoted equity shares	283,919	273,342	751,696
	<u>862,580</u>	<u>856,561</u>	<u>1,319,330</u>

17. ZAKAT AND INCOME TAX PAYABLE

17.1 Zakat and income tax

Movement in the Zakat and income tax provision are as follows:

	<u>31 December 2017</u>	<u>31 December 2016</u>
At the beginning of the year	311,895	296,775
Paid during the year	(43,266)	(59,276)
Adjustments during the year	94,881	-
Provision during the year	(9,402)	74,396
At the end of the year	<u>354,108</u>	<u>311,895</u>

17.2 Zakat

Movement in Zakat provision is as follows:

	<u>31 December 2017</u>	<u>31 December 2016</u>
At the beginning of the year	223,638	226,331
Paid during the year	(42,141)	(64,288)
Adjustments during the year	13,520	-
Provision during the year	88,128	61,595
At the end of the year	<u>283,145</u>	<u>223,638</u>

17.3 Income Tax

Movement in income tax is as follows:

	<u>31 December 2017</u>	<u>31 December 2016</u>
At the beginning of the year	88,257	70,444
(Paid) / refunded during the year	(1,125)	5,012
Adjustments during the year	81,361	-
Provision during the year	(97,530)	12,801
At the end of the year	<u>70,963</u>	<u>88,257</u>

17.4 Deferred Tax

Movement in deferred tax assets are as follows:

	<u>31 December 2017</u>	<u>31 December 2016</u>
At the beginning of the year	233,426	307,334
Provision during the year	53,681	(73,908)
At the end of the year	<u>287,107</u>	<u>233,426</u>

NATIONAL INDUSTRIALIZATION COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

For the year ended 31 December 2017

(SR'000 unless otherwise noted)

17. ZAKAT AND INCOME TAX PAYABLE (Contd.)

17.4 Deferred Tax (Contd.)

Movement in deferred tax liabilities is as follows:

	<u>31 December 2017</u>	<u>31 December 2016</u>
At the beginning of the year	260,156	460,789
Provision during the year	10,938	(200,633)
At the end of the year	<u>271,094</u>	<u>260,156</u>

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, as well as the net tax effects of operating losses.

Significant tax components of the Group's deferred tax assets and liabilities were as follows:

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Deferred tax assets			
Net operating losses	300,618	210,492	155,955
R&D tax credit carryovers	55,481	52,983	45,304
Interest expenses carryover	22,230	94,146	56,565
Others	96,576	185,230	139,729
Deferred tax liabilities			
Depreciation and amortization	(205,887)	(307,837)	(487,193)
Others	(253,005)	(261,743)	(44,760)

Deferred tax assets and liabilities have not been offset since the components of deferred tax assets and liabilities arose in different subsidiaries of the Group.

17.5 Status of Zakat and income tax returns and assessments

During 2015, the Company received an approval from the General Authority of Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia to file consolidated Zakat returns of the Company and its 100% owned subsidiaries since 2008. As at 31 December 2017, the Company has filed its consolidated Zakat and income returns while non-wholly subsidiaries have filed their Zakat and income tax returns with GAZT up to 31 December 2016.

As of 31 December 2017, the Company has finalized its Zakat and income tax status with GAZT up to 2007, while Zakat declarations for the years from 2008 to 2016 are still under review by GAZT.

Subsidiaries

Non-wholly owned subsidiaries in KSA file their Zakat and income tax returns individually for each company. Overseas subsidiaries file their income tax return based on the tax laws in their countries in which the operations are conducted and income is earned.

During 2017, some of the subsidiaries in KSA have received assessments from the GAZT for several years, resulting requirement for additional liability amounted to SR 91.8 million. The same subsidiaries have submitted appeal against these assessments which is still under review by GAZT; management believes that no material liability is likely to arise.

18. SHORT TERM FACILITIES

The Group has several short-term credit facilities to fund its working capital requirements and short-term funding needs. The outstanding balance of these facilities as at 31 December 2017 amounted to SR 17.4 million (31 December 2016: SR 68.0 million, 1 January 2016: SR 2,018.0 million). These facilities are secured by promissory notes and carry a commission that is commensurate with prevailing commercial rates.

NATIONAL INDUSTRIALIZATION COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

For the year ended 31 December 2017

(SR'000 unless otherwise noted)

19. LONG TERM BORROWINGS

	Note	31 December 2017	31 December 2016	1 January 2016
Sukuk	19.1	2,000,000	2,000,000	2,000,000
Saudi Industrial Development Fund	19.2	1,676,430	1,973,722	1,815,973
Commercial banks	19.3	11,923,412	12,553,579	11,839,191
Total loans		15,599,842	16,527,301	15,655,164
Less: Current portion of long term borrowings		(813,994)	(2,392,116)	(3,195,820)
Total non-current loans		14,785,848	14,135,185	12,459,344

19.1 Sukuk

On Jumada Al-Thani 30, 1433H, (corresponding to May 21, 2012G), the Company issued its first Sukuk amounting to SR 2 billion at a par value of SR 1 million each, with no discount or premium. This is the first issuance of sukuk under a sukuk program approved to be issued over various periods. The Sukuk issuance bears a variable rate of return at SIBOR plus a pre-determined margin, payable semi-annually in advance. The Sukuk is repayable at maturity at par value on its expiry date of Ramadan 16, 1440H (corresponding May 21, 2019G).

19.2 Saudi Industrial Development Fund ("SIDF")

The Group has multiple long-term facilities from the Saudi Industrial Development Fund. The total outstanding balance of these loans as at 31 December 2017 amounted to SR 1,676 million (31 December 2016: SR 1,974 million, 1 January 2016: SR 1,816 million). These facilities are secured by mortgages on all property, plant, and equipment of the subsidiaries for which the loans were granted and promissory notes, and corporate guarantees from the shareholders. The loan agreements contain certain covenants which among others, require that the companies maintain specified financial ratios.

19.3 Loans from commercial banks

The Group has multiple long-term loan facilities from commercial banks. The outstanding balance of these loans as at 31 December 2017 amounted to SR 11,923 million (31 December 2016: SR 12,555 million, 1 January 2016: SR 11,839 million). These loans are secured by promissory notes and guarantees of the shareholders and carry a commission that is commensurate with prevailing commercial rates. The loans contain certain covenants including the requirement to maintain specified financial ratios.

During the year the Group entered into syndicated murabaha facilities in a total amount of SR 3.9 billion to refinance its existing facilities. The new facilities have a seven years' maturity ending in 2024 and are repayable in sculpted semi-annual installments. The facilities are secured by promissory notes and carry a commission that is commensurate with prevailing commercial rates. The facilities contain certain covenants including the requirement to maintain specified financial ratios.

19.4 The maturity details of long term borrowings facilities 31 are as follows:

	31 December 2017	31 December 2016	1 January 2016
2018	813,994	2,392,116	3,195,820
2019	8,619,976	9,175,491	3,602,495
2020	510,855	1,066,370	1,420,908
2021	624,727	1,022,151	1,200,389
2022	1,027,635	404,200	585,473
Above 5 Years	4,002,655	2,466,973	5,650,079
	15,599,842	16,527,301	15,655,164

20. ACCOUNTS PAYABLE

	31 December 2017	31 December 2016	1 January 2016
Accounts payables-trade	1,235,530	1,007,002	1,303,990
Amounts due to related parties (note 32.2)	1,420,859	1,226,171	997,582
	2,656,389	2,233,173	2,301,572

NATIONAL INDUSTRIALIZATION COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

For the year ended 31 December 2017

(SR'000 unless otherwise noted)

21. PROVISIONS AND OTHER CURRENT LIABILITIES

Provisions consist of the following as of 31 December 2017:

21.1 Provision for decommissioning liabilities

The provision for asset retirement costs for certain facilities and landfills owned and/or operated by the Group are based on the Group's historical experience. The provision estimates the future costs and discounts the amounts to present value using the same discount rate as used for asset impairment testing. The provisions are reviewed on annual basis. Revisions to the provisions could occur due to changes in the estimated retirement costs or useful lives, additional assets that require future decommissioning and new or revised government regulations.

21.2 Provision for rehabilitation and mines closure

A restructuring reserve was raised to cover the costs of closure of various plants in prior years for the costs associated with the dismantling and environmental cleanup. All cost related to the closure have been charged to the provision. The total restructuring costs is monitored closely and revised as current information with more precise costs become available.

21.3 Other provisions

The details of provisions as of the reporting dates are as follows:

	Current		
	31 December 2017	31 December 2016	1 January 2016
Provision for decommissioning liabilities	12,076	2,255	11,857
Provision for rehabilitation and mines closure	14,196	6,775	16,502
Product sales rebates	134,472	115,495	141,280
Others	8,811	14,974	4,905
Total	169,555	139,499	174,544

	Non-current		
	31 December 2017	31 December 2016	1 January 2016
Provision for decommissioning liabilities	309,691	131,677	118,765
Provision for rehabilitation and mines closure	76,830	233,728	134,510
Others	17,911	-	-
Total	404,432	365,405	253,275

21.4 Other current liabilities

	31 December 2017	31 December 2016	1 January 2016
Accrued expenses	767,552	709,255	500,933
Other provisions and payables	740,229	606,854	294,353
Accrued employee benefits	102,117	107,863	176,877
Dividends payables	80,975	90,093	93,811
Others	41,224	35,214	5,147
	1,732,097	1,549,279	1,071,121

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements
For the year ended 31 December 2017
(SR'000 unless otherwise noted)

22. EMPLOYEE BENEFITS

22.1 Defined Contribution plans

Some of the Group's overseas subsidiaries sponsor defined contribution plans for all qualifying employees in each of their manufacturing regions. The assets of the plans are held under the control of trustees, separately from the assets of the subsidiaries. Participants are fully vested in the Group's contribution.

The total expense recognized in the consolidated statement of profit and loss for the years ended 31 December 2017 and 2016 are SR 49.66 million and SR 45.71 million respectively, represents the contributions earned by the participants at rates specified in the rules of the plans.

22.2 Defined benefit plans

The Group has end of service benefit plans for its employees in accordance with the local regulations in many regions where the Group operates and where the companies are located including Kingdom of Saudi Arabia. Some of the overseas subsidiaries also sponsor defined pension benefit pension plans in each of the manufacturing regions, United States of America Australia, United Kingdom and France. Retirement benefits are generally based on years of credited service and average compensation as defined under the respective plan provisions. The funding of these plans is consistent with local requirements in the countries of establishment.

The measurement date of all benefits obligations and plan assets are 31 December. The present value of the defined benefit obligation, and the related service cost and past service cost was measured by using the projected unit credit method. The plans are exposed to a number of legal and economic including investments risk, interest rate risk, longevity risks and salary risks due to unforeseen development in goods and capital markets.

22.2.1 Amount of benefits recognized as an expense

The amount recognized in consolidated statement of profit and loss in respect of these defined benefit plans are as follows:

	31 December 2017	31 December 2016
Service cost	43,940	93,525
Interest cost, net	66,533	69,877
Net annual benefit expense	110,473	163,402

22.2.2 Movements in defined benefit obligation and plan assets

Movements in the present value of defined benefit obligations and related plan assets are as follows:

	31 December 2017	31 December 2016
Defined benefit obligation		
Opening defined benefit obligation, 1 January	1,781,936	1,779,286
Interest cost	66,533	69,877
Service cost	43,940	93,525
Benefits paid	(113,914)	(150,634)
Exchange differences	62,892	(104,966)
Plan Amendments	4,376	329
Changes in assumptions	(4,012)	97,138
Changes on account of experience adjustments	44,620	(2,619)
Closing defined benefit obligation, 31 December	1,886,371	1,781,936

NATIONAL INDUSTRIALIZATION COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

For the year ended 31 December 2017

(SR'000 unless otherwise noted)

22. EMPLOYEE BENEFIT (Contd.)

22.2.2 Movements in defined benefit obligation and plan assets (Contd.)

	31 December 2017	31 December 2016
Plan assets		
Opening plan assets, 1 January	1,240,908	1,261,676
Employer contribution	25,816	29,593
Member contribution	995	1,007
Expected return	39,892	46,088
Expected administrative expenses	(4,636)	(4,911)
Benefits paid	(89,714)	(111,336)
Actuarial gain / (loss), net	66,854	125,090
Exchange differences	63,960	(106,299)
Fair value of plan assets, 31 December	1,344,075	1,240,908
Net closing of Defined Benefit Obligation, 31 December	542,296	541,028

22.2.3 Significant assumptions

The significant assumptions used in determining defined benefit obligations are as follows:

	31 December 2017	31 December 2016	1 January 2016
Discount rate			
• KSA	4.95%	5.25%	5.25%
• USA & Europe	2.55 - 4.95%	2.60 - 5.25%	2.60 - 5.25%
Future salary increases			
• KSA	5.20%	5.5%	5.5%
• USA & Europe	3 - 5.2%	3 - 5.5%	3 - 5.5%

22.2.4 A quantitative sensitivity analysis for significant assumption on the defined benefit obligation as at 31 December 2017 and 31 December 2016 is, as shown below:

The sensitivity analyses have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. It is based on a change in a significant assumption, keeping all other assumptions constant and may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another. The same method has been applied for the sensitivity analysis as when calculating the recognised pension liability.

	31 December 2017	31 December 2016
Discount rate		
Discount rate is 1% basis points higher, the DBO would decrease by	224,814	196,012
Discount rate is 1% basis points lower, the DBO would increase by	204,551	178,193
Future salary increases		
Future salary growth increase by 1%, the DBO would increase by	44,538	42,766
Future salary growth decrease by 1%, the DBO would decrease by	36,285	35,638

NATIONAL INDUSTRIALIZATION COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

For the year ended 31 December 2017

(SR'000 unless otherwise noted)

23. OTHER NON - CURRENT LIABILITES

	31 December 2017	31 December 2016	1 January 2016
Derivative financial instruments	8,528	18,300	5,773
Other	984,317	601,657	521,406
	<u>992,845</u>	<u>619,957</u>	<u>527,179</u>

23.1 Derivative financial instruments

	31 December 2017	31 December 2016	1 January 2016
Derivatives not designated as hedges			
• Interest rate swaps	6,619	18,786	15,213
Derivatives designated as hedges			
• Foreign exchange forward contracts	604	(486)	(9,440)
• Interest rate swaps	1,305	-	-
	<u>8,528</u>	<u>18,300</u>	<u>5,773</u>

23.1.1 Foreign exchange contracts

Management has considered the possibility of greater than expected budgeted increases in foreign exchange rates. The Group is exposed to certain transactions in foreign currencies due to exchange rate fluctuations. The Group forecasts that it will have US Dollar USD, Euro ("EUR"), Sterling ("GBP") and Australian Dollar ("AUD") denominated revenue and purchases and is exposed to variability in forecasted cash flows, as a result of foreign currency movements between the USD, EUR, GBP, AUD and SR. Where appropriate and as per the Group policy, the Group uses forward foreign currency contracts, and foreign currency swaps to hedge these exposures. Fair value changes on these are accounted through the consolidated statement of OCI based on IFRS 9.

As of the reporting date the contract and fair values of forward foreign currency contracts are as follows:

	31 December 2017	31 December 2016	1 January 2016
Forward foreign currency contracts – contract values	156,962	138,034	961,947

23.1.2 Interest rate swaps

The Group is exposed to fluctuations in variable interest rates on its short term and long-term debt. The Group maintains an interest rate risk management strategy that uses derivatives instruments such as interest rate swaps to economically convert a portion of its variable rate debt to fixed rate debt. The Group has entered into interest rate swap contracts and certain other interest rate derivatives with certain local banks. The fair value amounts of such contracts outstanding as at 31 December 2017 was SR 7,924 million (31 December 2016: SR 18.786 million; 1 January 2016: SR 15.213 million).

24. SHARE CAPITAL

Share capital amounted to SR 6,689,142 thousand as at December 31, 2017 (2016: SR 6,689,142 thousand) consisting of 668,914 thousand shares (2016: 668,914 thousand shares) of SR 10 each.

25. STATUTORY RESERVE

The Company is required to maintain the statutory reserve of up to 30% of share capital by allocating each year 10% from the net profits of the year until the statutory reserve becomes 30% of share capital. In the year 2016, the Company had allocated the 10% of its profit reported under SOCPA to statutory reserve but due to the impact of the IFRS adjustment on the prior year balances this allocation will not be 10% of the revised/adjusted profits under IFRS as endorsed in Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA.

NATIONAL INDUSTRIALIZATION COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

For the year ended 31 December 2017

(SR'000 unless otherwise noted)

26. OTHER RESERVES

As of 31 December 2017, other reserves details are as follows:

	Foreign currency translation reserves	Hedging reserves	Defined benefit plans adjustment	Other	Total
Opening balance, 1 January	(94,138)	3,457	(68,391)	(594,650)	(753,722)
Movement during the period	263,307	(694)	45,008	(4,054)	303,567
Closing balance, 31 December	169,169	2,763	(23,383)	(598,704)	(450,155)

As of 31 December 2016, other reserves details are as follows:

	Foreign currency translation reserves	Hedging reserves	Defined benefit plans adjustment	Other	Total
Opening balance, 1 January	-	7,340	(94,358)	(602,956)	(689,974)
Movement during the period	(94,138)	(3,883)	25,967	8,306	(63,748)
Closing balance, 31 December	(94,138)	3,457	(68,391)	(594,650)	(753,722)

Other mainly consists of a difference in the acquisition of the non-controlling interests amounting to SR 992 million (31 December 2016: SR992 million, 1 January 2016: SR 992 million).

27. SALE OF TITANIUM DIOXIDE BUSINESS

On 21 February 2017, Cristal entered into a conditional transaction agreement to sell to Tronox Limited A.C.N. a public limited company registered under the laws of the State of Western Australia and listed on the New York stock exchange ("Tronox"), its domestic and international titanium dioxide (TiO₂) business (including but not limited to the sale of (a) all international subsidiaries of Cristal, (b) assets (including the Yanbu plant of Cristal) and liabilities relevant to such business; and (c) contracts, intellectual property and goodwill in respect of such business (the "Cristal Assets")) in return for US\$ 1.673 billion (SR 6.274 billion) cash and 37,580,000 of newly issued Class A shares in Tronox (which represents approximately 24% of the shareholding in Tronox at closing).

The Closing of the transaction is subject to the satisfaction of certain condition precedents including amongst other things, Tronox shareholders' approval, governmental and regulatory approvals in the relevant jurisdictions and the conclusion of Cristal reorganization.

On 2 October 2017 at a special meeting of the shareholders of Tronox, a resolution was approved to issue 37,580,000 Class A Tronox shares which will form part of the consideration due to Cristal per the above-mentioned agreement.

Regulatory approvals from the U.S. Federal Trade Commission ('FTC') and the European Commission had not been received at the date of the statement of financial position or at the date of approval of these financial statements.

On 5 December 2017, the FTC issued an administrative complaint challenging the acquisition. The administrative trial is scheduled to begin on 18 May 2018. Furthermore, on 23 January 2018 Tronox filed a lawsuit in the United States District Court for the Northern District of Mississippi seeking declaratory and injunctive relief to prevent the FTC from blocking the proposed acquisition.

On 20 December 2017, Tronox confirmed that the European Commission had initiated a Phase II review of their planned acquisition. The Commission now has up to 90 working days, a period that may be extended or shortened, to make a final decision on whether the proposed transaction would significantly impede effective competition in the European Economic Area.

At the statement of financial position date, Management is of the view that the high probability test of transaction completion as required by IFRS 5: "Non-current Assets Held-for-Sale and Discontinued Operations" before assets and liabilities are reclassified as "held for sale" had not been met due the status of the required regulatory approvals and consequently no reclassification has occurred.

NATIONAL INDUSTRIALIZATION COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements**For the year ended 31 December 2017**

(SR'000 unless otherwise noted)

28. SELLING AND DISTRIBUTION EXPENSES

	31 December 2017	31 December 2016
Freight and transportation	359,754	340,062
Salaries, wages and benefits	132,742	124,751
Distributors' incentives	42,891	36,741
Depreciation and Amortization	2,042	2,442
Others	44,707	35,748
	582,136	539,744

29. GENERAL AND ADMINISTRATIVE EXPENSES

	31 December 2017	31 December 2016
Salaries, wages and benefits	374,720	332,691
Consulting and professional fees	263,597	169,744
Research and development	132,793	124,174
Depreciation and amortization	74,349	54,844
Travel	21,401	19,818
Subsidy to affiliates	68,513	244,648
Loss disposal of assets	89,243	-
Rent	17,746	9,815
Others	14,640	58,040
	1,057,002	1,013,774

30. OTHER INCOME / (EXPENSE), NET

	31 December 2017	31 December 2016
Dividends received	19,302	23,217
Proceeds from murabaha and other deposits	7,145	13,776
Foreign exchange gains / (losses), net	55,765	28,764
Compensations from legal cases	44,572	24,376
Research center income	60,917	69,129
Retrieval of consultant's fees	37,300	-
Others	5,910	4,990
	230,911	164,252

31. EARNINGS PER SHARE

	31 December 2017	31 December 2016
Basic and diluted earnings per share from operations	2.43	1.12
Basic and diluted earnings per share from net income	1.07	0.15

Earnings used in the calculation of basic earnings per share:

	31 December 2017	31 December 2016
Net profit from operations	1,623,834	747,539
Net profit for the year	716,156	101,423

The earnings / (losses) per share attributable to income from net profit / (loss) for the year are calculated based on total number of shares issued, that is 668,914 thousand shares as at 31 December 2017 (31 December 2016: 668,914 thousand shares).

NATIONAL INDUSTRIALIZATION COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

For the year ended 31 December 2017

(SR'000 unless otherwise noted)

32. RELATED PARTIES TRANSACTIONS AND BALANCES

In the ordinary course of its activities, the Group transacts business with related parties at terms equivalent to those that prevail in arm length transactions.

Balances and transactions between the Company and its subsidiaries are eliminated. Detail of transactions between the Group and other related parties are as follows:

32.1 Trading transactions

	Sales		Purchases	
	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2016
Associates	1,423	1,112	-	-
Joint ventures	-	-	706,301	655,127

32.2 Amounts due from/to related parties

The following balances are outstanding at the end of reporting year:

	Amount due from related parties			Amount due to related parties		
	31 December 2017	31 December 2016	1 January 2016	31 December 2017	31 December 2016	1 January 2016
Associates	-	400	562	-	-	-
Joint ventures	395,545	309,252	214,556	1,420,859	1,226,171	997,582

32.3 Compensation of key management personnel

Key managerial personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, includes senior management and board of directors (executive or otherwise).

The remuneration of key management personnel during the year are as follows:

	31 December 2017	31 December 2016
Short term benefits (Salaries and allowances)	32,206	29,886

33. SEGMENT INFORMATION

For management purposes, the Group is organized into business units based on their products and services and has three reportable segments, as follows:

Segment	Description of activities
Chemical	Includes the production of titanium dioxide and sulphuric acid, production and marketing of Titanium Dioxide and, manufacturing of Titanium Metal Powder and Mineral exploration and Mining, projects of Titanium ore, Iron ore, and manufacturing of Titanium dioxide through high pressure oxidation and production of Titanium sponge and its by-products
Petrochemical sector	Includes basic chemicals, and polymers
Downstream & Others	Includes the production of liquid batteries for cars, production of lead and sodium sulfate, all kinds of plastic productions and the production of acrylic panels. Also, includes the operations of the head office, and technical centers, innovations and investment activities.

NATIONAL INDUSTRIALIZATION COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

For the year ended 31 December 2017

(SR'000 unless otherwise noted)

33. SEGMENT INFORMATION (Contd.)

The Board of Directors (BoD), who has been identified as the Chief Operating Decision Maker (CODM) monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Transactions between the operating segments are on terms approved by the management. Inter segment revenue are eliminated upon consolidation and reflected in adjustments and elimination column. The basis of segmentation remained unchanged for all period presented.

All other eliminations are part of detailed reconciliation below:

	Chemical	Petrochemical Sector	Downstream & others	Eliminations/ Adjustments	Total
For the year ended and as at 31 December 2017					
Segment revenues	8,035,598	1,737,693	1,028,777	(5,644)	10,796,424
Segment expenses	7,404,482	1,745,068	1,361,337	5,644	10,516,531
Depreciation and amortization	634,503	115,743	102,842	-	853,088
Share of profit of associated companies and joint ventures	(10,507)	1,366,740	(12,292)	-	1,343,941
Segment EBITDA	473,662	946,696	434,387	-	1,854,745
Segment assets	18,149,289	9,540,805	15,942,184	(9,639,084)	33,993,194
Segment liabilities	11,339,209	2,819,069	8,184,128	(138,764)	22,203,642
Investments in associated companies and joint ventures	282,289	6,297,812	275,580	-	6,855,681
For the year ended and as at 31 December 2016					
Segment revenues	6,514,045	1,169,063	948,162	(11,738)	8,619,532
Segment expenses	6,955,329	1,357,608	964,812	(11,738)	9,266,011
Depreciation and amortization	733,899	36,091	88,320	-	858,310
Share of profit of associated companies and joint ventures	-	1,389,967	13,946	-	1,403,913
Segment EBITDA	291,575	1,016,582	461,943	-	1,770,100
Segment assets	17,349,149	9,013,706	15,377,663	(9,155,047)	32,585,471
Segment liabilities	11,860,404	2,741,010	7,623,863	(184,593)	22,040,684
Investments in associated companies and joint ventures	267,995	6,085,411	275,449	-	6,628,855

Geographical information

The geographical distribution of revenue is as follows:

	2017				Total
	Chemical	Petrochemical Sector	Downstream & others	Elimination	
KSA	381,273	664,969	680,819	(5,644)	1,721,417
Middle East and Asia	2,348,616	869,662	239,391	-	3,457,669
Europe	2,060,532	54,325	46,635	-	2,161,492
North and South of USA	2,746,426	17,078	1,288	-	2,764,792
Australia	301,576	-	-	-	301,576
Others	197,175	131,659	60,644	-	389,478
Total	8,035,598	1,737,693	1,028,777	(5,644)	10,796,424

NATIONAL INDUSTRIALIZATION COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

For the year ended 31 December 2017

(SR'000 unless otherwise noted)

33. SEGMENT INFORMATION (Contd.)

Geographical information (Contd.)

	2016				
	Chemical	Petrochemical Sector	Downstream & others	Elimination	Total
KSA	275,802	475,709	751,160	(193,030)	1,309,641
Middle East & Asia	2,035,338	369,434	242,474	-	2,647,246
Europe	1,748,899	26,932	24,184	-	1,800,015
North and South of USA	2,326,562	8,468	-	-	2,335,030
Australia	300,433	-	-	-	300,433
Others	158,396	26,127	42,644	-	227,167
Total	6,845,430	906,670	1,060,462	(193,030)	8,619,532

34. FAIR VALUATION AND FINANCIAL INSTRUMENTS

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 liability, the Group takes into account the characteristics of the assets or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

All financial assets and liabilities have been accounted at amortized cost except for the investments in equity instruments designated at FVOCI and derivative instruments which have been carried at fair value either through the consolidated statement of profit or loss or other comprehensive income depending on whether hedge accounting is followed or not.

The management assessed that other current financial assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

34.1 Fair valuation techniques

For financial reporting purposes, the Group has used the fair value hierarchy categorized in level 1, 2 and 3 based on the degree to which the inputs to the fair value measurement are observable and significance of the inputs to the fair value measurement in its entirety, and describe as follows:

- **Level 1** - quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can assess at the measurement date.
- **Level 2** - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- **Level 3** - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The valuation of each publicly traded investment is based upon the closing market price of that stock as of the valuation date, less a discount if the security is restricted.

Fair values of investments in unquoted equity shares classified in Level 3 are determined based on the investees' latest reported net asset values as at the date of consolidated statement of financial position.

Foreign exchange forward contracts and interest rate swaps are classified as Level 2.

NATIONAL INDUSTRIALIZATION COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

For the year ended 31 December 2017

(SR'000 unless otherwise noted)

34. FAIR VALUATION AND FINANCIAL INSTRUMENTS (Contd.)

34.1 Fair valuation techniques (Contd.)

Details of financial instruments carried at fair value are as below:

Nature of financial instrument	Carrying value	Level 1	Level 2	Level 3
As at 31 December 2016				
Investments in quoted equity shares	273,343	273,343	-	-
Investments in unquoted equity shares	583,219	-	301,969	281,250
Interest rate swaps	(18,786)	-	(18,786)	-
Foreign exchange forward contracts	486	-	486	-
As at 31 December 2017				
Investments in quoted equity shares	283,919	283,919	-	-
Investments in unquoted equity shares	578,661	-	87,384	491,277
Interest rate swaps	(7,924)	-	(7,924)	-
Foreign exchange forward contracts	(604)	-	(604)	-

Apart from the above financial instruments, other financial instruments have been carried at amortized cost. At the respective reporting dates, the fair value for these instruments approximates the amortized cost considered for financial reporting and disclosed in the respective schedules.

34.2 Transfers between Levels 1 and 2

There have been no transfers between Level 1 and Level 2 during the reporting periods

34.3 Sensitivity analysis

For the fair values of unquoted investments, reasonably possible changes at the reporting date to one of the significant observable inputs, holding other inputs constant, would have the following effects.

	As at 31 December 2017	
	Increase	Decrease
Significant observable inputs		
Equity securities in unquoted investments measured through OCI	30,437	(30,437)
Average EV/EBITDA (0.5% movement)	8,114	(8,114)
As at 31 December 2016		
	Increase	Decrease
Significant observable inputs		
Equity securities in unquoted investments measured through OCI	9,554	(9,554)
Average EV/EBITDA (0.5% movement)	9,610	(9,610)
As at 1 January 2016		
	Increase	Decrease
Significant observable inputs		
Equity securities in unquoted investments measured through OCI	170,036	(170,036)
Average EV/EBITDA (0.5% movement)	9,025	(9,025)

NATIONAL INDUSTRIALIZATION COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

For the year ended 31 December 2017

(SR'000 unless otherwise noted)

34. FAIR VALUATION AND FINANCIAL INSTRUMENTS (Contd.)

34.4 Movements in investments in FVOCI equity instruments

	Quoted equity shares	Unquoted equity shares
As at 1 January 2016	751,696	567,634
Disposals / adjustments	(534,604)	15,585
Fair value Gains / (losses) recognised in OCI	56,251	-
As at 31 December 2016	273,343	583,219
Fair value Gains / (losses) recognised in OCI	10,576	30,437
Disposals / adjustments	-	(34,995)
As at 31 December 2017	283,919	578,661

35. FINANCIAL RISK MANAGEMENT

Financial risk is inherent in the Group's activities are managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability. The Group's activities are exposed to a variety of financial risks which mainly include market risk, credit risk and liquidity risk.

The Group seeks to minimize the effects of these financial risks by various methods, including derivative financial instruments where appropriate, to hedge risk exposures. The use of financial derivatives is governed by the Group's policies which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

35.1 Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and cause the other party to incur a financial loss. The Group has established procedures to manage credit exposure including evaluation of customer credit worthiness, formal credit approvals, assigning credit limits, monitoring the outstanding receivable, maintaining receivable ageing details and ensuring the close follow up.

Trade receivables

Customer credit risk is managed by each business unit subject to the Group's established policy and procedures. The Group has a policy of only dealing with creditworthy counterparties. Credit rating information of customers are obtained from independent rating agencies where available, and if not available, the Group uses publicly available information and its own trading records to rate its major customers. The Credit limits are established for all customers based on internal rating criteria. Trade receivables are non-interest bearing and generally have a credit period at par with industry norms. Collateral is generally not required, but may be used under certain circumstances as well as letters of credit in certain markets, particularly in lesser developed markets. The Group has no concentration of credit risk as the customer base is widely distributed both economically and geographically.

The Group reviews the recoverable amount of each trade debt on an individual basis at the end of the reporting period to ensure that adequate loss allowance is made for irrecoverable amounts. Further, an impairment analysis is also performed at each reporting date based on the facts and circumstances existing on that date to identify expected losses on account of time value of money and credit risk. For the purposes of this analysis, the receivables are categorized into portfolios based comprising of homogeneous receivables. Each portfolio is then assessed for impairment using the Expected Credit Loss (ECL) model as per the provisions of IFRS 9. The calculation is based provision matrix which considers actual historical data adjusted appropriately for the future expectations and probabilities. Receivables from group companies and secured receivables are excluded for the purposes of this analysis since no credit risk is perceived on them.

NATIONAL INDUSTRIALIZATION COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

For the year ended 31 December 2017

(SR'000 unless otherwise noted)

35. FINANCIAL RISK MANAGEMENT (Contd.)

35.1 Credit risk (Contd.)

Trade receivables (Contd.)

The loss rates are based on actual credit loss experience over past years. These loss rates are then adjusted appropriately to reflect differences between current and historical economic conditions and the Group's view of economic conditions over the expected lives of the receivables.

Other financial assets

This comprises mainly of deposits with banks, investments in unquoted equity shares, receivables from equity accounted investees and joint ventures and derivative assets. Credit risk arising from these financial assets is limited and there is no collateral held against these because the counterparties are equity accounted investees, banks and recognized financial institutions. Banks and recognized financial institutions have high credit ratings assigned by the international credit rating agencies.

35.2 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments that are settled by delivering cash or another financial asset. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The Group's objective is to; at all times maintain optimum levels of liquidity to meet its cash and collateral requirements. The Group closely monitors its liquidity position and deploys a robust cash management system. It maintains adequate sources of financing including syndicated and bilateral term loans, overdraft facilities, and working capital facilities, from both domestic and international banks.

The table below analyze non-derivative financial liabilities of the Group by relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date. The amounts disclosed under the ageing buckets are the contractual undiscounted cash flows and includes contractual commission payments.

	Within 1 year	1 to 5 years	Greater than 5 years	No fixed maturity	Total
31 December 2017					
Short term facilitates	17,440	-	-	-	17,440
Borrowings	813,994	10,783,193	4,002,655	-	15,599,842
Accounts payable	2,656,389	-	-	-	2,656,389
Other financial liabilities	1,734,448	942,459	-	240,862	2,917,769
	5,222,271	11,725,652	4,002,655	240,862	21,191,440
31 December 2016					
Short term facilitates	68,018	-	-	-	68,018
Borrowings	2,392,116	11,668,212	2,466,973	-	16,527,301
Accounts payable	2,233,173	-	-	-	2,233,173
Other financial liabilities	1,463,900	276,071	133,932	209,954	2,083,857
	6,157,207	11,944,283	2,600,905	209,954	20,912,349
1 January 2016					
Short term facilitates	2,017,770	-	-	-	2,017,770
Borrowings	3,195,840	6,809,265	5,650,079	-	15,655,184
Accounts payable	2,301,572	-	-	-	2,301,572
Other financial liabilities	1,071,121	377,581	-	149,598	1,598,300
	8,586,303	7,186,846	5,650,079	149,598	21,572,826

NATIONAL INDUSTRIALIZATION COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

For the year ended 31 December 2017

(SR'000 unless otherwise noted)

35. FINANCIAL RISK MANAGEMENT (Contd.)

35.3 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: commission rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include borrowings, investments, trade and other receivables and accounts payable.

35.4 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is subject to the risk of fluctuations in foreign exchange rates through its normal course of business. The Group monitors the fluctuations in currency exchange rates and charge the effects on the consolidated financial statements accordingly. The Group covers the foreign currency risks by using derivative financial instruments, where appropriate and as per the Group's policies.

The Group exposure to currency risk primarily arises from transactions denominated in US Dollars (USD), Great Britain Pound (GBP), and EURO (EUR). For transactions denominated in USD, there is minimal currency risk since the Saudi Riyal (SR) to USD exchange rate is pegged and hence not considered.

The Company has the following significant financial asset / (liability) exposures, denominated in foreign currency:

	31 December 2017	31 December 2016
Great Britain Pound (GBP)	5.7	(24.4)
Euro (EUR)	29.0	43.3
Australian Dollar (AUD)	(60.5)	(35.2)

Potential impact of a 5% appreciation as well as depreciation of exchange rate of Saudi Riyal with foreign currencies has been summarized below:

Currency	Change in exchange rate	31 December 2017	31 December 2016
EURO	+5%	(10,988)	(4,766)
	-5%	10,988	4,766
GBP	+5%	5,415	(21,135)
	-5%	(5,415)	21,135
AUD	+5%	(33,218)	(17,858)
	-5%	33,218	17,858

35.5 Commission rate risk

Commission rate risk is the risk that the value of financial instruments or their associated cash flows will fluctuate due to changes in market commission rates. The Group has no significant commission-bearing assets but has commission-bearing liabilities as at 31 December 2017, 31 December 2016 and 1 January 2016.

The Group manages its borrowings made at floating rates by using floating-to-fixed interest rate swaps where appropriate and as per the Group policies. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with the counterparty to exchange the difference between fixed and variable rate contracts at specified intervals.

NATIONAL INDUSTRIALIZATION COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

For the year ended 31 December 2017

(SR'000 unless otherwise noted)

35. FINANCIAL RISK MANAGEMENT (Contd.)

35.5 Commission rate risk (Contd.)

Sensitivity analysis for variable rate financial instruments

The Group does not account for any financial liabilities at fair value through profit or loss. Further, the Group does not have any material variable rate financial assets. Therefore, a change in special commission rate of fixed rate financial assets at the reporting date would not affect profit for the year.

35.6 Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern and provide returns to their shareholders. The Group management reviews the capital structure on a regular basis and decides on a healthy mix of debt and equity structure.

36. CONTINGENCIES AND COMMITMENTS

36.1 Capital and purchase commitments:

The Group's capital and purchase commitments as of reporting date are as follows:

	31 December 2017	31 December 2016	1 January 2016
Capital commitments for projects under progress and purchase of property, plant and equipment	117,578	493,629	519,331
Commitments for consulting contracts	-	-	227,000
Purchase of ore, certain raw materials, utilities and services	1,628,798	1,217,845	2,490,992

36.2 Operating leases commitments

Operating leases payments represent rents accrued by the Group for renting land and residential units and sites for factories. The average period of the lease agreed upon, ranges from 1 to 20 years.

The future minimum lease payments relating to all irrevocable operating leases with terms in excess of one year are as follows:

	31 December 2017	31 December 2016	1 January 2016
One year	107,170	88,049	75,575
Two to five years	133,254	158,687	166,826
More than five years	19,590	14,520	16,828
Total minimum lease payments	260,014	261,256	259,229

36.3 Contingencies

The Group contingencies as of reporting date are as follows:

	31 December 2017	31 December 2016	1 January 2016
Letters of guarantee	1,470,800	1,517,090	1,305,000
Letters of credit	51,534	116,183	47,000
	1,522,334	1,633,273	1,352,000

NATIONAL INDUSTRIALIZATION COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

For the year ended 31 December 2017

(SR'000 unless otherwise noted)

36. CONTINGENCIES AND COMMITMENTS (Contd.)

36.3 Contingencies (Contd.)

Additionally, the Company has issued corporate guarantees to commercial banks and Saudi Industrial Development Fund by its share owned in share capital of some joint ventures against the loans, which have been obtained by these joint ventures from such parties. As at 31 December 2017 such guarantees amounted to SR 6,999 million (31 December 2016 SR 6,986 million, 1 January 2016: SR 8,408 million).

The Group is involved in legal litigation claims in the ordinary course of business, which are being defended; there are also some claims under the process of final settlement. The ultimate results of these claims cannot be determined with certainty as of the date of preparing the consolidated financial statements; the Group's management does not expect that these claims will have a material adverse effect on the Group's consolidated financial statements.

37. EVENTS AFTER THE REPORTING DATE

Subsequent to the reporting date, the Company has included a zakat assessment from GAZT related to one of its subsidiaries for the years 2012 to 2015 with an additional obligation of SR 210 million. The difference between the Company's returns and the receipt received is in loans and investments in subsidiaries. The Company believes that the assessment did not take into consideration some of the material information that the Company intends to submit in its objection with the supporting documents in support of its point of view. The management of the Company is optimistic and expects to amend the GAZT assessment for its benefit. Accordingly, the management believes that the final outcome will not lead to any material obligations.

No other events have occurred subsequent to the reporting date and before the issuance of these consolidated financial statements which require adjustment to, or disclosure, in these consolidated financial statements.

38. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved from the Board of Directors on 27 February 2018 G (corresponding to 11 Jumada II' 1439 H).