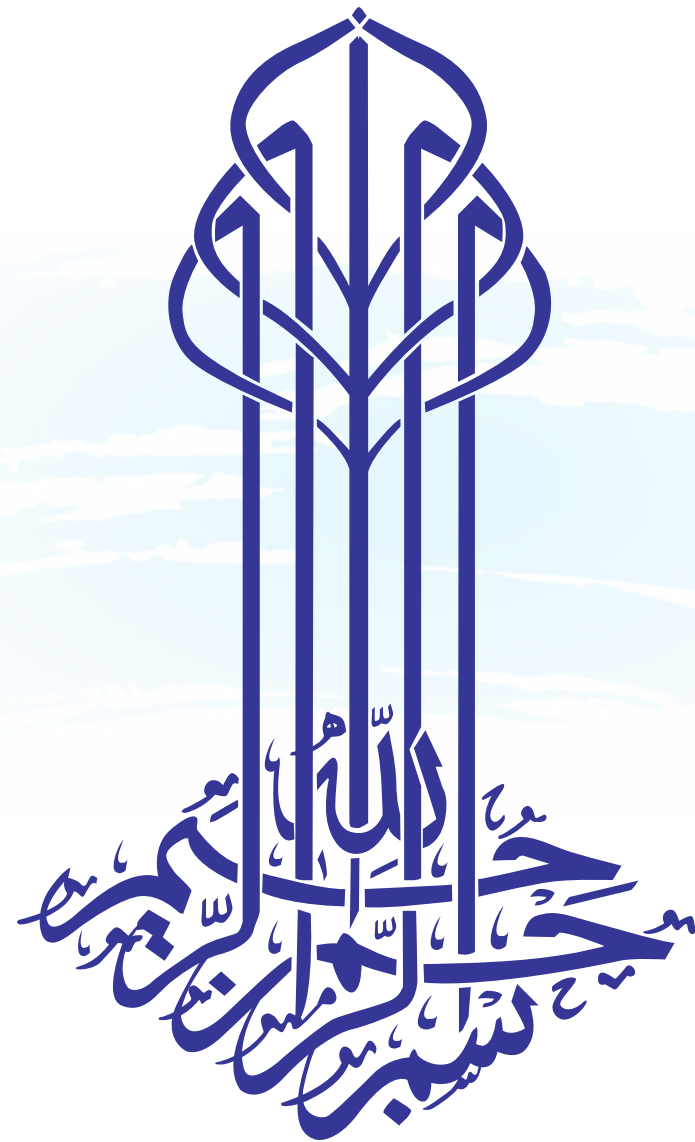




Annual Report
2016







His Royal Highness
Mohamed Ben Salman Ben Abdulaziz Al-Saud
Second Crown Prince,
Second Deputy Prime Minister, Minister of Defence

His Royal Highness
Prince Mohamed Ben Nayef Ben Abdulaziz Al-Saud
Crown Prince,
Deputy Prime Minister, Minister of Interior

Custodian of the Two Holy Mosques
King Salman Ben Abdul Aziz Al-Saud

The Board Members



Eng. Mubarak Ben Abdullah Al-Khafrah
Chairman



Dr. Talal Ben Ali Al-Shair



Dr. Nazeeh Ben Hassan Naseef



Eng. Talal Ben Ibrahim Al-Mayman



Eng. Salah Ben Abdulwahab Al-Terkait



Eng. Bader Ben Ali Al-Dakhil



Mr. Suliman Ben Abdulqader Al-Muhaideb



Mr. Ibrahim Ben Ali Al Qadhi



Mr. Saud Ben Suliman Al Juhani



Mr. Sami Ben Abdulaziz Al Shenaiber



Vision

To be a leader in its industries and keen on responsibility towards its stakeholders and society at large.

Mission

Achieving profitable and sustainable growth through the development of best business practices.

Message from The Chairman

Message from The Chairman



Eng. Mubarak Ben Abdullah Al-Khafrah

In 2016, the world economy witnessed a number of variables which affected the global economy and further led to the current slowdown in the global markets, these results could extend to years to come. These variables include Britain's exit from the European Union and the German and French upcoming elections, in addition to of the weak position of the European currency in general. Moreover, the election of the new United States President Donald Trump has also been controversial for long period and the impact of this on the world economy and its stability and the possible changes this would have on the global trade structure. It is expected that the UK and Japan markets to face many challenges, with the expected slowdown of the Chinese economy.

For the first time in eight years the Organization of the Petroleum Exporting Countries (OPEC) reached an agreement to reduce its production by 1.8 million barrels per day, equivalent to 2% of the world's oil supply, has the greatest impact on world oil prices, which gives some positive indicators for oil-dependent economies.

Despite the expected decline in the oil market as a

result of the Saudi Arabia's commitment to coordinate agreements between producers within OPEC and outside OPEC to reduce oil production during the first half of 2017, however, it is expected that this will accelerate growth slightly in the private sector.

This will come in line with the Saudi government's desire to compensate the private sector for the partial negative impact of the fiscal balance measures, benefiting also from the accelerated growth in the non-oil sector in general and petrochemicals in particular as a result of the economic reforms in both the national transformation program and the vision of the Kingdom 2030. In addition to the good opportunities this offers through the facilitation of Saudi joint foreign investment in the kingdom which aims at increasing the foreign direct investment. It is expected that the production capacity of Saudi petrochemicals will improve due to the major ongoing projects which are expected to enter production phase in the coming period. This will result in increment in the Saudi exports, and investment opportunities within the sector.

As for the National industrialization Company (Tasnee), it was able to exceed the negative

results of the year 2016 and returned to profitability starting from the second quarter, which reflected in the final results of the year, benefiting from the restructuring process, reduced costs and improved performance in all operations. Many of the company's segments achieved unprecedented results in terms of production rates.

The company's management seeks to activate its research and development capabilities and take advantage of a range of strategic initiatives to increase its ability to meet the challenges of the future and achieve more positive results during 2017.

Finally, on behalf of my self and my colleagues in the board of directors, I extend my appreciation and gratitude to all the members of the National Industrialization Company for their efforts in making the company and its subsidiaries a success. I ask Allah to preserve our beloved kingdom and bless us with security and stability under the leadership of the Custodian of the Two Holy Mosques, King Salman bin Abdulaziz.

Mubarak Ben Abdullah Al Khafrah



Tasnee Partners Meeting - GPCA 2016.



Board of Directors' Report for 2016

Pariba - Brazil.

Board of Directors' Report for 2016

Dear Respected
TASNEE Shareholders,

The Board of Directors of the National Industrialization Company (TASNEE) is pleased to present to shareholders its annual report which is prepared in accordance with the Corporate Governance Rules, Listing Rules, and the Company's Articles of Association, to comprehend the activities and performance of the Company for the fiscal year ending on December 31, 2016, accompanied by the audited financial statements and notes attached thereto, including the most important developments in the performance and activities of the Company as per the following details:

First: Composition and Business

The National Industrialization Company (TASNEE) is a Saudi joint stock company, established by the Ministerial Resolution No. 601 of 24 Dul'Hijjah, 1404H (19 September 1984), under CR No. 1010059693 dated 7 Shawal, 1405H (25 June 1985) with capital of SAR 6,689,141,660.

The Company's major activities involve investing in industrial field, transferring industrial advanced technology to Saudi Arabia in manufacturing and processing of petrochemicals and chemicals, engineering and mechanical industries, management and possession of industrial projects and marketing its products.

Furthermore, Tasnee's subsidiaries activities involve manufacturing and marketing of industrial products. Petrochemicals industry includes the production of ethylene, polyethylene, propylene and polypropylene. Chemicals industry includes the production and marketing of titanium dioxide. The industrial activity includes the production of dry and liquid vehicle batteries, lead, plastic products and acrylic sheets. The other activities include marketing plastic products and batteries, providing technical services, conducting technical testing to equipment, and industrial, chemical, petrochemical and metallurgical plants and water desalination and power generation plants. Below is a table showing the impact of each activity on the volume of the Company's business:

	Petrochemical Sector	Chemical (Titanium) Sector	Industrial Sector and other activities	Total
Percent of sales	52%	43%	5%	100%

Second: Total Production and Sales*

Sector	Production		Sales	
	2016	2015	2016	2015
Petrochemical Sector	2,537	2,337	2,562	2,295
Chemical (Titanium) Sector	668	618	729	672
Industrial Sector and other activities	119	156	130	160
Total	3,324	3,111	3,421	3,127

*Production includes quantities used inside the Company's factories.

Third: Future Plans and Prospects, Risks, and New Projects

a. Future Plans and Prospects:

In general, the Company is planning to continue improving performance, enhancing its gains, and developing capabilities, which in turn will help in maintaining the growth of profits and shareholders' equity. However, it is difficult to precisely predict future prospects for the petrochemicals and chemicals future product prices in global markets, as they are linked to a number of changing global economic data and factors.

b. Risks:

As the company activity includes producing and marketing petrochemical and chemical products which may come with safety risks, Tasnee has highly trained staff on all safety procedures, and retain the appropriate insurance on its assets and business.

The company may be exposed to fluctuations in petrochemical and industrial products prices, hence the Company is working on reducing such effects through cutting down production costs and increasing the quantities produced, thus increasing the quantities sold and revenues.

Moreover, The Company is also exposed to fluctuations of foreign exchange rates on its assets and properties, including bank deposits, Murabaha and term loans. The Company is working to manage these risks in line with those deposits and loan agreements concluded with lenders.

The company gets the main part of the feed-stock from the main supplier (Saudi Aramco) at prices similar to those of petrochemical companies in Saudi Arabia, and any change in feedstock prices would affect its profitability, in addition to the issued Council of Ministers Resolution, amending the prices of feedstock and utility including electricity and water, which affected the production costs on the company's factories inside Saudi Arabia in the fiscal year 2016. Additionally, the Company is continuing the implementation of performance improvement and rationalization of expenditure programs to reduce such impacts.

All those risks affect the Company's profitability, cash flows and ability to achieve its strategic goals; in order to reduce such effects, the company is working on identifying, analyzing and evaluating the risks faced, to avoid or minimize the negative impact on the business, and to be ready to deal with any potential future risks.

c. New Projects

The Company continues working on a range of projects that will help in achieving higher growth rates, like Ilmenite Project for Titanium Slag in Jazan for providing the raw material for Titanium industry, Titanium Sponge Project in Yanbu which is expected to start trial operation in the second half of 2017, to support economic diversification, sustainable growth and nationalizing the advanced industrial technologies. Furthermore, Tasnee downstream projects in Hail will start trial operation for most of its plants during the first quarter of 2017 to increase the added value to downstream activities and provide additional job opportunities for the people of the region.

Fourth: Loans obtained by the Company

Granting Entity	Issuance Date	Principal	Repaid during the year	Loan balance	Payment Period	Due Date
Sukuk	2012	2,000,000,000	None	2,000,000,000	7 years	2019
Local banks	2013	4,000,000,000	266,666,667	2,933,333,333	8 years	2021
Local banks	2015	1,200,000,000	218,181,818	981,818,182	6 years	2021

Fifth: Description of debt instruments activities

Convertible debt instruments:

During 2016, the Company did not issue or grant any debt instruments convertible into shares, any option rights, subscription memorandums, or any similar rights.

Conversion or subscription rights under the debt instruments

During 2016, the Company did not issue or grant any conversion or subscription rights under the debt instruments convertible into shares, any option rights, subscription memorandums, or any similar rights.

Sixth: Operational Results:

Net profit for the year ending on December 31, 2016 amounted to SAR 208 million compared to a net loss of SAR 1,423 million for the same period last year. The profit was due mainly to improving the operational performance, increasing volume of sales, reducing general, administrative and marketing expenses, and increasing of other revenues despite higher financing costs. The negative fair value was recorded from the valuation of the hedging contracts and derivatives concluded by a subsidiary with some local banks to reduce risk of foreign exchange fluctuation and recording a decrease in the value of non-current assets during the same period last year.

Shareholders' equity at the end of December 2016 amounted to SR 8,053 million, an increase of 1% over last year. The assets at the end of December 2016 amounted to SR 43,336 million, i.e., a decrease of 3.6% than the previous year.

Note that the Company prepares its financial statements in accordance with the accounting standards issued by the Saudi Organization for Certified Public Accountants which are appropriate to the Company's conditions and conform to the Companies Law and the Company's Articles of Association.

As for the transformation to IFRS project, the project is going well. The accounting policies in compliance with international financial reporting standards were approved by the Board of Directors on 18/1/2017. The consolidated statement of financial position (Admin not audited) for the opening balance as of January 1, 2016 and the first quarter and the second quarter of 2016 is prepared in accordance with International Accounting Standards. The consolidated financial statements for the third, fourth quarters and annual statements are being prepared for completion and review during the first quarter of 2017. No significant effect was found on the opening balance of equity as of 1 January 2016. Noting that there is an increase and decrease in the balances of certain items as a result of the Company's adoption of the International Accounting Standard (IFRS1) for the first time, which includes the depreciation of certain machinery and equipment and the capitalization of a portion of spare parts items according to the standard (IAS16). And the provision for employee benefits which requires the application of the actuarial calculation of this item in accordance with (Employee Benefits IAS19). It is worth mentioning that the Company's adoption of the accounting standard (IFRS 10) and the accounting standard (IFRS 11) will result in the exclusion by the financial statements of certain subsidiaries from the Group's consolidated financial statements by accounting for them in the equity method because no accounting control is available according to the standard (IAS28).

Seventh: Assets, Liabilities and Business Results of Activities for the Last Five Fiscal Years

TASNEE has a strong financial position and positive financial indicators. The table below shows its business outputs for the last five fiscal years:

Year	Amount in SR million				
	Total assets	Total liabilities	Shareholders' equity	Sales	Net profits
Dec. 31, 2012	45,575	25,966	12,067	17,922	1,764
Dec. 31, 2013	47,270	27,687	12,006	18,199	1,177
Dec. 31, 2014	47,892	28,913	11,626	18,693	1,071
Dec. 31, 2015	44,975	31,227	7,968	15,146	(1,423)
Dec. 31, 2016	43,336	29,821	8,053	15,197	208

Eighth: Geographic Analysis of Revenues

The achieved revenues of the Company mainly result from the marketing of petrochemical, chemical and industrial products, as follows:

Region	KSA & Middle East	Africa	Asia	Europe	USA	Other
Sales Ratio	27%	8%	26%	17%	15%	7%

Ninth: The Material Differences in the Operating Results:

	2016	2015	Changes	Changes Percentage
Sales	15,197	15,146	51	0.33%
Sales Cost	(11,725)	(12,933)	1,208	9.3%
Net Profit	208	(1,423)	1,631	-

The profit is due to improved operating performance, increased volume of sales, reduced general, administrative and marketing expenses, and increase of other revenues despite higher financing costs. The negative fair value was recorded from the valuation of hedging contracts and derivatives concluded by a subsidiary with some local banks to reduce risk of foreign exchange fluctuation and recording a decrease in the value of non-current assets during the same period last year.

Tenth: Affiliates and Sister Companies

No	Name	Location	Activity	Capital (SAR1000)	Kind	Stake	Debt Inst.
1	National Titanium Dioxide Co. (CRISTAL)	Based in Jeddah, with its operation facilities located in Yanbu Industrial City, in addition to its plants based in USA ,Europe and Australia,	Producing and marketing of titanium dioxide to be used in paints, coatings and paper industry	2,362,500	A limited liability company	79%	7,220,713
2	Advanced Minerals Industries Company (AMIC)	Based in Jeddah	Establishing and managing industrial projects related to titanium and other materials	3,000	A limited liability company	89.5%	1,342,297
3	Saudi Poly Olefins Company (SPC)	Based and exercises its operations in Jubail Industrial City	Producing Polypropylene which is used as a basic raw material in plastic carpets ,and other industries.	600,000	A limited liability company	75%	1,303,935
4	TASNEE & Sahara Olefins Company	Based in Riyadh, with its main operation office located in Jubail Industrial City	Establishing, managing, operating and acquiring of Petrochemical & Chemical projects, and marketing their products	2,830,000	A Saudi joint stock company	60.45%	-
5	Saudi Ethylene and Polyethylene Company (SEPC)	Based and exercises its operations from Jubail Industrial City	Producing Ethylene and Propylene to be used in plastic industries	2,737,520	A limited liability company	45.34%	2,631,264
6	Saudi Acrylic Acid Company and its Derivatives (SAAC)	Based in Riyadh, with the main office of its operations located in Jubail Industrial City	Establishing and operating a number of projects to produce acrylic acid and its derivatives	1,777,000	A limited liability company	52.29%	-
7	Saudi Acrylic Monomers Company (SAMCO)	Based and exercises its operations from Jubail Industrial City	Producing Acrylic Acid, Row Acrylic Acid, and Butyl Acrylate	733,000	A limited liability company	39.22%	2,872,466
8	Saudi Acrylic Polymers Company (SAPCO)	Based and exercises its operations from Jubail Industrial City	Producing super absorbent polymers	416,400	A limited liability company	39.22%	1,037,135
9	Saudi Butanol Co. Ltd	Based and exercises its operations from Jubail Industrial City	Producing butanol	486,000	A limited liability company	17.43%	804,883

No	Name	Location	Activity	Capital (SAR1000)	Kind	Stake	Debt Inst.
10	National Lead Smelting Company (RASASS)	Based and exercises its operations from Riyadh	Recycling of used car batteries, and producing lead, polypropylene, Sodium Sulphate from the recycled batteries	44,000	A limited liability company	100%	-
11	Rowad National Plastics Company (ROWAD)	Based and exercises its operations from Riyadh	Establishing plastic, transformational manufacturing projects	268,000	A limited liability company	100%	6
12	ROWAD Global Packaging Company Ltd. (ROWAD BOPP Films)	Based in Riyadh and exercises its operations from Dammam	Manufacturing packaging films	65,000	A limited liability company	100%	219,867
13	ROWAD International Geosynthetics Co.Ltd (RIG)	Based in Riyadh and exercises its operations in Dammam	Specialized Industrial Insulation materials	7,000	A limited liability company	100%	21,962
14	National Batteries Company (BATTARIAT)	Based and exercises its operations from Riyadh	Producing automotive batteries	34,000	A limited liability company	90%	-
15	National Inspection and Technical Testing Company (FAHSS)	Based in Dammam	Providing technical inspection and testing, Maintenance and Calibration, Quality Management Systems in KSA	7,170	A limited liability company	74.89%	-
16	TVU Middle East Company	Based in Kingdom of Bahrain	Providing technical inspection and testing, Maintenance and Calibration, Quality Management Systems in GCC countries.	300 (BD)	A limited liability company	74.89%	-
17	National Industrialization Petrochemicals Marketing Company (TASNEE Marketing)	Based and exercises its operation from Riyadh	Marketing of chemical, petrochemical and plastic materials	5,000	A limited liability company	100%	-

No	Name	Location	Activity	Capital (SAR1000)	Kind	Stake	Debt Inst.
18	National Operation and Industrial Services Company (KHADAMAT) (Under liquidation)	Based and exercises its operation from Riyadh	Marketing, sale and distribution of industrial products	30,000	A limited liability company	88.33%	-
19	National Marketing and Industrial Services Company (KHADAMAT)	Based and exercises its operation from Riyadh	Import and Export, Wholesale and Retail, Marketing for others, selling and distributing of industrial products	30	A limited liability company	100%	-
20	National Metal Manufacturing & Casting Co. (MAADANIYAH)	Based and exercises its operations from Jubail Industrial City	Basic transformational and engineering iron industries	281,121 distributed into 28,112,089 issued shares with equal nominal value of SAR 10	A Saudi joint stock company	35.47%	70,103
21	Hail National Plastics Company	Based in Hail	Establishing and Managing, Maintenance and operating of plastics industries	50,000	A limited liability company	100%	314,000
22	Green Environment Company for Recycling Industrial Waste	Based in Jeddah	Burchasing, Selling, and recycling batteries and industrial materials	5,000	A limited liability company	100%	-
23	Technical Tetravalent Lead Smelting Plant (TTLSP)	Based in Jeddah	Producing pure and mixed lead and polypropylene	4,000	A limited liability company	100%	-

In addition to non-operational companies for other investments which include the following:

No	Name	Location	Activity	Capital (SAR1000)	Kind	Stake	Debt Inst
1	National Worldwide Industrial Development Co.	Based in Riyadh	Investment in industrial projects related to Tasnee	500	A limited liability company	100%	-
2	National Gulf Company for Petrochemical Technology	Based in Riyadh	Investment in industrial projects related to Tasnee	500	A limited liability company	100%	-
3	National Industrialization Company for Industrial Investments	Based in Riyadh	Investment in industrial projects related to Tasnee	500	A limited liability company	100%	-
4	Saudi Makaseb International Company for Trading and Industry	Based in Riyadh	Investment in industrial projects related to Tasnee and did not practice any activity during the stated period	6,500	A limited liability company	100%	-
5	National Petrochemicals Industrialization Co.	Based in Riyadh	Investment in industrial projects related to Tasnee and did not practice any activity during the stated period	500	A limited liability company	100%	-

Eleventh: Dividends Distribution Policy

The decision of dividends distribution is one of the powers of the General Assembly upon the Board of Directors' recommendation. It is mainly based on the amount of net profits generated every year and the volume of expected spending on the future investment projects and the expected cash flows.

The general policy of dividends distribution is summarized as per Article (17/4) of the Company's Articles of Association in that the Company's annual net profits after deduction of all overheads and other expenses are distributed as follows: A) Allocation for the Zakat imposed by Islamic Sharia, B) 10% statutory reserve that may be excluded when it amounts to half the capital, C) Distribution of an initial payment of (5%) of the paid-up capital, (D) Distribution of the remaining balance to shareholders as an additional share of profits subject to Article (13/10) and Article (17/5).

Based on the Company's financial results and cash flows, the Board of Directors did not recommend the General Assembly to distribute dividends for the year ended 31 December 2016.

Twelfth: Investors' Relations

The Company pays much attention to its shareholders and stakeholders. It provides them with all means that enable them to be informed and updated about whatever relating to the activities of the Company, its investments, external relations, consolidated financial results and whatever concerns the investor. This is achieved through a set of means of communication including the Board of Directors' Report, the General Assembly meetings, the continuous disclosures published on Tasnee corporate website and its advertisements' page on the website of the Capital Market Authority (TADAWUL), and the released information via other media channels. The Company is also very keen to answer all their queries received by the company Investors' Relations Department.

In addition, the company has developed a search engine on its website to facilitate its shareholders and owners of certificates and their heirs to verify their ownership of shares and facilitate inquiry on the maturity of profits not received for previous years, if any, for review and audit and then to be delivered to the beneficiaries.

The Company's Corporate Governance Guidelines have also been updated to ensure that they meet the regulatory requirements of the CMA in order to ensure compliance with best governance practices that ensure the protection of shareholders' rights and the rights of stakeholders.

Thirteenth: Formation of the Board of Directors

Subject to Article (12/1) of the Company's Articles of Association, the Board of Directors consists of ten members. The 21st Ordinary General Assembly elected board members for the eleventh forum, period of which is three years from 06/07/2016 until 05/07/2019. They are as follows:

	Name	Membership class	Board Membership in Other Joint Stock Companies
1	Eng. Mubarak Ben Abdallah Al Khafrah Chairman of the Board	Executive member	<ul style="list-style-type: none"> Al Awal Bank Malath Cooperative Insurance & Reinsurance Company TASNEE & SAHARA Olefins Company Gulf Chemicals and Industrial Oils Company
2	Dr. Talal Ben Ali Al-Shair	Executive member	<ul style="list-style-type: none"> Taajeer Group Fiber Glass Oasis Company Al-Madina Industrial Investments Company TASNEE & SAHARA Olefins Company

	Name	Membership class	Board Membership in Other Joint Stock Companies
3	Eng. Talal Ben Ibrahim Al Mayman	Independent member	<ul style="list-style-type: none"> Kingdom Holding Company Kingdom Investment and Development Company Flynas Holding Company
4	Dr. Nazeeh Ben Hassan Naseef	Non-Executive Member	<ul style="list-style-type: none"> Saudi Pharmaceutical Industries and Medical Appliances Corporation (SPIMACO)
5	Eng. Salah Ben Abdulwahab Al Terkait	Independent Member	<ul style="list-style-type: none"> IKARUS Petroleum Industries Company (Kuwait) United Stainless Steel Co (Bahrain) Bahrain Steel Company
6	Mr. Suliman Ben Abdulqader Al-Muhaideb	Independent Member	<ul style="list-style-type: none"> Abdulqader Muhaideb & Sons Co. Savola Group Middle East Paper Company (MEPCO) Almarai Company SABB
7	Mr. Badr Ben Ali Al-Dakhil	Non-Executive Member	-
8	Mr. Ibrahim Ben Ali Al-Qadhi	Non-Executive Member	<ul style="list-style-type: none"> Kuwait Clearing Company (Kuwait) Emirates Rawbi (Dubai)
9	Mr. Saud Ben Suliman Al-Juhani	Independent Member	<ul style="list-style-type: none"> Tabuk Cement Co. (TCC) The National Commercial Bank
10	Mr. Sami Ben Abdulaziz Al Shenaiber	Independent Member	-

Fourteenth: Interests of the Board Members, the Bodies They Represent and Senior Executives in the Company's Shares

	Name	Representing	No. of shares Owned			
			As of Jan. 1, 2016		Dec. 31, 2016	
			For the Board Member	For the entity the member represents	For the Board Member	For the entity the member represents
1	Eng. Mubarak Ben Abdallah Al-Khafrah	Himself	1,302,209	-	1,302,290	-
2	Dr. Talal Ben Ali Al Shair	Al Shaer Trading Industry and Const. Co.	1,452	48,231,092	1,452	47,144,092
3	Eng. Talal Ben Ibrahim Al Mayman	Himself	21,661	-	21,661	-
4	Dr. Nazeeh Ben Hassan Naseef	SPIMACO	108*	35,096,971	-	35,096,971
5	Eng. Salah Ben Abdulwahab Al Terkait	Himself	71,533	-	71,533	-
6	Mr. Suliman Ben Abdulqader Al-Muhaideb	Himself	1,452	-	1,452	-
7	Mr. Badr Ben Ali Al-Dakhil	GOSI	1,800	58,147,209	1,800	58,147,209
8	Mr. Ibrahim Ben Ali Al-Qadhi	Gulf Inv. Corp.	-	43,833,665	-	38,633,665
9	Mr. Saud Ben Suliman Al-Juhani	Public Pension Agency	-	27,208,636	-	27,157,180
10	Mr. Sami Ben Abdulaziz Al Shenaiber	Human Resources Development Fund	-	5,953,200	-	5,953,200
* For Dependents						
Senior executives	Mutlaq Ben Hamad Al Morished	Chief Executive Officer	1,950*	-	1,950*	-
	Fawaz Ben Mohammad Al Fawaz	Executive VP for Finance	5,000	-	5,000	-
	Mazyad Ben Serdah Al Khaldi	Executive VP, Petrochemicals	5,000	-	-	-
	Christian Walter Gunther	Executive VP, Titanium	-	-	-	-
	Omar Ben Mohammad Seraj Najjar	Executive VP, Downstream	-	-	-	-
	Qais Abdulwahid Al Sultani	Executive VP, Technology & Innovation	-	-	-	-
	Dr. Fadi M. Trabzuni	Executive VP, AMIC	-	-	-	-

Fifteenth: Board of Directors' Meetings

The Board of Directors held five (6) meetings during 2016. Below is the minutes record of each of these meetings:

Meeting	Date	Attendance of the Board Members
First	Feb. 21, 2016	Eng. Mubarak Ben Abdullah Al Khafrah; Dr. Talal Ben Ali Al Shair; Dr. Nazeeh Ben Hassan Naseef; Eng. Salah Ben Abdul Wahab Al Terkait; Eng. Sabah Tayseer Barakat; Eng. Bader Ben Ali Al Dakhil; Mr. Ibrahim Ben Ali Al Qadhi; Mr. Saud Ben Suliman Al Juhani.
Second	April 19, 2016	Eng. Mubarak Ben Abdullah Al Khafrah; Dr. Talal Ben Ali Al Shair; Eng. Talal Ben Ibrahim Al Mayman; Dr. Nazeeh Ben Hassan Naseef; Eng. Salah Ben Abdulwahab Al Terkait; Eng. Sabah Tayseer Barakat; Eng. Bader Ben Ali Al Dakhil; Mr. Saud Ben Suliman Al Juhani.
Third	June 05, 2016	Eng. Mubarak Ben Abdullah Al Khafrah; Eng. Talal Ben Ibrahim Al Mayman; Dr. Nazeeh Ben Hassan Naseef; Eng. Salah Ben Abdulwahab Al Terkait; Mr. Suliman Ben Abdulqader Al Muhaideb; Eng. Sabah Tayseer Barakat; Eng. Bader Ben Ali Al Dakhil; Mr. Ibrahim Ben Ali Al Qadhi; Mr. Saud Ben Suliman Al Juhani.
Fourth	June 05, 2016	Eng. Mubarak Ben Abdullah Al Khafrah; Eng. Talal Ben Ibrahim Al Mayman; Dr. Nazeeh Ben Hassan Naseef; Eng. Salah Ben Abdulwahab Al Terkait; Mr. Suliman Ben Abdulqader Al Muhaideb; Eng. Bader Ben Ali Al Dakhil; Mr. Ibrahim Ben Ali Al Qadhi; Mr. Saud Ben Suliman Al Juhani; Mr. Sami Ben Abdulaziz Al Shenaiber.
Fifth	Sept. 27, 2016	Eng. Mubarak Ben Abdullah Al Khafrah; Dr. Talal Ben Ali Al Shair; Eng. Talal Ben Ibrahim Al Mayman; Dr. Nazeeh Ben Hassan Naseef; Eng. Salah Ben Abdulwahab Al Terkait; Mr. Ibrahim Ben Ali Al Qadhi; Mr. Sami Ben Abdulaziz Al Shenaiber.
Sixth	Dec. 20, 2016	Eng. Mubarak Ben Abdullah Al Khafrah; Dr. Talal Ben Ali Al Shair; Eng. Talal Ben Ibrahim Al Mayman; Dr. Nazeeh Ben Hassan Naseef; Eng. Salah Ben Abdulwahab Al Terkait; Mr. Suliman Ben Abdulqader Al Muhaideb; Eng. Bader Ben Ali Al Dakhil; Mr. Ibrahim Ben Ali Al Qadhi; Mr. Saud Ben Suliman Al Juhani; Mr. Sami Ben Abdulaziz Al Shenaiber.

Sixteenth: The Board Members and Senior Executives' Indemnities and Benefits

In Saudi Riyals	Executive Members of the Board	Non-Executive/ independent Members of the Board	Six Senior Executives who received higher remunerations and compensations including the CEO and CFO
Salaries & indemnities	-	-	18,974,699
Allowances	114,730	373,717	
Periodical & annual Remunerations	2,300,000 ^(*)	1,400,000 ^(*)	10,911,600
Incentive Schemes	-	-	-
Indemnities & real benefits	159,725		715,893

* Include remunerations of committees and participation in affiliates' board of directors meetings.

Seventeenth: The Board Committees

The regulations of each of the Executive Committee, Audit Committee, Nomination and Remuneration Committee include a description of the powers of each one of them, the provisions of its formation, the period of its membership, duties, authorities, the procedures of its work style and meetings and its members' obligations and remunerations. Such committees' composition as follows:

Executive Committee:

The Executive Committee is responsible for examining the Company's strategic plan and the annual estimated budget and recommending it to the Board of Directors for approval. It shall adopt the policies, procedures, debt instruments and loans of the subsidiary companies in accordance with the specific powers given by the Board, in addition to appointing deputies for the chairman and representatives of the company at the boards of subsidiaries. The Committee may seek the assistance of external professional advisers if necessary.

The Executive Committee consists of the following:

Eng. Mubarak Ben Abdullah Al Khafrah (Head of the Committee)

Dr. Talal Ben Ali Al Shair

Eng. Talal Ben Ibrahim Al Mayman

Dr. Nazeeh Ben Hassan Naseef

The Committee held five (5) meetings in 2016.

The Nomination and Remuneration Committee:

The Committee is concerned with recommending to the Board of Directors the nomination for membership of the board and reviewing the needs, qualifications and skills required in accordance with the approved policies and standards, including the time required to be allocated by the member for the work of the board, and consider not to nominate any person who has already been convicted of a dishonorable offense or dishonesty, and review the board's structure, identify the weaknesses and strengths and recommend handling them in the interest of the company and ensure the independence of independent members and the absence of conflict of interest and the development of clear policies to compensate and reward the members of the board and senior executives.

The Nomination and Remuneration Committee consists of the following:

Mr. Suliman Ben Abdulqader Al Muhaideb (Head of the Committee)

Dr. Talal Ben Ali Al Shair (member till 05/07/2016).

Eng. Salah Ben Abdulwahab Al Terkait

Mr. Ibrahim Ben Ali Al Qadhi

Mr. Saud Ben Suliman Al Juhani

The Committee held three (3) meetings in 2016.

Audit Committee:

The Audit Committee is composed of four members, two of whom are non-executive member in the board of directors and two of whom are from outside the Board. The Audit Committee evaluates the internal control system, supervises the internal audit department, verifies its effectiveness in carrying out the work and the tasks assigned to it, and recommends to the Board of Directors to appoint and dismiss certified public accountants and determine their fees and ensure their independence, and study the accountant's notes on the financial statements and follow up on them, study the accounting policies adopted and the primary and annual financial statements before presenting them to the Board of Directors and expressing their opinion and recommendation thereon.

The Audit Committee consists of the following:

Eng. Sabah Tayseer Barakat (Head of the Committee) till 05/07/2016 (the end of the ended forum of the board).

Mr. Sami Ben Abdulaziz Al Shenaiber (Head of the Committee) from 06/07/2016 (beginning of the current forum of the board).

Mr. Bader Ben Ali Al Dakhil

Mr. Mohamed Ben Ali Al Karida

Mr. Rashid Ben Ibrahim Sharif

The Committee held four (5) meetings in 2016.

Eighteenth: The Results of Annual Audit Review on Internal Control Environment

The Audit Committee oversights the Internal Audit Department of TASNEE to ensure its independence and effectiveness in performing its functions & activities as per the regulatory requirements. The key role of Internal Audit Department is to provide assurance & consulting activities designed to add value and improve TASNEE and its affiliates business operations and provide the Audit Committee with an independent opinion on the effectiveness of TASNEE's risk management, control and governance processes, and efficiency of its business operations for the achievements of strategic objectives.

The Internal Audit is adopting a risk-based approach aligned to TASNEE risk management framework for the development of its Annual Audit Plan and thereafter presented to the Audit Committee for approval. The Internal Audit Department carries out the audit as per the best Internal Audit international practices.

Based on the overall audit activities conducted in 2016, there were no significant issues that warrant serious conditions pertaining to governance, risk and internal control. In aggregate, the Audit Committee is satisfied with TASNEE's internal control environment to protect the assets and other resources of TASNEE while overseeing the integrity of the financial reporting process and the external auditor performance.

Nineteenth: Zakat and Statutory Payments

In 2016, the Zakat owed by the National Industrialization Company alone amounted to SAR 38,862 thousands. The payments of social insurance contributions amounted to SAR 3,712 thousands.

Twentieth: Corporate Governance

In keeping with the principle of disclosure and transparency, the Company's management has updated the company's governance manual in accordance with the provisions of the Corporate Governance Regulations issued by the Capital Market Authority and submitted it to the Board of Directors to work accordingly. The company completes the policies and procedures necessary to implement the remaining provisions of the Corporate Governance Regulations issued by the Capital Market Authority, which is summarized as follows:

Article No.	Content	Reasons for non-application
3	The right to obtain a share from the Company's assets upon liquidation thereof	The Company's Articles of Association does not contain any provision in this regard, and it is a provision stipulated by the Companies Act.
6 (B)	Cumulative voting for selecting the board members	The cumulative voting will be approved after changing the Articles of Association in the next General Assembly Meeting which will be held in April 2017.
6 (d)	Investors of legal personality who act on behalf of others shall disclose their policies in voting and their actual voting in their annual reports and shall disclose the way in which they deal with any substantial conflict of interests that may affect the practice of the fundamental rights of their investments.	There is no provision in the Company's Bylaws that authorizes the Company to obligate investors to disclose this.
10 (E)	Setting a written policies that govern the relationship with the stakeholders for protection and conservation of their rights.	The contracts guarantee this and the Company is keen to set suitable policies for such purpose.
12 (D)	Prohibition of conjoining the chairman position and any executive position	The chairman undertakes some of the executive duties and the Articles of Association will be changed in the next General Assembly.
12 (I)	The person of legal capacity who has the right as per the Company's articles of association, to appoint representatives thereof in the board of directors may not vote when selecting other board members.	This is non-applicable since there is no provision in the Company's Articles of Association regarding private rights of legal personalities by appointing representatives thereof in the Board of Directors.

Twenty First: Disclosures and Acknowledgements

1. Conflict of Interests:

The Board of Directors acknowledges that no Board Member has any interest either direct or indirect in the works and contracts executed for the benefit of the Company. The Company did not lend or guarantee any of the Board Members for any loan or liability of whatever kind.

2. Transactions with relating parties:

There were no contracts with parties related with the Board Members, the CEO, his deputies, the CFO, or any of their relatives.

3. The Board of Directors acknowledges that:

3-1 The accounting records were prepared in the right way.

3-2 The internal control system was based on sound foundations and was effectively executed.

3-3 There are no doubts that the Company is able to continue its business.

4. The Auditor's Opinion about Financial Statements:

The Auditor's report revealed that the Company's financial statements are free from any substantial errors or reservations.

Twenty Second: The Company's Auditors

The 21st Ordinary General Assembly of the Company acknowledged in its meeting held on 19/04/2016 upon a recommendation from the Auditing Committee the choice of Messrs. Dr. Mohamed Al-Amri & Co., (BDO) for auditing the Company's consolidated, quarterly and annual financial statements and determining their fees for the year ended 31 December 2016.

Twenty Third: Penalties and Sanctions Applied to the Company

No penalties or sanctions were applied to the Company in 2016.

Twenty Fourth: Strategy and Growth

With great success, the Strategy and Growth Unit continued leading Tasnee Excellence Program (TEP), through which the company improved performance and reduced costs, achieving the positive impact on the company's financial results. Through the program, Tasnee Petrochemical Complex in Jubail achieved unprecedented record production figures exceeding production quantities recorded since the plant's operation. The organizational structure of the company has been redesigned and distributed to strategic business units, which has increased work efficiency, improved performance and reduced costs. Support functions, which include human resources, procurement, IT and others, have also been integrated. This has enhanced the positive impact and increased the company's organizational and negotiating capabilities, especially through the integration of the procurement unit to serve all subsidiaries, thus increasing the bargaining power and reducing costs. The company will continue to provide further initiatives during the coming period which are expected to increase its ability to meet any future challenges.

Twenty Fifth: Technology and Innovation

Research and Development is an integral part of Tasnee vision and it is regarded as one of the most important pillars of its competitiveness. The company has sought to enhance its technical capabilities to increase its efficiency in operating its facilities and providing high quality products and supporting its customers.

Through its research centers in Jubail, Saudi Arabia, Baltimore, USA and Stalingborough, UK, the company's Technology and Innovation Unit plays an essential role in ensuring business support and continuous development in line with the company's future strategy, as well as striving to attract highly qualified professionals in all disciplines.

The company has achieved many important achievements in terms of its advanced research capabilities. Tasnee researchers have developed and improved many of its existing products and developed new products in both the petrochemical and chemical industries (titanium), which has had a significant impact on raising their marketing efficiency and competitiveness. T&I also provided the technical support needed to solve the problems arising in the production facilities at several of Tasnee's sites.

T&I technical teams provided support to complete installation and operation in a range of downstream projects in Hail and the Slagger project in Jazan, as well as the titanium powder project in Ottawa, In addition Tasnee invested in pilot plants to develop various technologies in the area of advanced materials, water and energy and develop the market for these new products to evaluate the feasibility before commercialization.

T&I technical staff also continued to provide support in cooperation with the Ministry of Education to implement Tasnee program to teach the technique of 3D printing to high school students. The program was activated in 79 schools throughout the Kingdom of Saudi Arabia.

Twenty Sixth: Petrochemicals

Petrochemical industries are highly important within the company's vision to diversify the production base of the national economy, where Tasnee has been leading to investment in the petrochemical sector. The Petrochemicals Unit is one of the most important strategic business units in the company. It achieved a number of successes in 2016 in all its factories and divisions. These included improving performance, increasing production and increasing the operating rates of some units such as the acid processing unit and achieving standard production rates in many of its factories, reduced production costs, recycled some wastes and sell part of them, as well as reducing the stock of secondary and associated materials by 30% by controlling production and improving recycling.

The unit has achieved record production in the Ethylene Cracker Unit, reaching the highest monthly production in the HDPE plant in March, the highest monthly production rate and a 100% turnaround cycle at the LDPE plant in August. The Butyl Acrylate and super absorbent polymers have achieved record production rates during the year.

The petrochemical business unit has also completed the industrial wastewater project, in addition to reaching the safe and successful completion of the Methyl Acetylene and Propadiene Project to extract an additional 13,000 tons of propylene within the propane dehumidification plant.

The unit also launched “Idea” program for all the employees, which provided them with opportunities to provide new ideas that help in the development of the production process. The cost reduction committee has been able to reach 246 valuable ideas to reduce costs since its establishment on 21 March 2016. The unit also began implementing the asset safety program, which was developed primarily to support and develop the maintenance and reliability processes within the Unique Management Evaluation System program.

Twenty Seventh: Chemicals (Titanium)

Tasnee is one of the largest TiO2 producers in the world, with a capable and dedicated workforce, a global footprint with 7 TiO2 manufacturing plants in 6 countries and on 5 continents, high performing technologies, and number of attractive specialty businesses. The Ti Business Unit (Cristal) achieved excellence in operations and commercial activities in 2016, and making progress in becoming partner of choice of selected customers by actively searching for alliances to develop new growth opportunities and fine-tune our portfolio of activities, and improve partnerships with other companies to expand in high growth markets.

Additionally, Cristal has entered into Syndicated Murabaha financing agreement to refinance its financial liabilities, which contributed in the company's positive financial results. In 2016, Cristal reached the highest market share and continues to work towards gaining more shares by 2017. The company's results gradually improved throughout 2016 as a result of initiatives and programs to reduce expenses implemented across all sites and departments, in addition to the improvement in the prices of selling products from the first quarter of 2016, which contributed to the improvement of the financial performance of the company and is expected to increase profits during the first quarter of 2017 as a result of the increase in sales contracts. Titanium dioxide sales are expected to increase in 2017 as a result of price increase and cost reduction.

The Ti SBU main focus in 2017 is on Safety, Health and Environment, reliability, quality, optimize processes, build capabilities and upgrade automation systems. Another major focus area for 2017 is minimizing manufacturing cost across all sites while improving quality and conducting successful new products trials.

Twenty Eighth: Metallurgy

The Metallurgy SBU manages the operations of the Smelter in Jazan and Ti Sponge in Yanbu and future metallurgy projects. The Advanced Metals Industries Cluster (AMIC) is established to deliver the Metallurgy SBU projects, a subsidiary company owned equally by Tasnee and Cristal.

The Titanium sponge plant is one of the most important downstream projects in Tasnee's fully integrated titanium value chain, which supports the Saudi government's strategy of economic diversification and sustainable growth through the settlement of world-class industrial technologies. By the end of 2016, about 90% of the project's construction had been completed with 5 million

safe working hours without injuries. In addition, 69 Saudi employees were trained in Japan to meet the training requirements for the management and operation of the sponge project.

The Smelter in Jazan will offer reliable TiO2 feedstock supply to support customers' long-term growth plans, and will bring additional feedstock capacity to the titanium dioxide industry. The project will process a wide variety of ilmenite grades to high-grade titanium slag for manufacturing titanium dioxide (TiO2), ensuring downstream supply. Additionally, the Metallurgy SBU established an integrated site team with the technology supplier in the Smelter plant for sustainable operation; this integrated team will bring expertise for the project operations.

Twenty Ninth: Downstream

2016 was a year of transformation in the downstream SBU. The unit was formed taking into consideration the diversity of the business to cover multiple markets and customers. The unit is characterized by long presence in the market with the availability of many brands, which include plastic materials from ROWAD company, batteries and lead from NBC, Rasass & TTLSP companies, and providing technical services through FAHSS and TUV ME companies.

Ensuring safety and health at the workplace remained the top priority in 2016. Safety awareness and reporting system improved radically through the application of regulations and the dissemination of proper culture of safety. On the other hand, the Unit has placed considerable emphasis on improving standards in production sites, through operational excellence in support of improved unit efficiency, cost reduction and control and appropriate capacity building in the workplace.

Rowad factories also implement the workplace care program as part of the excellence program in operations. In addition, Rowad factories have worked to integrate the plastic sheets distribution sites (Khadamat) within the operations of Rowad National Plastic Company and to build a new platform for local and foreign customers. Rowad also started the pilot operation of most production lines at the new site in Hail, which increases the added value of downstream operations and provides more jobs for the people of the region, which includes the production of water recycling units, greenhouses, plastic industrial pallets, and plastic pipes.

Thirtieth: Human Resources

The human element is one of the most important resources that Tasnee is keen to care for, maintain and develop for its important and pivotal role in achieving the company's intermi goals and future strategies. In this regard, the company has worked to attract, develop and maintain human resources to achieve a productive and sustainable work environment.

The company, in accordance with its values, its code of conduct and its internal policies, is committed to providing a healthy and secure work environment that supports diversity and provides equal opportunities in training and development, ensures mutual trust and non-discrimination, and ensures the recruitment and promotion of staff on the basis of qualifications and capabilities required by the work. Tasnee is also committed to working with employees to develop and improve the skills and abilities of all individuals, as well as to communicate well with staff through information exchange and consultation procedures.

In light of the company's objectives and strategies, Human Resources Department has endeavored to contribute to achieving operational excellence through the following programs:

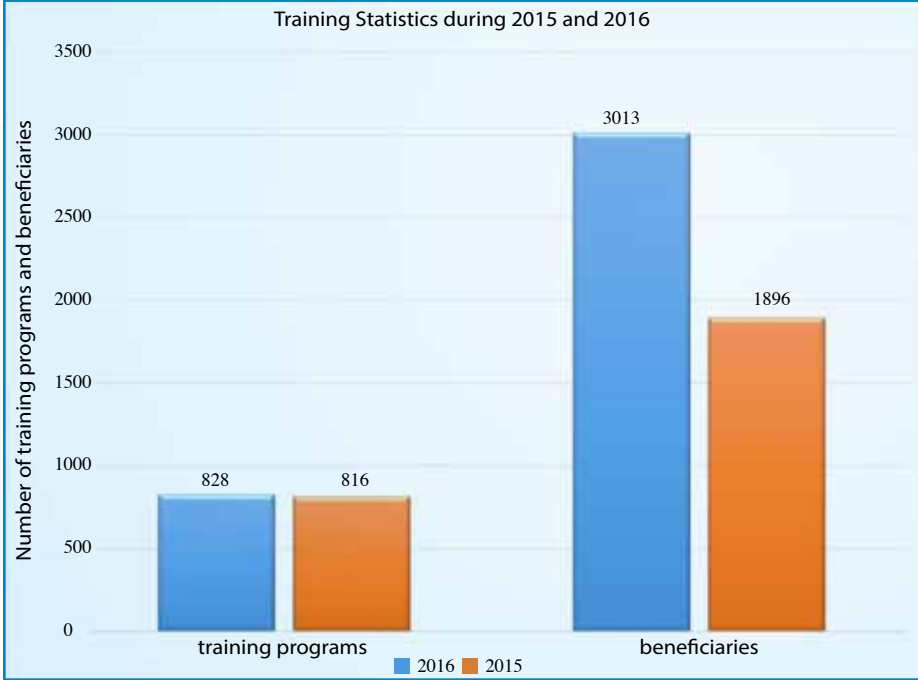
Restructuring: HR Dept. has played a key role in leading the restructuring of the administrative and operational sectors at the corporate level, which has had a significant impact on organizational and operational efficiency and efficacy.

Standardization of systems and procedures: The company has implemented a unified system of success factors in order to standardize the systems used in its various sectors and standardize procedures accordingly, which allows for some consistency and organization between all sectors and processes according to the best international practices.

Recruitment: The company has attracted new competencies in all technical and administrative fields internally and externally during the past year, in addition to attracting new Saudi graduates to continue the march of success and operational excellence.

Housing Ownership Program: In continuation of its efforts to maintain national competencies, Tasnee Company launched the “Owning Residential Units” program. In 2016, it completed the construction of 376 residential villas in Jubail Industrial City to accommodate the company’s employees according to the applicable regulations.

Training and Development: The company continued its efforts in the development of human resources through training more than three thousand employees in more than 800 training courses, workshops and on-the-job training, and focused on the aspects of safety, health and environment at the company’s various sites, within and outside the company. The company also attracted 50 trainees from technical institutes in various technical fields and worked on preparing them intensively for two years to suit the technical needs of the labor market through the training program ending in employment. The following is a statistic of the number of beneficiaries of the training and development programs during the last two years:



Thirty First: Corporate Social Responsibility

The Company is committed to its role in social responsibility based on its values and internal policies, its sense of responsibility and its gratitude to the communities in which it operates, both within Saudi Arabia and wherever it is located around the world, through its support for a range of cultural and awareness programs, rehabilitation programs, training programs, social and health programs. The company also played a prominent

role in the training of high school students on Tasnee program to teach the construction of 3D models and also in introducing this modern technology to the Saudi society. The number of schools implementing the program, which extends until mid-2017 reached to 79 schools for boys and girls in each of Riyadh, Al-Kharj and Jeddah. The company is committed to the occupational safety standards in its work and to provide an appropriate working environment for its employees to achieve excellence, as well as preserve the environment in the context of its concern for sustainable development.

Tasnee was keen to participate in the Saudi national campaign for the relief of the Syrian people in response to the invitation of the Custodian of the Two Holy Mosques King Salman bin Abdulaziz to support the Syrians. In addition, HRH Prince Ahmed bin Abdulaziz Al Saud, Honorary President of the Saudi Alzheimer’s Society and HRH Prince Faisal bin Bandar bin Abdulaziz Al Saud, Governor of Riyadh Region, have honored Tasnee for its support of the association’s programs as a strong supporter in all its charitable activities during 2016. The Governor of Riyadh also honored Tasnee Company for supporting the International Rehabilitation Center by providing a bus for the transportation of the handicapped. The company was also honored for its support to the Naqaa Association and giving a third bus as a mobile anti-smoking clinic. Tasnee was also honored by HRH Prince Saud bin Nayef bin Abdulaziz Al Saud, Governor of the Eastern Province, for sponsoring the productive families exhibition (Sanaati 2016), as well as the efforts of FAHSS company in supporting the activities of the Saudi Society for Quality. Tasnee received also the Golden Excellence Shield and the Environmental Sustainability Award from the Arab Organization for Social Responsibility in Dubai and supported the small trader program in three stages in three regions: Riyadh, Makkah and Eastern Province. In addition, Tasnee sponsored the graduation ceremony of the 13th batch of the Holy Quran reciters in Jubail Industrial City. The company also participated in the campaign «Waste-free» organized by the Gulf Producers of Petrochemicals and Chemicals Association (GPCA) with the participation of a large number of the company’s employees from different administrative and operational levels. Tasnee has also supported the conservation of biodiversity on the eastern coast of the Red Sea in Yanbu. Within its support and its responsibility to all the communities in which it operates, Cristal Company was honored in Bunbury, Australia, and was ranked first in the annual awards organized by the Bunbury Fire and Emergency Division for its support of volunteers and voluntary work.

Thirty Second: Environment, Health, Safety and Security

TASNEE is committed to all Environment, Health, Safety and Security (EHSS) requirements according to its values, goals and objectives, policies, and annual KPIs, and also complies with the regulations, standards of industrial entities locally, regionally, internationally, and wherever its production sites exist all over the world.

TASNEE had many EHSS successes in 2016, one of the most significant accomplishments was the collaboration with the Strategic Business Units (SBUs) to start developing common EHSS Standards. From these standards, eleven high level EHSS Key Performance Indicators (KPIs) were agreed by all SBUs. Guidelines have been generated to allow consistent and sustainable reporting to commence in 2017.

TASNEE conducted 144 health awareness campaigns and sessions across the manufacturing sites in 2016. This positive impact will continue to grow in 2017 with the ongoing implementation of integrated policies, procedures and standards as well as continued development of Health profile for all TASNEE manufacturing sites.

TASNEE recordable incident injury rates (OSHA TRIR) for employees and contractors continue to be below industry average meaning fewer serious injuries. EHSS teams provide extensive ‘in the field’ and remote support to build organizational capabilities and to enhance a strong EHSS

culture. TASNEE continues to improve its safety programs in all of the SBUs.

All of the TASNEE manufacturing sites understand and comply with their environmental permit(s). Regulatory compliance is viewed as a baseline and several SBUs have established air emissions, water and waste reduction programs. Manufacturing sites continue to calculate their carbon footprint and have shown reductions in their annual averages. Recycling opportunities for internal products as well as packaging materials continue to improve. A majority of the sites have outreach programs which partner with local communities and universities to develop synergies in local impact.

TASNEE is fully committed to operating facilities safely through a well-defined Process Safety Management program. With the integration of the SBUs, best practices and learnings are being shared throughout the company. A new Process Safety Management Audit checklist has been completed and will be rolled out as part of the audit program in 2017.

TASNEE is constantly improving Product Stewardship in developing standards to set compliance work flows to develop specific SBU procedures. TASNEE continues to work to improve regulatory claims, maintain continued product sale, and update customer-facing documentation while decreasing internal costs and providing the TASNEE and Cristal Safety Data Sheets (SDS) in various languages and formats.

The TASNEE Corporate EHSS Department will continue to support and close several legacy and critical attention items across the organization. Through experience, the team is able to provide knowledge and resources which minimize or eliminate cost. Sharing of best practices and knowledge exchange will continue as the power of the combined company is realized. The EHSS future for TASNEE is very positive.

Conclusion:

In conclusion of our report, Chairman and Board Members are pleased to give thanks and appreciation to the honorable shareholders for their support and precious trust; to all employees of the National Industrialization Co. (Tasnee) for their fruitful efforts and to all our partners and clients in Kingdom of Saudi Arabia and around the world for their trust and cooperation.

Message from The CEO

Message from The CEO



Eng. Mutlaq Ben Hamad Al-Morished

The global economy is facing a state of uncertainty due to the continuous slowdown over the past years, coupled by the difficulty in predicting the economic policies of the current US administration led by President Donald Trump, as well as its desire to change US economic relations with current trading partners. With additional protective policies and more focus on domestic issues, it is expected that the new US administration will expand its spending and raise interest rates, increasing the chances of the dollar's exchange rate against major currencies and the price of the dollar. It is also expected that the Chinese economy will slow down and the Indian economy to be the fastest growing economy in the next few years.

The Petrochemicals sector started to recover gradually in 2016 with positive results compared to 2015, with expectations of improvement in the sector in 2017 due to the economic improvement programs included in the National Transformation Program and the vision of Saudi Arabia 2030. In addition, the Saudi government is encouraging the Saudi foreign investments and the commercial production stage startup of a new group of projects.

In 2016, the National industrialization Company made

profits starting from the second quarter of the year. The company achieved a net profit of SAR 208 million for the whole year. Shareholders equity amounted to SAR 8,053 million. The company's total assets amounted to SAR 43,336 million by the end of 2016. The positive results were attributed to improved operational performance, increased volume of sales, reduced public and administrative expenses, and increment in other revenues although with higher financing costs.

The company aims to complete a series of projects under construction and planned to enter the trial production phase during the second half of 2017, including the titanium Smelter Project to produce raw material (slag) to produce titanium dioxide and the titanium sponge project in Yanbu. This project comes in line with the company's strategy for economic diversification, sustainable growth and industrialization of world-class industrial technologies. Other projects include the downstream projects in Hail region, which aims at adding value to manufacturing operations and provide more job opportunities for the Saudis, the project's trial operations will be during 2017.

Tasnee assigns great importance to human

resources and works to provide development opportunities for its employees and to attract more talents that will help in achieving the company's interim goals and future strategies. The company also plays a prominent role in social responsibility, committing to the standards and requirements of the environment, health, safety and security through compliance with the regulations and standards issued by the organizers of industrial activity inside or outside Saudi Arabia.

In conclusion, I would like to express my gratitude to the Board of Directors for their support to the company's management during the last period. Our employees' are our most valuable asset, their back efforts and dedication is what made Tasnee the company it is now; we still need a combination of all efforts to achieve the interests of the company and enhance the confidence of its shareholders to add more value to our economy.

Mutlaq Ben Hamad Al Morished

Company Directory



National Titanium Dioxide Company Ltd. "CRISTAL"

Establishment Date	: 1988.
Major Shareholders	: National Industrialization Company 79% Gulf Investment Corporation 20% Private Investor 1%
Objective & Activities	: One of the largest global producers of Titanium Dioxide and main producer of Chemical Titanium.
Products	: Titanium Dioxide, Chemical Titanium, Nano Titanium Dioxide, Metallic Sands, and Titanium Powder. These products are used in a group of global industries such as: coating, plastics, water and air treatment, renewable energy, construction, industrial and chemicals operations.
Markets	: Industrial countries in Asia, Europe, America, Africa, Arab Region and Australia.
Location	: The headquarter is situated in the 17th floor, King Road Tower, King Abdulaziz Street, Beach district, Jeddah. P.O.Box 13586 - Jeddah 21414, Kingdom of Saudi Arabia Tel.: 0096612 224 8000, Fax: 0096612 606 9086
E-mail	: ccomm@cristal.com
Website	: www.cristal.com
Global location of factories	: Seven factories for Titanium Dioxide in: Yanbu - Saudi Arabia, Thann - France, Stalingborough - UK, Fuzhu - China, Bunbury - Australia, Ashtabula - USA, Bahia - Brazil, and mines for Titanium metal in Brazil and Australia, Ilmenite smelter in Jazan - Saudi Arabia.

Advanced Minerals Industries Company (AMIC)

Establishment Date	: 2013.
Major Shareholders	: National Industrialization Company 50% National Titanium Dioxide Co Ltd (CRISTAL) 50%
Objective & Activities	: Establishing industrial projects related to Titanium and other materials, making use of Ilmenite produced from mines producing high purity Ilmenite to be used in Titanium Dioxide production.
Products	: Titanium Slag 500,000 ton High Purity Pig Iron (HPPI) 235,000 ton
Location	: The 17th floor, King Road Tower, King Abdulaziz Street, Beach district, Jeddah. P.O.Box 13586 - Jeddah 21414, Kingdom of Saudi Arabia Tel.: 0096612 224 8000, Fax: 0096612 606 9086
E-mail	: ccom@cristal.com
Website	: www.cristal.com
Location of factory	: Jazan Industrial City, P.O.Box 411 Beech 45971 Kingdom of Saudi Arabia



SPC

Saudi Polyolefins Company (SPC)

Establishment Date	: 2001.
Major Shareholders	: National Industrialization Company 75% Basell Moyen Orient Investissements 25%
Objective & Activities	: Producing Polypropylene which is used as a basic raw material in plastic carpets, containers, filling boxes, plastic bags, and textile industries.
Products and Production Capacity	: Propylene 455,000 ton Polypropylene 720,000 ton
Markets	: 30% Local and GCC countries 70% World market
Location	: TASNEE Petrochemical Complex in Jubail.
Address	: P.O. Box 35579 - Al Jubail 31961, Kingdom of Saudi Arabia Tel.: 0096613 358 2000, Fax: 0096613 358 2558
E-mail	: general@tasnee.com
Website	: www.tasnee.com

TSOC

TASNEE & SAHARA Olefins Co.



Establishment Date	: 2006.
Major Shareholders	: National Industrialization Company 60.45% Sahara Petrochemical Company 32.55% General Organization for Social Insurance. 7%
Objective & Activities	: Establishments, managements, operations and acquisition of Petrochemical & Chemical projects, marketing their products and assume all relevant activities
Location	: The headquarter is situated in Riyadh Business Gate, Building C3, Cordoba, eastern ring road. P.O.Box 26707 - Riyadh 11496, Kingdom of Saudi Arabia Tel.: 0096611 222 2205, Fax: 0096611 400 2255
E-mail	: general@tasnee.com
Website	: www.tasnee.com

SEPC



Saudi Ethylene and Polyethylene Company (SEPC)

Establishment Date	: 2006.	
Major Shareholders	: TASNEE & SAHARA Olefins Co.	75 %
	: Basell ME Holding Co.	25 %
Objective & Activities	: Producing Ethylene Propylene to be used in plastic industries.	
Products	: 400,000 HDPE	
	400,000 LDPE	
	285,000 Propylene	
Markets	: 30% Local and GCC countries	
	70% World Market	
Address	: TASNEE Petrochemical Complex in Jubail.	
	P.O.Box 35579 - Al Jubail 31961, Kingdom of Saudi Arabia	
	Tel.: 0096613 358 2000, Fax: 0096613 358 2558	
E-mail	: general@tasnee.com	
Website	: www.tasnee.com	

SAAC



Saudi Acrylic Acid Company (SAAC)

Establishment Date	: 2009.	
Major Shareholders	: TASNEE & SAHARA Olefins Co.	65 %
	: National Industrialization Co.	13 %
	: SAHARA Petrochemicals Co.	22 %
Objective & Activities	: Establishing, Managing, Operating and Acquiring of Acrylic Acid and its Derivatives Projects.	
Location	: The headquarter is situated in Riyadh	
	Business Gate, Building C3,	
	Cordoba, eastern ring road.	
	P.O.Box 26707 - Riyadh 11496, Kingdom of Saudi Arabia	
	Tel.: 0096611 222 2205, Fax: 0096611 400 2255	
E-mail	: general@tasnee.com	
Website	: www.tasnee.com	



SAMCO

Saudi Acrylic Monomers Company (SAMCO)

Establishment Date	: 2009.
Major Shareholders	: Saudi Acrylic Acid Company (SAAC) 75 % Dow Chemical Company (Acquired American Rohm & Haas) 25 %
Objective & Activities	: Producing Acrylic Acid, Row Acrylic Acid, and Butyl Acrylate.
Products	: 230,000 Acrylic Acid and Butyl Acrylate
Markets	: 30% Local and GCC countries 70% World Markets
Address	: The Headquarters is located in Jubail Industrial City P.O.Box 35579 - Al Jubail 31961, Kingdom of Saudi Arabia Tel.: 0096613 358 2000, Fax: 0096613 358 2558
E-mail	: general@tasnee.com
Website	: www.tasnee.com



SAPCO

Saudi Acrylic Polymers Company (SAPCO)

Establishment Date	: 2009.
Major Shareholders	: Saudi Acrylic Acid Company (SAAC) 75 % EVONIK 25 %
Objective & Activities	: Producing Superabsorbent Polymers.
Products	: 80,000 SAP
Markets	: 30% Local and GCC countries 70% World Market
Address	: The Headquarters is located in Jubail Industrial City P.O.Box 35579 - Al Jubail 31961, Kingdom of Saudi Arabia Tel.: 00966133582000, Fax: 00966133582558
E-mail	: general@tasnee.com
Website	: www.tasnee.com

SABUCO

Saudi Butanol Company (SABUCO)

Establishment Date	:	2013.	
Major Shareholders	:	Saudi Acrylic Acid Company (SAAC)	33.33 %
	:	Saudi Kayan Company	33.33 %
	:	Sadara Chemical Company	33.33 %
Objective & Activities	:	Producing Butanol.	
Products	:	340,000 Butanol	
Markets	:	30% Local and GCC countries	
	:	70% World Markets	
Address	:	The Headquarters is located in Jubail Industrial City	
	:	P.O.Box 35579 - Al Jubail 31961, Kingdom of Saudi Arabia	
	:	Tel.: 0096613 358 2000, Fax: 0096613 358 2558	
E-mail	:	general@tasnee.com	
Website	:	www.tasnee.com	

National Industrialization Petrochemical Marketing Company

Establishment Date	:	2001.
One of TASNEE Affiliates	:	
Objective & Activities	:	Marketing Chemicals and Petrochemicals.
Markets	:	Kingdom of Saudi Arabia, Gulf States, India, Pakistan, Middle East, Africa, and far East.
Location	:	The headquarter is situated Riyadh
	:	Business Gate, Building C3,
	:	Cordoba, eastern ring road.
	:	P.O.Box 26707 - Riyadh 11496, Kingdom of Saudi Arabia
	:	Tel.: 0096611 222 2205, Fax: 0096611 417 4198
E-mail	:	info@tasneemarketing.com
Website	:	www.tasneemarketing.com





ROWAD National Plastic Company Ltd. "ROWAD"

Establishment Date	: 1992.
One of TASNEE Affiliates	
Objective & Activities	: Plastic converters and specialized engineering polymer products manufacturers.
Products	: "ROWAD PLASTIC" core business activities are in manufacturing the plastic sheets (such as polycarbonate, acrylic, ABS, polystyrene sheets), manufacturing the injection products (such as automotive batteries cases & covers, paint pails & covers), recycling waste plastic materials (such as recycling of Polypropylene (PP) automotive batteries.
Markets	: Kingdom of Saudi Arabia, GCC, most of Middle East, some of Asia, Europe and South Africa countries.
Location	: Headquarter and factories are at Second Industrial Zone in Riyadh P.O. Box 29452 Riyadh 11457, Kingdom of Saudi Arabia Tel.: 00966 11 265 1966, Fax: 00966 11 265 1973
E-mail	: info@rowadplastic.com
Website	: www.rowadplastic.com



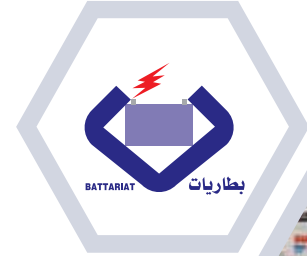
ROWAD International Geosynthetics Co.Ltd.

Establishment Date	: 2006.
One of ROWAD affiliates	
Objective & Activities	: Specialized Industrial Insulation materials.
Products	: "ROWAD GEO" core business activities are in manufacturing the Polyethylene (PE) Ge o-membrane Liners in high density polyethylene (HDPE) and low density polyethylene (LDPE) rolls as single or double smooth & textured sided liners used for protection, transportation, collection and containment of liquids, solids and gases in a variety of construction applications.
Markets	: Kingdom of Saudi Arabia, GCC, most of Middle East, some of Asia, Europe and South Africa countries.
Location	: Headquarter is located at Second Industrial City in Riyadh P.O. Box 29452 Riyadh 11457, Kingdom of Saudi Arabia Tel.: 00966 11 265 1966, Fax: 00966 11 265 1973 Factory is located in Dammam
E-mail	: info@rowadplastic.com
Website	: www.rowadplastic.com



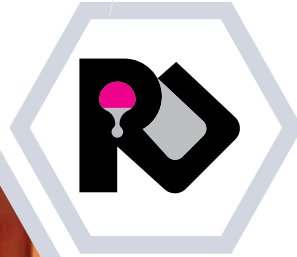
ROWAD Global Packaging Company Ltd. “ROWAD BOPP Films”

Establishment Date	: 2008.
One of TASNEE Affiliates	
Objective & Activities	: Packaging Films.
Products	: “ROWAD BOPP Films” core business activities are in manufacturing the Bi-axially Oriented Polypropylene (BOPP) films for printing, lamination, packaging and coating in a wide range.
Markets	: Kingdom of Saudi Arabia, GCC, most of Middle East, some of Asia, Europe and South Africa countries.
Location	: Headquarter is located at Second Industrial Zone in Riyadh P.O. Box 29452 Riyadh 11457, Kingdom of Saudi Arabia Tel.: 00966 11 265 1966, Fax: 00966 11 265 1973 Factory is located in Dammam
E-mail	: info@rowadplastic.com
Website	: www.rowadplastic.com



National Batteries Company (BATTARIAT)

Establishment Date	: 1993.
Major Shareholders	: National Industrialization Company 90% Local Partners 10%
Objective & Activities	: Production of automotive batteries.
Products	: Trade marked automotive batteries.
Markets	: Kingdom of Saudi Arabia and the neighbouring countries.
Location	: 2nd Industrial City 3rd Zone - Riyadh P.O.Box 177 - Riyadh 11383, Kingdom of Saudi Arabia Tel.: 00966 11 265 0019, Fax: 00966 11 265 0057
E-mail	: nbc@battariat.com
Website	: www.battariat.com



National Lead Smelting Co. (RASASS)

Establishment Date	: 1990.
One of TASNEE Affiliates	
Objective & Activities	: Recycling of used car batteris, and production of Lead, Polypropylene, and Sodium Sulphate from the recycled batteries.
Products	: Lead and Sodium Sulphate.
Markets	: Saudi Arabia, GCC countries.
Location	: 2nd Industrial City 3rd Zone - Riyadh
Address	: P.O.Box: 43169 Riyadh 11561, Kingdom of Saudi Arabia Tel.: 00966 11 265 2424, Fax: 00966 11 265 2223
E-mail	: info@rasass.com.sa
Website	: www.rasass.com.sa



Technical Tetravalent Lead Smelting Plant (TTLSP)

Establishment Date	: 2004.
One of RASASS Affiliates	
Objective & Activities	: Producing Lead.
Products	: Lead.
Markets	: Saudi Arabia, GCC countries.
Location	: Industrial City 5th Zone - Jeddah
Address	: P.O.Box: 20497 Jeddah 21455, Kingdom of Saudi Arabia Tel.: 00966 12 608 0242, Fax: 00966 12 637 1755
E-mail	: info@rasass.com.sa
Website	: www.rasass.com.sa



National Operation and Industrial Services Co. (KHADAMAT)

Establishment Date	: 1986.	
Major Shareholders	: National Industrialization Company	88.3%
	: Local Partners	11.7%
Objective & Activities	: Marketing, Sale and distribution of industrial products, including car batteries, plastic sheets, imports & exports, trading agencies for industrial products, investment in industrial services fields including environment preservation services, quality services and technical testing.	
Markets	: Domestic & Regional markets.	
Location	: New Aqaria Building First Tower Sitteen Street - Malaz	
Address	: P.O.Box: 86868 Riyadh 11632, Kingdom of Saudi Arabia Tel.: 011 476 2800, Fax: 011 476 0088	
E-mail	: khadamatbp@hotmail.com	



National Technical Inspection and Testing Ltd Co. (FAHSS)

Establishment Date	: 1986	
Major Shareholders	: National Industrialization Co.	30.68%
	: National Operation and Industrial Services Co (Khadamat)	44.21%
	: TUV NORD International German Co.	25.11%
Objective & Activities	: Providing technical inspection and testing, Maintenance and Calibration, Quality Management Systems (ISO 9001) Environment Management Systems (ISO 14001), Occupational and Health Safety Systems (OHSAS 18001), Food Safety Management Systems (HACCP), Technical Inspection and Testing of boilers, compressors, cranes and lifting equipment, inspection and examination of the safety equipment, providing engineering consultations for qualification (ASME), performing non-harmonious tests (NDT), measurement and standardization of the measuring equipment and systems, and training on all these services.	
Markets	: Kingdom of Saudi Arabia.	
Address	: Head quarter: P.O. Box 3998, Dammam 31481, Kingdom of Saudi Arabia. Tel.: 0096613 840 8333, Fax: 0096613 840 6476	
E-mail	: info@fahss.com - sales@fahss.com	
Website	: www.fahsstuv.com	
Branches	: Technical Inspection and Testing Branch (FAHSS / TUV AL Jubail) P.O. Box 10771, Al Jubail 31961, Kingdom of Saudi Arabia Tel.: 0096613 340 7607, Fax: 0096613 340 7605 E-mail: info@fahsstuv.com Website:www.fahsstuv.co Gulf Lab for Measurements and Standardization (GEMS) P.O. Box 10166, Al Jubail 31961, Kingdom of Saudi Arabia Tel.: 0096613 341 9453 / 0096613 341 9452 / 0096613 341 9451, Fax: 0096613 341 7628 E-mail: info@gems-calibration.com Website: www.gems-calibration.com	



TVU Middle East Company

Establishment Date	: 2004	
Major Shareholders	: National Industrialization Co. 30.68%	
	National Operation and Industrial Services Co (Khadamat) 44.21%	
	TUV NORD International German Co. 25.11%	
Objective & Activities	: Providing technical inspection and testing, Quality Management Systems (ISO 9001) Environment Management Systems (ISO 14001), Occupational and Health Safety Systems (OHSAS 18001), Food Safety Management Systems (HACCP), Technical Inspection and Testing of boilers, compressors, cranes and lifting equipment, inspection and examination of the safety equipment, providing engineering consultations for qualification (ASME), performing non-harmonious tests (NDT), providing specialized training services in several technical, engineering and managerial domains through the academy of distinguished level (TUV Academy).	
Markets	: GCC countries and some other Arab countries.	
Location	: Head Quarter: P.O. Box 26674, Manama, Kingdom of Bahrain Tel.: 00973 1 787 7391, Fax: 00973 1 787 7392	
E-mail	: samsonb@tuv-nord.com	
Website	: www.tuv.me.com	
Branches	: AbuDhabi Branch: P.O. Box 46030, Abu Dhabi – UAE Tel: 00971 2 441 1146, Fax: 00971 2 441 1147 E-mail: abudhabi@tuv-nord.com Dubai Branch: P.O. Box 79123, Dubai – UAE Tel: 00971 4 345 6431, Fax: 00971 4 345 6373 E-mail: dubai@tuv-nord.com Qatar Branch: P.O. Box 24922, Doha – Qatar Tel: 00974 4 620 186, Fax: 00974 4 620 216 E-mail: qatar@tuv-nord.com Kuwait Branch: P.O. Box 29643, Al Safat 13157, Kuwait Tel: 00965 246 5962, Fax: 00965 246 5964 E-mail: kuwait@tuv-nord.com	



National Metal Manufacturing & Casting Co. (MAADANIAH)

Establishment Date	: 1991	
Major Shareholders	: National Industrialization Company 35.46%	
	Other Shareholders 64.54%	
Objective & Activities	: Manufacturing wires & metal products.	
Products	: Various kinds of steel wires, various kinds of truck axles, casting, and spare parts.	
Markets	: Kingdom of Saudi Arabia, GCC Countries, Arab Countries.	
Location	: Al-Jubail Industrial City	
Address	: P.O.Box: 10882 Al-Jubail Industrial City 31961. Tel.: 0096613 358 8000 Fax: 0096613 358 3831	
E-mail	: natmetal@natmetalco.com	
Website	: www.natmetalco.com	

Consolidated Financial Statements

31 December 2016



Dr. Mohamed Al-Amri & Co.
Accountants & Consultants

P.O. Box 8736, Riyadh 11492
Tel : +966 11 278 0608
Fax : +966 11 278 2883
info@alamri.com

INDEPENDENT AUDITOR'S REPORT

**To the Shareholders
National Industrialization Company**

Riyadh, Kingdom of Saudi Arabia

Scope of audit

We have audited the consolidated balance sheet of National Industrialization Company ("Tasnee" or "the Company"), a Saudi Joint Stock Company and its Subsidiaries ("the Group") as of December 31, 2016 and the related consolidated statements of income, cash flows and changes in equity for the year then ended, including the related notes 1 to 36. These consolidated financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the provisions of the Regulations for Companies and presented to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements, based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified Opinion

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

- present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2016 and the consolidated results of its operations, cash flows and changes in equity for the year then ended in conformity with generally accepted accounting principles in the Kingdom of Saudi Arabia.
- comply with the relevant provisions of the Regulations for Companies 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



Jumada II' 17, 1438 (H)
March 16, 2017 (G)

Partners: Dr. Mohamed Al-Amri (SIC), Jemal M. Al-Amri (SIC), Gihad M. Al-Amri (SIC)
• Riyadh Tel: 912 288477, Fax: 912 288477, Email: info@alamri.com, www.alamri.com
Dr. Mohamed Al-Amri & Co., a Saudi Professional Company registered under No. 30311/16, C.A. 4030277330
member of BDO International Limited, a UK company limited by guarantee, and being part of the international BDO network of independent member firms

CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2016 (SR'000)

	Note	2016	2015
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	2,906,658	3,819,070
Accounts receivable	5	3,257,423	3,214,500
Inventories	6	4,163,424	4,816,171
Prepayments and other current assets	7	1,274,850	1,169,035
TOTAL CURRENT ASSETS		11,602,355	13,018,776
NON-CURRENT ASSETS			
Investments in available for sale securities	8	273,342	751,696
Investments in associated companies, joint venture and others	9	1,221,966	1,174,319
Property, plant and equipment	10	21,645,024	22,749,453
Projects under progress	11	4,959,216	3,734,207
Intangible assets	12	2,846,795	2,945,584
Other non-current assets	13	787,224	601,013
TOTAL NON-CURRENT ASSETS		31,733,567	31,956,272
TOTAL ASSETS		43,335,922	44,975,048
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Short term bank facilities and murabaha	14	68,018	2,017,770
Current portion of long term loans	17	2,805,911	4,401,400
Accounts payable	15	1,993,653	1,758,048
Accrued expenses and other current liabilities	16	2,169,611	1,796,980
TOTAL CURRENT LIABILITIES		7,037,193	9,974,198

* The attached notes 1 to 36 form an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET(CONTINUED)
AS AT DECEMBER 31, 2016 (SR'000)

	Note	2016	2015
NON-CURRENT LIABILITIES			
Sukuk and long term loans	17	21,260,187	19,913,368
Employees' end of service benefits	18	414,243	354,059
Other non-current liabilities	19	1,109,291	985,312
TOTAL NON-CURRENT LIABILITIES		22,783,721	21,252,739
TOTAL LIABILITIES		29,820,914	31,226,937
EQUITY			
SHAREHOLDERS' EQUITY			
Share capital	22	6,689,142	6,689,142
Statutory reserve		1,162,687	1,141,862
Retained earnings		2,436,591	2,249,167
Unrealized gains from revaluation of investments in available for sale securities	8	120,377	161,507
Other reserves	24	(2,356,151)	(2,273,513)
TOTAL SHAREHOLDERS' EQUITY		8,052,646	7,968,165
Non-controlling interests	25	5,462,362	5,779,946
TOTAL EQUITY		13,515,008	13,748,111
TOTAL LIABILITIES AND EQUITY		43,335,922	44,975,048

* The attached notes 1 to 36 form an integral part of these consolidated financial statements.



CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016 (SR'000)

	Note	2016	2015
Sales		15,196,970	15,145,511
Cost of sales		(11,724,510)	(12,932,764)
GROSS PROFIT		3,472,460	2,212,747
Selling and marketing expenses	26	(805,506)	(948,363)
General and administrative expenses	27	(1,060,953)	(1,274,292)
Impairment of non-current assets	28	(9,895)	(391,989)
Company's share in net income of associated companies	9	60,262	28,981
Income/(loss) from main operations		1,656,368	(372,916)
Financial charges	14, 17	(801,063)	(648,336)
Other income/(expenses), net	29	177,470	(280,663)
Income/(loss) before zakat, income tax and non-controlling interests		1,032,775	(1,301,915)
Zakat and income tax	21	(242,806)	(354,615)
Income/(loss) before non-controlling interests		789,969	(1,656,530)
Non-controlling interests	25	(581,720)	233,433
NET INCOME/(LOSS) FOR THE YEAR		208,249	(1,423,097)
Earnings/(Loss) per share (SR)			
<u>Attributable to:</u>			
Net income/(loss) for the year		0.31	(2.13)
Income/(loss) from main operations		2.48	(0.56)

* The attached notes 1 to 36 form an integral part of these consolidated financial statements.



CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016 (SR'000)

	2016	2015
OPERATING ACTIVITIES		
Net income/(loss) for the year before zakat, income tax and non-controlling interests	1,032,775	(1,301,915)
Adjustments for:		
Depreciation and amortization	1,905,952	1,827,742
Doubtful debts allowance	30,735	7,972
Slow moving inventories allowance	(35,437)	128,769
Amortization of deferred gains	-	(7,016)
Impairment of non-current assets	9,895	391,989
Company's share in net income of associated companies, net	(60,262)	(28,981)
Employees' terminal benefits, net	60,184	24,495
Cash from operations	2,943,842	1,043,055
Changes in operating assets and liabilities:		
Accounts receivable, prepayments and other current assets	(179,473)	1,153,936
Inventories	688,184	836,551
Other non-current assets	(186,211)	299,933
Accounts payable, accrued expenses and other current liabilities	365,430	(281,088)
Other non-current liabilities	123,979	(74,433)
Net cash from operating activities	3,755,751	2,977,954
INVESTING ACTIVITIES		
Investments in held for trading securities, net	-	477,387
Investments in available for sale securities, net	437,224	(17,620)
Investments in associated companies, joint venture and others, net	12,615	(167,330)
Property, plant and equipment, net	(660,568)	(488,740)
Projects under progress, net	(1,225,009)	(1,756,420)
Intangible assets, net	(2,980)	8,987
Net cash used in investing activities	(1,438,718)	(1,943,736)

* The attached notes 1 to 36 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016 (SR'000)

FINANCING ACTIVITIES

Short term bank facilities and murabaha, net	(1,949,752)	800,421
Sukuk and long term loans and derivative financial instruments	(380,389)	813,359
Dividends paid	-	(668,914)
Non-controlling interests	(899,304)	(2,246,701)

Net cash used in financing activities

Decrease in cash and cash equivalents	(912,412)	(267,617)
Cash and cash equivalents at the beginning of the year	3,819,070	4,086,687

CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR

NON-CASH TRANSACTIONS:

Other reserves	(82,638)	(1,533,436)
Unrealized gains on revaluation of investments in available for sale securities	(41,130)	(30,673)

* The attached notes 1 to 36 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2016 (SR'000)

	Share capital	Statutory reserve	Retained earnings	Unrealized gains on revaluation of investments in available for sale securities	Other Reserves	Total Shareholders' Equity	Non-controlling interests	Total Equity
January 1, 2015	6,689,142	1,141,862	4,343,178	192,180	(740,077)	11,626,285	7,351,998	18,978,283
Net loss for the year	-	-	(1,423,097)	-	-	(1,423,097)	-	(1,423,097)
Net movements during the year	-	-	-	-	-	-	(1,572,052)	(1,572,052)
Directors' compensation	-	-	(2,000)	-	-	(2,000)	-	(2,000)
Dividends	-	-	(668,914)	-	-	(668,914)	-	(668,914)
Others	-	-	-	(30,673)	(919,647)	(950,320)	-	(950,320)
Currency translation differences	-	-	-	-	(613,789)	(613,789)	-	(613,789)
December 31, 2015	6,689,142	1,141,862	2,249,167	161,507	(2,273,513)	7,968,165	5,779,946	13,748,111
Net income for the year	-	-	208,249	-	-	208,249	-	208,249
Net movements during the year	-	-	-	-	-	-	(317,584)	(317,584)
Transfer to statutory reserve	-	20,825	(20,825)	-	-	-	-	-
Others	-	-	-	(41,130)	-	(41,130)	-	(41,130)
Currency translation differences	-	-	-	-	(82,638)	(82,638)	-	(82,638)
December 31, 2016	6,689,142	1,162,687	2,436,591	120,377	(2,356,151)	8,052,646	5,462,362	13,515,008

* The attached notes 1 to 36 form an integral part of these consolidated financial statements.

1. ORGANIZATION AND 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") comprise industrial investment, transfer of advanced industrial technology to the Kingdom in particular, 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 the 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 Titanium Dioxide.

2. BASIS OF CONSOLIDATION OF FINANCIAL STATEMENTS

These consolidated financial statements include assets, liabilities and the results of the operations of National Industrialization Company and subsidiaries controlled by the Company ("the Group") as referred below. A subsidiary company is that in which the Group has, directly or indirectly, long term investment comprising an interest of more than 50% in the voting capital or over which it exerts practical control. Control is achieved where the Company has the power to govern the financial and operating policies of the investee company so as to obtain benefits from its activities. A subsidiary company is consolidated from the date on which the Company obtains control until the date that control ceases.

Non-controlling interests have been calculated and reflected separately in the consolidated balance sheet and consolidated statement of income. All significant inter group balances and transactions have been eliminated on consolidation.

All below-mentioned direct subsidiaries are incorporated in the Kingdom of Saudi Arabia, except for TUV – Middle East, which is incorporated in the Kingdom of Bahrain.

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

Company's name	Legal form	Ownership (%)	
		2016	2015
Al-Rowad National Plastic Company ("Rowad") and its subsidiaries (1)	Limited liability	100	100
National Industrialization Petrochemical Marketing Company	Limited liability	100	100
National Worldwide Industrial Advancement Ltd. Company	Limited liability	100	100
National Gulf Company for Petrochemical Technology	Limited liability	100	100
National Industrialization Company for Industrial Investments	Limited liability	100	100
Saudi Global Makasib for Trading and Industry Company	Limited liability	100	100
National Petrochemical Industrialization Company	Limited liability	100	100
National Lead Smelting Ltd. Company ("Rasass") and its subsidiary (2)	Limited liability	100	74.90
National Marketing and Industrial Services Company ("Khadamat")	Limited liability	100	100
National Operation and Industrial Services Company ("Khadamat")	Limited liability	88.33	88.33
National Batteries Company ("Battariat")	Limited liability	90	90
Saudi Polyolefins Company	Limited liability	75	75
The National Titanium Dioxide Ltd. Company ("Cristal") and its subsidiaries (3)	Limited liability	79	79
Advanced Metal Industries Ltd Company (4)	Limited liability	89.50	89.50
Tasnee and Sahara Olefins Company and its subsidiaries (5)	Saudi closed joint stock	60.45	60.45
Saudi Acrylic Acid Company Ltd. Company ("SAAC") and its subsidiaries (5)	Limited liability	52.29	52.29
National Inspection and Technical Testing Company Ltd. ("Fahss")	Limited liability	69.73	69.73
TUV – Middle East	Limited liability	69.73	69.73

2.1 Al-Rowad National Plastic Company

Al-Rowad National Plastic Company ("Rowad") is a Saudi Limited Liability Company with its head office based in Riyadh. The main objectives of the Company and its subsidiaries are the manufacturing of all type of plastic sheets. Al-Rowad National Plastic Company owns 97% and 62.5% of equity interest in Rowad International Geosynthetics Company Ltd. and Rowad Global Packing Company Ltd. respectively, which are Saudi Limited Liability Companies registered in Riyadh.

2.2 National Lead Smelting Company

National Lead Smelting Company ("Rasass") is a Saudi Limited Liability Company with its head office based in Riyadh. The main objective of the Company is the manufacturing of Lead, polypropylene and sodium sulfate. National Lead Smelting Company owns 100% (direct and indirect ownership) of equity interest in Technical Tetravalent Company for Lead Recycling, a Saudi Limited Liability Company registered in Jeddah.

2.3 The National Titanium Dioxide Limited Company

The National Titanium Dioxide Limited Company ("Cristal") is a Saudi Limited Liability Company with its head office based in Jeddah. The main objectives of the Company and its subsidiaries are the production and marketing of Titanium Dioxide.

Cristal owns 100% of equity interest of the following subsidiaries: Cristal Inorganic Chemicals Ltd. located in Cayman Island, Cristal Australia P.T.Y. Ltd. located in Australia and Cristal Metal U.S.A. located in the United States of America and Hong Kong Titanium Products Co. Ltd. located in Hong Kong.

During the first quarter of 2015, Cristal signed an agreement to fully acquire Jiangxy Tico Titanium limited liability company (a company registered in China) which carries out the same activity as Cristal, with a total value of the agreement amounting to SR 158 million (US \$ 42 million).

2.4 Advanced Metal Industries Ltd Company

Advanced Metal Industries Limited Company ("AMIC") has direct ownership percentage 50% to National Industrialization Company and Cristal Company. AMIC is a Saudi limited liability company registered in Jeddah. Work on plant construction for AMIC is in progress and commercial activity has not commenced.

During first quarter of 2016, Advanced Metal Industries Ltd Company incorporated "Advances Metal Industries Ltd Company and Tohoo for Titanium Metal Ltd Company" ("ATTM") with share capital SR 412 million, 65% owned by Advanced Metal Industries Ltd Company and 35% by Japanese Tohoo for Titanium Metal Company. Work on plant construction for ATTM is in progress and commercial activity has not commenced.

2.5 Tasnee and Sahara Olefins Company

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

Tasnee and Sahara Olefins Company own 75% of equity interests in Saudi Ethylene and Polyethylene Company, which is a Saudi Limited Liability Company registered in Al-Jubail.

Tasnee and Sahara Olefins Company owns 65% of equity interests in Saudi Acrylic Acid Company, a Saudi Limited Liability Company registered in Riyadh, with share capital of SR 1,777 million. Furthermore, Saudi Acrylic Acid Company owns 75% of equity interest in Saudi Acrylic Monomer Company, a Limited Liability Company with share capital of SR 1,084 million, and 75% of Saudi Polymer Acrylic Company (a Saudi Limited Liability Company), established at Jubail Industrial City, with total share capital of SR 416.4 million.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants ("SOCPA"). The following is a summary of the significant accounting policies applied by the Group:

Accounting convention

These consolidated financial statements are prepared under the historical cost convention on an accrual basis, except for the measurement at fair value of investment available for sale securities and derivative financial instruments.

Financial year

The financial year of the Group commences on 1 January each year and ends on 31 December of the same year.

Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash at banks, demand deposits and highly liquid investments with original maturities of three months or less.

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Accounts receivable

Accounts receivable are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined, for finished goods and work-in-process, on the weighted average cost basis and includes cost of materials, labor and an appropriate proportion of direct overheads. All other inventories are valued on the weighted average cost basis. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make sales. Provision is made for slow-moving and obsolete inventories based on management's estimate.

Business combination

Acquisition of each business is accounted for by applying the acquisition method. The acquired identifiable tangible and intangible assets, liabilities and contingent liabilities are measured at their fair values at the date of the acquisition. Acquisition related costs are accounted for as expenses in the periods in which these are incurred.

Investments

Investments in securities held for trading

Investments in readily marketable securities which are bought for trading purposes are stated at fair value. Change in fair value of these investments is recognized in the consolidated statement of income.

Investments in available for sale securities

Investments in available for sale securities represent investments that are bought neither with the intention for trading purposes nor being held to maturity these investments, are stated at fair value. Changes, if material, between the fair value and cost are shown as a separate component in the shareholders' equity. Any decline in value, considered to be other than temporary, is charged to the consolidated statement of income. Fair value is determined by reference to the market value if an open market exists, or the use of other alternative method. Otherwise, cost is considered to be the fair value.

Investments in associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the capital. Investments in associates are accounted for using the equity method of accounting. The Group's share in the results of the investees is reflected in the consolidated statement of income.

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Interest in a jointly controlled entity

A jointly controlled entity is a contractual arrangement whereby the Group and other parties undertake an economical activity that is subject to joint control. The Group accounts for these entities in the consolidated financial statements using the equity method of accounting. The Group's share in the results of the investees is reflected in the consolidated statement of income.

Investments in other companies

Investments in other companies are the Group's investments of less than 20% of the capital of the investee companies. Investments in other companies are shown at fair value or at cost if the fair value is not available, less any other than temporary impairment in value.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment in value except for land and capital work in progress which are stated at cost and are not depreciated. Expenditure on maintenance and repairs is expensed, while expenditure for improvement is capitalized. Depreciation is calculated over the estimated useful lives of the applicable assets using the straight-line method.

Leasehold improvements are amortized on a straight-line basis over the shorter of the estimated useful life of the improvements or remaining lease period. Assets held under capital leases are depreciated over the shorter of the useful life of the asset or the lease period.

The estimated useful lives of the principal classes of assets are as follows:

	Years
Buildings and constructions	10-40
Leasehold improvements	Shorter of the lease term or useful life.
Plant, Machinery and equipment	5-20
Tools	4-14
Furniture, fixtures and office equipment	3-10
Motor Vehicles	4-5
Computers	3
Mines development	5-30
Catalysts	1.5

Projects under progress

Projects under progress include all direct and indirect costs attributed to the projects and are transferred to property, plant and equipment when the project is completed.

Intangible assets

Goodwill

The excess of consideration paid over the fair value of net assets acquired is recorded as "goodwill". Goodwill is periodically re-measured and reported in the consolidated financial statements at carrying value, adjusted by impairment in value, if any. The carrying amount of negative goodwill, if any, is netted off against the fair value of non-current assets.

Pre-operating costs

Pre-operating costs are deferred or capitalized during the development and trial operation period of the new projects which are expected to generate future economic benefit. These costs are amortized as of the date of the commencement of the commercial operations using the straight-line method over the shorter of the estimated useful life or 7 years.

Computer software implementation costs

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

Research and development costs

Research and development costs are charged to the consolidated statement of income for the year it was incurred in, 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 7 years.

Other intangible assets

Other intangible assets, consist primarily of trademarks, trade name, know-how and customer relationships, are valued at fair value with the assistance of independent appraisers, effective on the date of acquisition of the subsidiary. Trade name, which is considered an intangible asset with indefinite life and is not amortized but assessed annually for impairment, or when events indicate that impairment may exist.

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

Deferred borrowing costs

Deferred borrowing costs are amortized using the straight line method over the term of the related debt.

Exploration costs

Costs before exploration and evaluation are charged to the consolidated statement of income when incurred. Exploration and evaluation costs are capitalized, including licensing obtain costs before the proven of technical and commercial feasibility of the project as tangible or intangible assets according to its nature, when a license is cancelled, the related capitalized costs are charged directly to the consolidated statement of income.

Once a technical and commercial viability of extracting mineral resources is determined, then the related exploration costs will be capitalized and then amortized over the estimated period of benefits.

Turnaround costs

Periodic turnaround costs are capitalized and amortized using the straight-line method over the period extended until the next periodic turnaround. In case of an early turnaround, unamortized cost is charged directly to the consolidated statement of income.

Impairment of non-current assets

The Group periodically reviews the carrying amounts of its long term tangible and intangible assets to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. Impairment is recognized in the consolidated statement of income.

Except for goodwill, where impairment subsequently reverses, the carrying amount of the asset or the cash generating unit is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognized for the asset or cash generating unit in prior years. A reversal of impairment is recognized in the consolidated statement of income.

Borrowing costs

Borrowing costs are directly attributable to the project under construction during the construction period to be ready to use. Investment income earned on investments of specifically borrowed funds that are pending expenditure on the project under construction is deducted from the capitalized borrowing costs.



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Payables

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

Provision for obligations

A provision is recognized in the consolidated financial statements when the Group has a legal or constructive obligation 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.

Zakat and income tax

Zakat

Zakat is provided in accordance with the Regulations of the General Authority of Zakat and Income Tax ("GAZT") in the Kingdom of Saudi Arabia and on an accrual basis. The provision is charged to the consolidated statement of income. Differences, if any, arising from the final assessments are adjusted in the year of their finalization.

Income tax

Foreign shareholders in subsidiaries are subject to income tax which is included in non-controlling interests. For the subsidiaries that are outside the Kingdom of Saudi Arabia, income tax liabilities are provided in accordance with relevant tax jurisdictions in these countries and the Company's share is included in the consolidated statement of income.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognized for all temporary differences at the taxation rates applicable in the relevant jurisdiction. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available in the near future to allow all or part of the deferred tax asset to be utilized.

Leases

Operating leases

Rentals payments under operating leases are charged to consolidated statement of income on a straight-line basis over the term of the operating lease period.

Capital leases

Leases and sale and leaseback transactions are classified as capital leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under capital leases are recognized as assets of the Group within property, plant and equipment at the lower



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of the present value of the minimum lease payments and the fair market value of the assets at the inception of the lease.

Finance costs, which represent the difference between the total lease commitments and the lower of the present value of the minimum lease payments and the fair market value of the assets at the inception of the lease, are charged to the consolidated statement of income over the term of the relevant lease in order to produce a constant periodic rate of return on the remaining balance of the obligations for each accounting period.

Gains from increase of selling price over the book value of sale and leaseback transactions are deferred and amortized using the straight line method over the lease term period.

Employees' end of services benefits

Provision is made for Employees' end of services benefits, required by labor law, is provided based on the employees' length of service at each consolidated balance sheet date. The Company has pension schemes for its eligible employees in relevant foreign jurisdictions.

Dividends

Dividends are recorded in the consolidated financial statements in the period in which they are approved.

Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's Articles of Association, the Company has established a statutory reserve by the appropriation of 10% of net income. According to the Company's Articles of Association may stop the established to the reserve when equals to 50% of the share capital. This reserve is not available for dividend distribution.

Sales

Sales represent the invoiced value of goods/services delivered or rendered to customers and are recognized upon the delivery of goods/services and are stated net of trade or quantity discounts.

Some of subsidiary companies market their products through subsidiaries owned by the shareholders (referred hereto as "the Marketers"). Sales are made directly to the final customers and to the Marketers in Europe. Sales made through distribution stations of the Marketers are recorded at provisional prices at the time of shipment of goods, and are subsequently adjusted based on actual selling prices received by the Marketers from the final customer after deducting the cost of shipping, distribution and marketing.

Cost of sales

Cost of sales includes all direct costs of production, including direct labour, direct materials, and overheads attributable to production.

Expenses

Selling and marketing expenses principally comprise of 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 sales. Allocations between general and administrative expenses and cost of sales, when required, are made on a consistent basis.

Derivative Financial Instruments

The Group uses derivative financial instruments such as forward exchange contracts and interest rate swaps to hedge the exposure to foreign exchange risks arising from operational, financing and investment activities and certain portions of interest rate risks arising from financing activities. The Group designates these as cash flow hedges of interest rate risk. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives consistent with the Group's risk management strategy. Derivative financial instruments are initially measured at fair value on the contract inception date and are measured subsequently at fair value.

Changes in the fair value of derivative financial instruments that are designated as effective are recognized in equity, if material, and the ineffective portion is recognized in the consolidated statement of income. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, the associated gain or loss on the derivative that had previously been recognized in equity is included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognized in the consolidated statement of income in the same period in which the hedged item affects net profit or loss.

Changes in fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in the consolidated statement of income as they arise. Hedge accounting is discontinued when the hedging instrument expires or is sold or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognized in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to consolidated statement of income for the year.

Non-controlling interests

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Losses applicable to the minority interest in excess of its share in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority interest has a binding obligation and is able to make an additional investment to cover the losses.

Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate ruling at the balance sheet date. All gains or losses resulted from settlements or foreign currency translations are taken to the consolidated statement of income.

Financial statements of foreign subsidiaries are translated into Saudi Riyals using the exchange rate at each balance sheet date for assets and liabilities, and the average exchange rate for each year for revenues and expenses. Components of equity, other than retained earnings, are translated at the rate ruling at the date of occurrence of each component. Translation adjustments are recorded as a separate component of shareholders' equity.

Segmental reporting

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

Transition to IFRS

SOCPA has approved a plan for transition to International Financial Reporting Standards. The plan requires that effective from January 1, 2017 all the companies listed on Saudi Stock Exchange ("Tadawul") shall prepare their financial statements in accordance with the International Financial Reporting Standards as endorsed in Saudi Arabia and other standards and pronouncements endorsed by the SOCPA ("IFRS"). Accordingly, effective from January 1, 2017, the Company shall prepare its consolidated financial statements in accordance with IFRS.

4. CASH AND CASH EQUIVALENTS

	2016	2015
Bank balances and cash	1,314,362	3,134,797
Short term deposits and murabaha	1,592,296	684,273
	2,906,658	3,819,070

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.

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5. ACCOUNTS RECEIVABLE

	2016	2015
Trade accounts receivable	2,206,025	1,876,532
Due from related parties - trade (note 20)	1,180,738	1,436,573
Less: doubtful debt allowance	(129,340)	(98,605)
	3,257,423	3,214,500

Movements in the allowance for doubtful debts were as follows:

	2016	2015
At the beginning of the year	98,605	90,633
Movement during the year	55,964	123,394
Written-off during the year	(25,229)	(115,422)
At the end of the year	129,340	98,605

6. INVENTORIES

	2016	2015
Finished goods	1,443,590	2,091,359
Raw materials	1,394,113	1,422,801
Spare parts	932,006	915,892
Work in progress	572,225	600,066
	4,341,934	5,030,118
Less: slow moving inventories allowance	(178,510)	(213,947)
	4,163,424	4,816,171

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7. PREPAYMENTS AND OTHER CURRENT ASSETS

	2016	2015
Non-trade receivables	487,150	373,750
Prepaid expenses	372,093	406,028
Employees' receivables and housing loans	230,283	212,381
Advances to suppliers	153,594	49,727
Due from related parties - non-trade (note 20)	400	102,268
Other current assets	31,330	24,881
	1,274,850	1,169,035

8. INVESTMENTS IN AVAILABLE FOR SALE SECURITIES

This represents the Groups' investments in local quoted companies for an amount of SR 202 thousands (2015: SR 410 thousands) and international companies for an amount of SR 71 thousands (2015: 341 thousands).

The movement of the investments during the year was as follows:

	2016	2015
Cost:		
At the beginning of the year	590,189	572,569
Additions	-	17,620
Disposals	(437,224)	-
At the end of the year	152,965	590,189
Unrealized gains:		
At the beginning of the year	161,507	192,180
Other current assets	(41,130)	(30,673)
At the end of the year	120,377	161,507
Net book value	273,342	751,696

Dividends received from investments in available for sale securities amounted to SR 23.2 million (2015: SR 37.9 million), also the realized gain from sale of available for sale securities amounted to SR 140.3 million (2015: SR nil) which was recorded under other income in the consolidated statement of income (note 29).

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9. INVESTMENTS IN ASSOCIATED COMPANIES, JOINT VENTURE AND OTHERS

Investments in associates and others as at 31 December were as follows:

	Ownership Percentage		2016	2015
	2016	2015		
Associated companies				
("National Metal Manufacturing and Casting Company ("Maadaniyah	35.45	35.45	146,129	143,156
Saudi Claryant for Colorants Ltd Company	40.00	40.00	130,901	126,974
Total investments in associated companies			277,030	270,130
Jointly controlled entity:				
Saudi Butanol Ltd Company	33.33	33.33%	533,641	491,313
Other investments			411,295	412,876
Total investments in associated companies, joint venture and others			1,221,966	1,174,319

The movement of investments in associates and others was as follows:

	2016	2015
Balance at the beginning of the year	1,174,319	989,037
Company's share in net income for the year	60,262	28,981
Additions during the year (*)	-	213,116
Disposals during the year (**)	-	(36,801)
Dividends received	(12,615)	(8,985)
Impairment of investments in associates and others	-	(11,029)
Balance at the end of the year	1,221,966	1,174,319

(*) Additions during 2016 mainly consist of an increase of SR Nil (2015: mainly consist of an increase of SR 168 million in the share capital of Industrialization and Energy Services Company).

(**) During the fourth quarter of 2015, the Company sold all its shareholding in the equity of National Packing Products Co. Ltd (Waten-Pac), resulting in capital gains amounting to SR 31 million (note 29).

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10. PROPERTY, PLANT AND EQUIPMENT

	Land, buildings and constructions	Plant, Machinery and equipment	Tools	Furniture, fixtures and office equipment	Motor vehicles	Computers	Mines development	Catalysts	Capital works in progress	Total
Cost:										
As at 1/1/2016	3,910,540	25,154,582	7,619	103,208	75,658	25,632	1,111,486	57,721	2,558,697	33,005,143
Additions	22,010	239,350	26	2,651	1,299	-	19	53,000	490,992	809,347
Disposals	-	(36,164)	(603)	(2,251)	(1,936)	(739)	(1,471)	(54,707)	(4,836)	(102,707)
Transfers/adjustments	386,145	448,918	-	74	-	-	(288,637)	-	(546,500)	-
Foreign currency translation adjustments, net	(27,256)	(149,566)	-	55	-	-	(7,636)	-	(3,017)	(187,420)
As at 31/12/2016	4,291,439	25,657,120	7,042	103,737	75,021	24,893	813,761	56,014	2,495,336	33,524,363
Depreciation and impairment:										
As at 1/1/2016	774,440	8,797,407	3,460	77,753	63,192	22,108	468,551	48,779	-	10,255,690
Charge for the year	182,057	1,448,594	7	9,796	4,703	758	95,167	14,020	-	1,755,102
Disposals	-	(754)	(507)	(1,790)	(1,641)	(739)	-	(54,707)	-	(60,138)
Transfers/adjustments	5,740	32,806	-	(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)
As at 31/12/2016	964,856	10,211,220	2,960	85,864	65,972	22,124	518,251	8,092	-	11,879,339
Net book value:										
As at 31 December 2016	3,326,583	15,445,900	4,082	17,873	9,049	2,769	295,510	47,922	2,495,336	21,645,024
As at 31 December 2015	3,136,100	16,357,175	4,159	25,455	12,466	3,524	642,935	8,942	2,558,697	22,749,453

- Included in land, buildings and constructions a non-depreciable land with a total cost of SR 115 million (2015: SR 109 million).
- Included in land, buildings and constructions the cost of leasehold improvements with a net book value of SR 5.9 million (2015: SR 7.3 million).



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- Capital work in progress as at 31 December 2016 and 2015 mainly consist of costs of expansion of housing project for employees, safety and environment improvement costs, competency costs, cost saving and other factories owned by some of the subsidiaries, and expansion of facilities of production lines. The capitalized borrowing costs during 2016 amounted to SR 3.2 million (2015: SR 5.6 million).
- Certain lands on which certain factories and facilities of the subsidiaries are situated was leased from the Royal Commission for Jubail and Yanbu at nominal rents, for periods up to 30 years, renewable for further periods.
- Certain subsidiaries' property, plant and equipment are mortgaged as security against loans extended to those companies (notes 14 and 17).

11. PROJECTS UNDER PROGRESS

	2016	2015
Advanced Metal Industries Ltd Company *	4,347,169	2,828,622
Other projects	612,047	905,585
	4,959,216	3,734,207

* Advanced Metal Industries Ltd Company projects as at December 31, 2016 mainly consist of:

- A) Costs of establishing a factory for the processing of Alalmnit as an additional source of the raw materials for the production of Titanium Dioxide at Jazan by AMIC. The total estimated cost of the project is SR 3.1 billion, and it is anticipated that the project will commence production during the first half of 2017; and
- B) Costs of establishing a factory for production of Titanium Metal Sponge by ATTM, with a total estimated cost of SR 1.7 billion. It is anticipated that the project will commence production during the second half of 2017.

During 2016, an amount of SR 148.9 million (2015: SR 44.6 million) has been capitalized, representing borrowing cost directly related to the projects under progress.



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12. INTANGIBLE ASSETS

The intangible assets as at 31 December comprise of the following:

	2016	2015
Goodwill (a)	2,406,303	2,410,745
Software implementation, technology and other intangible assets, net (b)	437,134	532,592
Pre-operating expenses and deferred costs, net	3,358	2,247
	2,846,795	2,945,584

A. Goodwill

Impairment review

Goodwill is tested annually for any impairment by the Group's management. To perform that, cash generating units are identified. As a result of the goodwill assessment test performed during the year ended 31 December 2016, management found no evidence of impairment in goodwill. Impairment identified in 2015 in a subsidiary of Cristal was recorded in the consolidated statement of income (note 28). In the 2015 test, the recoverable amount was determined based on calculating the present value of expected cash flows for fifteen years, using financial budgets approved by the management. An estimated growth rate of 3% was applied on cash flows in excess of the duration of the financial budgets. Management believes that the estimated growth rates used do not exceed the average growth rates over the long term on the company's activities.

B. During the year ended 31 December 2016, a subsidiary of Cristal Company recognized impairment in the other non-intangible assets amounting to SR 9.9 million (2015: SR 133.19). The management believes that they have no benefits in the future (note 28).

13. OTHER NON-CURRENT ASSETS

	2016	2015
Exploration and evaluation costs, net	392,337	229,815
Deferred taxes	233,426	307,334
Others	161,461	63,864
	787,224	601,013

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14. SHORT TERM BANK FACILITIES AND MURABAHA

The Group had short term credit facilities during 2016 amounting SR 324 million (2015: SR 2,295 million), the balances as at 31 December 2016 was SR 68 million (2015: SR 2,018 million). These credit facilities are secured by promissory notes to the benefit of the banks and financial institutes and other pledges, and carry commission according to prevailing commercial rates.

15. ACCOUNTS PAYABLE

	2016	2015
Trade payables	1,986,687	1,739,650
Due to related parties (note 20)	6,966	160
Other payables	-	18,238
	1,993,653	1,758,048

16. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	2016	2015
Accrued expenses	667,096	922,087
Other payables	617,346	180,381
Provision for zakat and income tax	506,675	358,350
Accrued employees' benefits	280,665	176,877
Dividends payable	93,811	93,811
Provision for research and development	-	31,175
Other current liabilities	4,018	34,299
	2,169,611	1,796,980

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17. SUKUK AND LONG TERM LOANS

	2016	2015
Sukuk:		
First issue	2,000,000	2,000,000
Loans:		
Saudi Industrial Development Fund (a)	2,660,017	2,554,377
Commercial banks and others (b)	19,747,532	20,168,494
Total sukuk and long term loans	24,407,549	24,722,871
Less: current portion	(2,805,911)	(4,401,400)
Deferred financing costs, net	(341,451)	(408,103)
Non-current portion	21,260,187	19,913,368

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).

LONG TERM LOANS

A. Saudi Industrial Development Fund ("SIDF")

The Group has obtained long term loans and facilities from the Saudi Industrial Development Fund for an amount of SR 4,605 million (2015: SR 3,597 million). The total outstanding balance of these loans and facilities as at 31 December 2016 amounted to SR 2,660 million (2015: SR 2,554 million). These loans are subject to repayment on different installments starting on various different dates commencing from September 2006. Some of these loans are secured by mortgage on some assets owned by some subsidiaries, promissory notes and guarantees from the shareholders.



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B. Commercial banks and others

The Group has obtained long term loans and facilities from commercial banks for a total amount of SR 20,423 million (2015: SR 25,304 million). The outstanding balance of these loans and facilities as at 31 December 2016 amounted to SR 19,748 million (2015: SR 20,168). These loans and facilities are secured by promissory notes, mortgages on certain assets of subsidiaries and guarantees of the partners.

These loans carry commission at normal commercial rates.

Some of the above-mentioned loan agreements with commercial banks and SIDF and the Group contain financial covenants. Where the Group is in breach of some of these covenants, agreement has been received from all the relevant banks to wave such requirements until 30 June 2017.

18. EMPLOYEES' END OF SERVICE BENEFITS

	2016	2015
January 1	354,059	329,564
Provision for the year	78,522	69,024
Utilization of provision	(18,338)	(44,529)
December 31	414,243	354,059

19. OTHER NON-CURRENT LIABILITIES

	2016	2015
Deferred income tax liabilities	260,155	460,788
Provision for maintenance and mine closure	151,881	134,510
Asset retirement obligation	128,758	79,173
Pension and other post-retirement benefits	115,498	133,079
Derivative financial instruments	15,733	-
Others	437,266	177,762
	1,109,291	985,312



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

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20. RELATED PARTIES TRANSACTIONS AND BALANCES

The significant transactions and related approximate amounts during the year were as follows:

	2016	2015
Sales	5,471,907	4,769,178
Allowances, expenses, salaries and benefits for Board of Directors, committees and senior management	29,886	27,805

The above transactions were conducted during the normal course of business and the terms and conditions were approved by the management.

Some of the subsidiaries have signed marketing and sales agreements with their foreign partners (referred to as the "marketers"), whereby the marketers agreed to market some of companies products at pre-agreed prices in accordance with the agreements. The agreements specify the marketing responsibilities, quantities to be marketed by the marketers, geographical territories in which the products are to be sold, the price calculation formula, payment terms and other obligations.

Due from related parties as at 31 December are as follows:

	2016	2015
Bassel Asian Pacific Company	455,873	511,149
Bassel International for Trading (F.Z.E)	332,478	511,103
Sahara and ma'aden Petrochemical Company	186,134	146,968
Evonik Industries AG	86,364	95,835
Bassel for Sales and Marketing Company	62,948	105,737
Evonic and National Industrialization for Marketing Company	29,767	15,575
Dow Chemical Pacific affiliates	15,606	42,956
Oasis for Chemicals Company	8,253	7,250
Other related parties	3,315	-
	1,180,738	1,436,573
Trade	1,180,338	1,334,305
Non-trade	400	102,268
	1,180,738	1,436,573

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Due to related parties as at 31 December are as follows:

	2016	2015
Other related parties	6,966	160

As of December 31, 2016 and 2015, due from and due to related parties balances mainly relate to the above mentioned transactions as shown in notes 5, 7 and 15, respectively.

21. ZAKAT AND INCOME TAX

Zakat and income tax are provided for and charged to the consolidated statement of income according to management estimates, and differences resulting from the final zakat and income tax calculation re adjusted by end of the year.

Movement in the zakat provision was as follows:

	2016	2015
January 1	352,891	230,899
Paid during the year/adjustments	(17,824)	(137,645)
Provision during the year	121,093	259,637
December 31	456,160	352,891

Movement in the income tax provision was as follows:

	2016	2015
January 1	5,459	55,140
Paid during the year/adjustments	(76,657)	(144,659)
Provision during the year	121,713	94,978
December 31	50,515	5,459
Total zakat and income tax liability	506,675	358,350

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Status of zakat and income tax returns and assessments

During 2015, the Company received approval from the General Authority of Zakat and income ("GAZT") to consolidate zakat returns of the holding companies and wholly-owned subsidiaries by the beginning of 2008. The Company will prepare the Group's consolidated financial statements and the adjusted zakat returns from 2008 and up to 2014. The Company will review the zakat provisions that were previously recognized upon receiving the final zakat assessment for the consolidated financial statements. The non-wholly owned subsidiaries provide their zakat returns individually for each company.

The Company has filed its zakat returns with the General Authority of Zakat and Income Tax ("GAZT") up to 2015, and settled the zakat dues accordingly and obtained restricted certificates. The company has cleared its zakat status with GAZT up to 2007 and has not been received the final zakat assessments yet for the subsequent years from the GAZT.

During 2013, some of the subsidiaries received revised assessments from the GAZT for several years, which showed additional zakat differences amounted to SR 192 million. The subsidiaries submitted an appeal against these assessments, and management believes that no material liability is likely to arise.

22. SHARE CAPITAL

Share capital amounted to SR 6,689,142 thousands as at December 31, 2016 (2015: SR 6,689,142 thousands) consisting of 668,914 thousand shares (2015: 668,914 thousands shares) of SR 10 each.

23. DIVIDENDS

The Company's Extraordinary General Assembly meeting held on Jumada Al-Thani 19, 1436H (corresponding to April 8, 2015G) approved the Board of Directors' recommendation to distribute cash dividends for the year 2014 amounting to SR 1 per share and Board of Directors remuneration amounting to SR 2 million.

24. OTHER RESERVES

As of December 31, 2016, other reserves mainly consist of foreign currencies differences from translation of the overseas subsidiaries financial statements amounting to SR 1,346 million (2015: SR 1,193 million), and a difference in the acquisition of the non-controlling interests amounting to SR 992 million (Note 2) (2015: SR 978 million) .



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25. NON-CONTROLLING INTERESTS

	2016	2015
Balance at the beginning of the year	5,779,946	7,351,998
Share in net earnings of subsidiaries for the year	581,720	(233,433)
New non-controlling interests resulted from new consolidated subsidiary	144,305	-
Non-controlling interests acquired	-	(771,576)
Dividends	(1,026,892)	(538,911)
Other, net	(16,717)	(28,132)
Balance at the end of the year	5,462,362	5,779,946

26. SELLING AND MARKETING EXPENSES

	2016	2015
Freight and transportation	544,743	596,852
Employees' salaries and related benefits	119,166	109,079
Doubtful debts allowance	55,964	123,394
Distributors' incentives	36,741	32,637
Others	48,892	86,401
	805,506	948,363



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27. GENERAL AND ADMINISTRATIVE EXPENSES

	2016	2015
Employees' salaries, related benefits and travel	515,767	481,812
Research and development	253,686	278,469
Consulting and professional fees	141,708	353,715
Depreciation and amortization	54,844	62,204
Repairs and maintenance	17,027	21,933
Rent	12,069	26,863
Others	65,852	49,296
	1,060,953	1,274,292

28. IMPAIRMENT OF NON-CURRENT ASSETS

	2016	2015
Impairment of property, plant and equipment (note 10)	9,895	80,522
Impairment of non-current assets (note 13)	-	133,196
Impairment of projects under construction	-	100,000
Impairment of goodwill (note 12 a).	-	67,242
Impairment of investments in associates and others	-	11,029
	9,895	391,989

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT
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29. OTHER INCOME/(EXPENSES), NET

	2016	2015
Gain from sale of investments available for sale securities	140,345	-
Proceeds from murabaha and others	28,423	12,354
Dividends received	23,217	38,848
Gain/(loss) from sale of property, plant and equipment	4,859	(15,183)
Amortization of deferred gains	1,982	7,016
Realized gain from sale of investment in associates (note 9)	-	31,119
Financial derivatives and forward contracts (note 33)	-	(363,943)
Loss from Foreign exchange differences	(15,112)	(16,562)
Others	(6,244)	25,688
	177,470	(280,663)

30. EARNINGS/(LOSSES) PER SHARE

The earnings/(losses) per share attributable to income from main operations and net income/(loss) for the year are calculated based on total number of shares issued, that is 668,914 thousand shares as at December 31, 2016 (2015: 668,914 thousands shares).

31. SEGMENT INFORMATION

The main activity of the Company (Head Office) is investments while subsidiary companies operate in the industrial and petrochemicals sectors. The main markets of the petrochemicals sector are the Kingdom of Saudi Arabia, Europe, Middle East, and Asia, and for industrial, Head Office and other segments are the Kingdom of Saudi Arabia, North and South of U.S.A., Europe, Australia, Middle East and Asia. Group consists of the following main business segments:

Chemical and Downstream Industries Sector	Includes the production of titanium dioxide production processes and specialized production operation of Rutay which is the raw material for the production of titanium dioxide, the production of liquid batteries for cars, production of lead and sodium sulfate, all kinds of plastic productions and the production of acrylic panels.
Petrochemicals sector	Includes basic chemicals and polymers.
Head Office and other:	Includes the operations of the head office, and technical centers, innovations and investment activities, and present of technical industrial services.

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The relevant financial data for these sectors are:

	Chemicals & downstream Industries	Petrochemicals	Head office & other	Adjustments	Total
As at and for the year ended December 31, 2016					
Total assets	21,158,693	21,381,050	16,462,011	(15,665,832)	43,335,922
Total liabilities	13,523,949	11,492,866	7,046,872	(2,242,773)	29,820,914
Sales	7,398,046	11,811,674	358,282	(4,371,032)	15,196,970
Gross profit	664,785	2,754,133	61,632	(8,090)	3,472,460
Depreciation and amortization	(446,833)	2,097,834	295,786	(290,419)	1,656,368
(Loss) income from main operations	712,710	1,151,451	41,791	-	1,905,952
Capital expenditures	1,660,256	311,467	73,647	-	2,045,370
As at and for the year ended December 31, 2015					
Total assets	21,275,941	22,507,024	16,518,315	(15,326,232)	44,975,048
Total liabilities	13,150,631	12,325,567	7,180,721	(1,429,982)	31,226,937
Sales	7,344,098	10,905,344	400,583	(3,504,514)	15,145,511
Gross profit	50,331	2,081,919	79,511	986	2,212,747
Income/(Loss) from main operations	(1,505,648)	1,382,633	(1,298,754)	1,048,853	(372,916)
Depreciation and amortization	653,394	1,132,282	42,066	-	1,827,742
Capital expenditures	1,526,331	565,698	35,353	-	2,127,382

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32. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

A. Capital commitments

The Group has the following capital commitments:

	2016	2015
Capital commitments for projects under progress and purchase of property, plant and equipment	688,629	762,331
Commitments for consulting contracts	-	227,000

B. Operating leases commitments

	2016	2015
Payments under operating leases charged to expenses during the year	103,716	110,002

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 30 years.

Cristal Inorganic Chemicals Ltd. (a subsidiary) leases various lands, property, facilities and equipment under irrevocable operating lease arrangements for varying periods.

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

	2016	2015
One year	88,745	75,575
Two to four years	129,915	166,826
More than four years	8,723	16,828
Total minimum lease payments	272,383	259,229

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C. Cristal Company has various agreements for the purchase of raw materials used in the production of titanium dioxide and certain other agreements for the purchase of raw materials, general utilities and services with various terms extending through the year 2020. As at consolidated balance sheet date, estimated future minimum payments under these irrevocable contracts were as follows:

	2016	2015
One year	1,882,170	1,271,059
Two to four years	938,299	1,162,977
More than four years	47,044	56,956
Total future minimum payments	2,867,513	2,490,992

CONTINGENCES

1- As at December 31, the Group has following outstanding letters of credit and guarantees:

	2016	2015
Letters of credit and guarantee	2,765,262	2,128,458

2- The Company has issued corporate guarantees to commercial banks and Saudi Industrial Development Fund by its share owned in share capital of some subsidiary and associate companies against the loans which have been obtained from such parties. As at 31 December 2016, these guarantees amounted to SR 6,105 million (2015: SR 8,408 million).

3- 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.

33. DERIVATIVE FINANCIAL INSTRUMENTS

The Group has forward foreign currency contracts and other foreign currency instruments. The fair value amounts of such contracts outstanding as at 31 December 2016 was SR 138 million (2015: SR 962 million). The Company did not apply hedge accounting to these contracts. The difference between the spot rates on the contract date and the forward rate on the forward foreign currency contract outstanding as at 31 December 2016 should have been amortized over the period of the contract as required under generally accepted accounting standard. However, adjustments were not made to the reported amounts as it was not considered material.

The Company has entered into interest rate cap contracts and certain other interest rate derivatives with certain local banks. The fair value amounts of such contracts outstanding as at 31 December 2016 was SR 18.786 million (2015: SR 1,125 million). The Company did not apply hedge accounting to these contracts. The net unrealized gain amounting to SR 1.34 million (2015: unrealized losses of SR 15.2 million) on these derivatives was recorded in the consolidated statement of income during the year.

As at December 31, 2014 and the first quarter of 2015, Cristal (a subsidiary) entered into forward derivative financial instruments contracts to reduce the risk of fluctuations in currency exchange rates with local banks. As at December 31, 2014, the difference between the spot rate and the forward rate of outstanding forward contracts amounted to SR 121 million. During 2015, the Group's management believed that retaining these contracts was non-viable, thus it was agreed with the relevant financial institutions to terminate and settle these contracts. This has resulted in recording net negative fair value of these contracts amounting to SR 387 million, within net other income and expenses (note 28).

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments principally include cash and cash equivalents, investments in held for trading securities, accounts receivable, prepayments and other current assets, investments in available for sale securities, short term loans, murabaha, accounts payable, accrued expenses and other current liabilities, long term loans, and derivative financial instruments.

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 no significant concentration of credit risk. Cash is placed with national banks with sound credit ratings. Trade accounts receivable are shown net of provision for doubtful debts.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Group has no significant interest-bearing assets but has interest-bearing liabilities as at December 31, 2016 and 2015. The Group manages its borrowings made at floating rates by using floating-to-fixed interest rate swaps. 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 (mainly quarterly) by reference to the agreed notional principal amounts.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis to ensure that sufficient funds are available to meet any future commitments.

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.

Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the consolidated financial statements have been prepared under the historical cost convention, differences may arise between the carrying amounts and fair value estimates. Management believes that the fair value of the financial assets and liabilities is not materially different from its carrying value.

35. EVENT AFTER THE REPORTING PERIOD

On February 21, 2017, a subsidiary, 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).

Closing of the transaction is expected to occur within 15 months from the date of the above-mentioned agreement and, is subject to the satisfaction of certain condition precedents, including, amongst other things, governmental and regulatory approvals in the relevant jurisdictions and the conclusion of Cristal reorganization.

The titanium dioxide (TiO2) business activities of the Company are included in "Chemical and downstream industries sector" business segment. Upon closing of the transaction, Cristal will deconsolidate the Cristal Assets from its consolidated financial statements and account for its interest in Tronox as an investment.

36. APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements were approved by management of the Company on March 16, 2017.



