

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

**INTERIM CONSOLIDATED FINANCIAL  
STATEMENTS (UN-AUDITED) AND INDEPENDENT  
AUDITOR'S LIMITED REVIEW REPORT  
FOR THE THREE MONTHS AND YEAR ENDED  
31 DECEMBER 2016**

**NATIONAL INDUSTRIALIZATION COMPANY**  
**(SAUDI JOINT STOCK COMPANY)**  
**INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED)**  
**FOR THE THREE MONTHS AND YEAR ENDED 31 DECEMBER 2016**

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## INDEPENDENT AUDITOR'S LIMITED REVIEW REPORT

To the Shareholders  
National Industrialization Company

Riyadh, Kingdom of Saudi Arabia

### Scope of review

We have reviewed the accompanying interim consolidated balance sheet of National Industrialization Company ("Tasnee" or "the Company"), and its subsidiaries (collectively referred to as "the Group") as of December 31, 2016, the related interim consolidated statement of income for the three months and year then ended, and the related interim consolidated statements of cash flows and changes in owners' equity for the year then ended, including the related notes from 1 to 16. These interim consolidated financial statements are the responsibility of the Company's management and have been prepared by them and presented to us together with all the information and explanations which we required.

We conducted our limited review in accordance with Saudi Organization for Certified Public Accountants ("SOCPA") standards on interim financial reporting. A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. The scope of a limited review is substantially less than an audit conducted in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

### Review conclusion

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

For Dr. Mohamed Al-Amri & Company



Gihad Al-Amri  
Certified Public Accountant  
Registration No. 362



Rabi Al-Thani 20, 1438 (H)  
January 18, 2017 (G)

**NATIONAL INDUSTRIALIZATION COMPANY**  
**(SAUDI JOINT STOCK COMPANY)**  
**INTERIM CONSOLIDATED BALANCE SHEET (UN-AUDITED)**  
**AS OF 31 DECEMBER 2016**  
**(SR'000)**

	Note	<b>2016</b> <b>(Un-audited)</b>	<b>2015</b> <b>(Audited)</b>
<b><u>ASSETS</u></b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		2,901,450	3,819,070
Accounts receivable		3,233,135	3,214,500
Inventories		4,224,237	4,816,171
Prepayments and other current assets		1,308,110	1,169,035
<b>TOTAL CURRENT ASSETS</b>		<b>11,666,932</b>	<b>13,018,776</b>
<b>NON-CURRENT ASSETS</b>			
Investments in available for sale securities		271,900	751,696
Investments in associated companies and others	4	1,229,252	1,174,319
Property, plant and equipment		21,570,430	22,749,453
Projects under progress	5	5,013,364	3,734,207
Intangible assets		2,850,126	2,945,584
Other non-current assets		921,602	601,013
<b>TOTAL NON-CURRENT ASSETS</b>		<b>31,856,674</b>	<b>31,956,272</b>
<b>TOTAL ASSETS</b>		<b>43,523,606</b>	<b>44,975,048</b>
<b><u>LIABILITIES AND OWNERS' EQUITY</u></b>			
<b>CURRENT LIABILITIES</b>			
Short term bank facilities and Murabaha		236,867	2,017,770
Accounts payable		1,864,850	1,758,048
Accrued expenses and other current liabilities		2,054,968	1,796,980
Current portion of long term loans	6	2,348,206	4,401,400
<b>TOTAL CURRENT LIABILITIES</b>		<b>6,504,891</b>	<b>9,974,198</b>
<b>NON-CURRENT LIABILITIES</b>			
Sukuk and Long term loans	6	21,624,843	19,913,368
Employees' end of service benefits		414,243	354,059
Other non-current liabilities		1,312,667	985,312
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>23,351,753</b>	<b>21,252,739</b>
<b>TOTAL LIABILITIES</b>		<b>29,856,644</b>	<b>31,226,937</b>
<b>OWNERS' EQUITY</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	8	6,689,142	6,689,142
Statutory reserve		1,167,321	1,141,862
Retained earnings		2,478,301	2,249,167
Unrealized gains from revaluation of investments in available for sale securities		118,935	161,507
Other reserves	12	(2,355,530)	(2,273,513)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>8,098,169</b>	<b>7,968,165</b>
Non-controlling interest		5,568,793	5,779,946
<b>TOTAL OWNERS' EQUITY</b>		<b>13,666,962</b>	<b>13,748,111</b>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>		<b>43,523,606</b>	<b>44,975,048</b>

The attached notes 1 to 16 form an integral part of these interim consolidated financial statements.

**NATIONAL INDUSTRIALIZATION COMPANY**  
**(SAUDI JOINT STOCK COMPANY)**  
**INTERIM CONSOLIDATED STATEMENT OF INCOME (UN-AUDITED)**  
**FOR THE THREE MONTHS AND YEAR ENDED 31 DECEMBER 2016**  
**(SR'000)**

	Note	For the three months ended December 31		For the year ended December 31	
		2016 (Un-audited)	2015 (Audited)	2016 (Un-audited)	2015 (Audited)
<b>Sales</b>		<b>3,952,676</b>	3,432,589	<b>15,214,523</b>	15,145,511
Cost of sales		<b>(2,948,597)</b>	(3,148,292)	<b>(11,782,973)</b>	(12,932,764)
<b>Gross profit</b>		<b>1,004,079</b>	284,297	<b>3,431,550</b>	2,212,747
Selling and marketing expenses		<b>(197,273)</b>	(343,855)	<b>(787,652)</b>	(948,363)
General and administrative expenses		<b>(210,485)</b>	(374,243)	<b>(1,072,259)</b>	(1,274,292)
Impairment of non-current assets		-	(310,368)	-	(391,989)
Company's share in net income of associated companies		<b>15,494</b>	2,598	<b>60,256</b>	28,981
<b>Income/(loss) from main operations</b>		<b>611,815</b>	(741,571)	<b>1,631,895</b>	(372,916)
Financial charges	6	<b>(193,840)</b>	(184,774)	<b>(767,087)</b>	(648,336)
Other income/(expenses), net	15	<b>25,695</b>	120,792	<b>214,363</b>	(280,663)
<b>Income/(loss) before zakat, income tax and non-controlling interests</b>		<b>443,670</b>	(805,553)	<b>1,079,171</b>	(1,301,915)
Zakat and income tax	10	<b>(92,983)</b>	(167,588)	<b>(233,257)</b>	(354,615)
<b>Income/(loss) before non-controlling interests</b>		<b>350,687</b>	(973,141)	<b>845,914</b>	(1,656,530)
Non-controlling interests		<b>(227,295)</b>	286,584	<b>(591,321)</b>	233,433
<b>NET INCOME/(LOSS)</b>		<b>123,392</b>	(686,557)	<b>254,593</b>	(1,423,097)
<b>Income/(loss) Earnings per share (SR) Attributable to:</b>	11				
Net income/(loss)		<b>0.18</b>	(1.03)	<b>0.38</b>	(2.13)
Income/(loss) from main operations		<b>0.91</b>	(1.11)	<b>2.44</b>	(0.56)

The attached notes 1 to 16 form an integral part of these interim consolidated financial statements.

**NATIONAL INDUSTRIALIZATION COMPANY**  
**(SAUDI JOINT STOCK COMPANY)**  
**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UN-AUDITED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**  
**(SR'000)**

	<b>2016</b>	<b>2015</b>
	<b>(Un-audited)</b>	<b>(Audited)</b>
<b><u>OPERATING ACTIVITIES</u></b>		
<b>Net income/(loss) for the year before zakat, income tax and non-controlling interests</b>	<b>1,079,171</b>	<b>(1,301,915)</b>
<i>Adjustments for:</i>		
Depreciation and Amortization	<b>1,944,833</b>	1,827,742
Doubtful debts provision	<b>46,288</b>	123,394
Slow moving inventories provision	<b>31,674</b>	128,769
Amortization of deferred gains	-	(7,016)
Impairment of non-current assets	-	391,989
Company's share in net income of associated companies, net	<b>(60,256)</b>	(28,981)
Employees' terminal benefits, net	<b>60,184</b>	24,495
<b>Cash from operations</b>	<b>3,101,894</b>	1,158,477
<i>Changes in operating assets and liabilities:</i>		
Accounts receivable, prepaid expenses and other current assets	<b>(203,998)</b>	1,038,514
Inventories	<b>560,260</b>	836,551
Other non-current assets	<b>(320,589)</b>	299,933
Accounts payable, accrued expenses and other current liabilities	<b>131,533</b>	(281,088)
Other non-current liabilities	<b>327,355</b>	(74,433)
<b>Net cash from operating activities</b>	<b>3,596,455</b>	2,977,954
<b><u>INVESTING ACTIVITIES</u></b>		
Investments in available for sale securities, net	<b>437,224</b>	(17,620)
Investments in associated companies and others, net	<b>5,323</b>	(167,330)
Investments in securities held for trading, net	-	477,387
Property, plant and equipment, net	<b>(615,163)</b>	(488,740)
Projects under progress, net	<b>(1,279,157)</b>	(1,756,420)
Intangible assets, net	<b>(6,108)</b>	8,987
<b>Net cash used in investing activities</b>	<b>(1,457,881)</b>	(1,943,736)
<b><u>FINANCING ACTIVITIES</u></b>		
Short term bank facilities and murabaha, net	<b>(1,780,903)</b>	800,421
Sukuk and Long term loans and derivative financial instruments, net	<b>(472,817)</b>	813,359
Dividends paid	-	(668,914)
Non-controlling interests	<b>(802,474)</b>	(2,246,701)
<b>Net cash used in financing activities</b>	<b>(3,056,194)</b>	(1,301,835)
<b>Decrease in cash and cash equivalents</b>	<b>(917,620)</b>	(267,617)
Cash and cash equivalents at the beginning of the year	<b>3,819,070</b>	4,086,687
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>2,901,450</b>	3,819,070
<b><u>NON-CASH TRANSACTIONS:</u></b>		
Other reserves	<b>(82,017)</b>	(1,533,436)
Unrealized losses on revaluation of investments in available for sale securities	<b>(42,572)</b>	(30,673)

The attached notes 1 to 16 form an integral part of these interim consolidated financial statements.

**NATIONAL INDUSTRIALIZATION COMPANY**  
**(SAUDI JOINT STOCK COMPANY)**  
**INTERIM CONSOLIDATED STATEMENT OF OWNERS' EQUITY (UN-AUDITED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**  
**(SR'000)**

	<b>Share capital</b>	<b>Statutory reserve</b>	<b>Retained earnings</b>	<b>Unrealized gains on revaluation of investments in available for sale securities</b>	<b>Other reserves</b>	<b>Total shareholders' equity</b>	<b>Non-controlling interests</b>	<b>Total owners' equity</b>
January 1, 2015 (audited)	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 (audited)	<b>6,689,142</b>	<b>1,141,862</b>	<b>2,249,167</b>	<b>161,507</b>	<b>(2,273,513)</b>	<b>7,968,165</b>	<b>5,779,946</b>	<b>13,748,111</b>
January 1, 2016 (audited)	<b>6,689,142</b>	<b>1,141,862</b>	<b>2,249,167</b>	<b>161,507</b>	<b>(2,273,513)</b>	<b>7,968,165</b>	<b>5,779,946</b>	<b>13,748,111</b>
Net income for the year	-	-	<b>254,593</b>	-	-	<b>254,593</b>	-	<b>254,593</b>
Net movements during the year	-	-	-	-	-	-	<b>(211,153)</b>	<b>(211,153)</b>
Transfer to statutory reserve	-	<b>25,459</b>	<b>(25,459)</b>	-	-	-	-	-
Others	-	-	-	<b>(42,572)</b>	-	<b>(42,572)</b>	-	<b>(42,572)</b>
Currency translation differences	-	-	-	-	<b>(82,017)</b>	<b>(82,017)</b>	-	<b>(82,017)</b>
December 31, 2016 (un-audited)	<b>6,689,142</b>	<b>1,167,321</b>	<b>2,478,301</b>	<b>118,935</b>	<b>(2,355,530)</b>	<b>8,098,169</b>	<b>5,568,793</b>	<b>13,666,962</b>

The attached notes 1 to 16 form an integral part of these interim consolidated financial statements.

**NATIONAL INDUSTRIALIZATION COMPANY**  
**(SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**  
(SR'000 unless otherwise noted)

**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 the Titanium Dioxide.

**2 BASIS OF CONSOLIDATION OF INTERIM FINANCIAL STATEMENTS**

These interim consolidated financial statements include assets, liabilities and the results of the operations of National Industrialization Company and its subsidiaries (“the Group”) as referred below. 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.

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

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

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

Company Name	Legal Form	Shareholding (%)	
		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 INDUSTRIALIZATION COMPANY**  
**(SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED) (continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**  
(SR'000 unless otherwise noted)

Company Name	Legal Form	Shareholding (%)	
		2016	2015
National Petrochemical Industrialization Company	Limited liability	100	100
National Lead Smelting Ltd. Company ("Rassas") and its subsidiary (2)	Limited liability	100	100
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 joint stock	60.45	60.45
Saudi Acrylic Acid Company Ltd. Company ("SAAC") (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

**(1) Al-Rowad National Plastic Company ("Rowad")**

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) National Lead Smelting Company ("Rassas")**

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.

**(3) The National Titanium Dioxide Limited Company ("Cristal")**

The National Titanium Dioxide Limited Company (Cristal) is a Saudi Limited Liability Company with its head office based in Jeddah. 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 U.S.A. located in the United States of America

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

**(4) Advanced Metal Industries Ltd Company**

Advances Metal Industries Limited Company has direct ownership percentage 50% to National Industrialization Company and Cristal Company, and is a Saudi limited liability company registered in Jeddah with share capital SR 3 million. The Company engaged in industries projects construction related to kinds of Titanium metal and related materials.

During first quarter of 2016, the Advanced Metal Industries Ltd Company constructed Advances Metal Industries Ltd Company and Tohoo for Titanium Metal Ltd Company with share capital SR 412 million, with direct own percentage 65% to Advanced Metal Industries Ltd Company and 35% to Japanese Tohoo for Titanium Metal Company. Work on plant construction of the Company is going on, and as the commercial activity has not commenced and is classified in other investments.

**NATIONAL INDUSTRIALIZATION COMPANY**  
**(SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED) (continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**  
(SR'000 unless otherwise noted)

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**(5) Tasnee and Sahara Olefins Company**

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 Polymor Arcylic Company equity (a Saudi Limited Liability Company), has been established at Jubail Industrial City, with share capital of SR 416.4 million.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying interim consolidated financial statements have been prepared in accordance with the Standard on Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). The significant accounting policies adopted in preparing there interim consolidated financial statements, summarized below, are consistent with those described in the annual audited consolidated financial statements for the year ended 31 December 2015:

**Accounting convention**

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

**Financial year and interim periods**

The financial year of the Group commences on 1 January of each year and ends on 31 December of the same year. Interim consolidated financial statements are prepared for the quarters ending on March, June, September, and December.

**Principles of consolidation**

The interim consolidated financial statements include the interim financial statements of the Company and subsidiaries controlled by the Company as of financial position date. 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.

Income and expenses of subsidiaries acquired or disposed of during the period, if any, are included in the interim consolidated statement of income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total income of subsidiaries is attributed to the stockholders of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

All significant inter-group transactions and balances between Group enterprises have been eliminated in preparing the interim consolidated financial statements.

**Adjustments related to the period**

The Group's management has made all the required adjustments so that the interim consolidated financial statements present fairly the interim consolidated financial position and interim consolidated results of operations for the Group. In addition, results presented in these interim consolidated financial statements may not represent an accurate indicator for the full year.

Interim consolidated financial statements do not include all information and disclosures required for the annual consolidated audited financial statements, therefore, these interim consolidated financial statements should be read in conjunction with the latest annual audited consolidated financial statements and its related notes.

**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.

**NATIONAL INDUSTRIALIZATION COMPANY**  
**(SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED) (continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**  
(SR'000 unless otherwise noted)

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**Use of estimates**

The preparation of interim 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 interim 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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. The significant items of estimation uncertainty and critical judgments in applying accounting policies that have most significant effect on the amounts recognized in the consolidated interim financial statements are as follows:

- estimated useful lives and residual values of property, plant and equipment.
- estimated lives of intangible assets.
- accruals and provisions.
- estimated of percentage of completion.

**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.

**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.

**Investments**

*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 interim 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 interim consolidated statement of income.

*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 interim consolidated financial statements using the equity method of accounting. The Group's share in the results of the investees is reflected in the interim consolidated statement of income.

**NATIONAL INDUSTRIALIZATION COMPANY**  
**(SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED) (continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**  
(SR'000 unless otherwise noted)

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**Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment in value except for land and capitalized expenditures which are stated at cost. 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	10-40
Leasehold improvements	Shorter of the lease term or useful life
Machinery and equipment	5-20
Tools	4-14
Furniture, fixtures and office equipment	3-10
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 capitalized 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 interim 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 interim 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.

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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 interim 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 capitalised costs are charged directly to the interim 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 interim 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 interim 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 interim 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.

**Payables and accrued expenses**

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 interim 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.

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**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 interim 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 minority interest in the interim consolidated financial statements. For the subsidiaries that are outside the Kingdom of Saudi Arabia, tax liabilities are provided in accordance with relevant tax jurisdictions in these countries and the Company's share is included in the interim 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 interim 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 interim 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 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 interim 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' terminal benefits**

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

**Dividends**

Dividends are recorded in the interim 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 until the reserve equals to 50% of the share capital. This reserve is not available for dividend distribution.

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**Sales**

Sales represent the invoiced value of goods delivered to customers and are recognized upon the delivery of goods 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.

**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.

**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. The Group does not use derivative financial instruments for speculative purposes. 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 interim 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 interim 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 interim 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 interim consolidated statement of income for the period.

**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 translation**

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 interim consolidated statement of income.

Financial statements of foreign subsidiaries are translated into Saudi Riyals using the exchange rate at each interim balance sheet date for assets and liabilities, and the average exchange rate for each year

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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.

**4 INVESTMENTS IN ASSOCIATED COMPANIES AND OTHERS**

Investments in associated companies and others as at December 31, are as follows:

	<i>Ownership Percentage %</i>		<b>2016</b>	<b>2015</b>
	<b>2016</b>	<b>2015</b>	<b>(Un-audited)</b>	<b>(Audited)</b>
National Metal Manufacturing and Casting Company ("Maadania")	<b>35.45</b>	35.45	<b>146,129</b>	143,156
Saudi Claryant for Colorants Ltd Company	<b>40.00</b>	40.00	<b>130,624</b>	126,974
Total investments in associated companies			<b>276,753</b>	270,130
<b><i>Jointly controlled entity:</i></b>				
Saudi Butanol Ltd Company	<b>33.33</b>	33.33	<b>533,641</b>	491,313
Other investments			<b>418,858</b>	412,876
Total investments in associated companies and others			<b>1,229,252</b>	1,174,319

**5 PROJECTS UNDER PROGRESS**

Projects under progress balance as at December 31, is as follows:

	<b>2016</b>	<b>2015</b>
	<b>(Un-audited)</b>	<b>(Audited)</b>
Advanced Metal Industries Ltd Company *	<b>4,979,959</b>	2,828,622
Other projects	<b>33,405</b>	905,585
	<b>5,013,364</b>	3,734,207

- \* Advanced Metal Industries Ltd. Company projects as at December 31, 2016 mainly consist of costs of establishing a factory for processing of Alalmnit as an additional source of the raw materials for the production of Titanium Dioxide at Jizan. The total estimated cost of the project is 3.1 billion, and it is anticipated that the project will commence production during the first half of 2017, and costs of establishing a factory for production of Titanium Metal Sponge, 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.

**6 SUKUK AND LONG TERM LOANS**

***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).



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***Loans***

The Company and some of its subsidiaries have obtained facilities arrangements from local, Gulf and foreign banks and the Saudi Industrial Development Fund for financing projects under progress (note 5) and refinancing existing projects. Total facilities amounted to SR 28.3 billion (December 31, 2015: 27.7 billion). As at December 31, 2016, the outstanding balance was SR 22.2 billion (December 31, 2015: SR 24.4 billion) approximately. These loans are repaid on different installments starting from different dates. Some of these loans are secured by assets owned by subsidiaries and promissory notes. Where terms of the original loans have not been complied with, the Group has obtained waivers from relevant banks at April 2, 2017.

**7 RELATED PARTIES TRANSACTIONS**

During the period, the Group mainly transacted with the following related parties:

<u>Name</u>	<u>Relationship</u>
Basel Asia Pacific Company	Shareholder
Basel International for Trade (FZE)	Shareholder
Sahara and Metals for Petrochemicals Company	Shareholder
Basel for Sales and Marketing Company	Shareholder
Evonic IG Company	Shareholder
Dao Pacific Petrochemicals Company	Shareholder
Evonic and National Industrialization for Marketing Company	Affiliate
Waha for Petrochemicals Company	Shareholder's subsidiary

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

	<u>2016</u>	<u>2015</u>
	<u>(Un-audited)</u>	<u>(Audited)</u>
Sales	<u>5,471,907</u>	<u>4,769,178</u>

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

As of December 31, 2016 and 2015, due from and due to related parties balances mainly relate to the above mentioned transactions.

**8 SHARE CAPITAL**

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

**9 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.

**10 ZAKAT AND INCOME TAX**

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

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

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During 2015, the Company obtained GAZT approval to consolidate the zakat returns between the holding company and its 100% owns subsidiary with 100% owns, starting from 2008G. The Company will prepare the Group consolidated financial statements and zakat returns from 2008G to 2014G. Previous zakat provisions which have been recognized will be revised when the final assessment have been received for consolidated financial statements. The subsidiaries not fully owned present zakat returns individually.

**11 EARNINGS/(LOSSES) PER SHARE**

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

**12 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 1,334 million (December 31, 2015: SR 1,193 million), and a difference in the acquisition of the non-controlling interests amounting to SR 992 million (Note 2) (December 31, 2015: SR 978 million).

**13 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 & 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.

**Petrochemical Sector:** Includes basic chemicals and polymers.

**Head Office & 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:

	<b>Chemicals &amp; downstream industries</b>	<b>Petrochemicals</b>	<b>Head office &amp; other</b>	<b>Adjustments</b>	<b>Total</b>
<b><u>As at and for the year ended</u></b>					
<b><u>December 31, 2016 (Un-audited)</u></b>					
Total assets	21,392,802	21,360,628	16,522,824	(15,752,648)	43,523,606
Total liabilities	13,578,129	11,465,388	7,055,461	(2,242,334)	29,856,644
Sales	7,398,046	11,829,227	358,282	(4,371,032)	15,214,523
Gross profit	675,331	2,702,678	61,632	(8,091)	3,431,550
Income/(Loss) from main operations	(391,742)	2,055,293	347,421	(379,077)	1,631,895
Depreciation and amortization	716,561	1,186,651	41,621	-	1,944,833
Capital expenditures	1,487,408	360,460	73,138	(26,686)	1,894,320
<b><u>As at and for the year ended</u></b>					
<b><u>December 31, 2015 (Audited)</u></b>					
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

**14 CAPITAL COMMITMENTS AND CONTINGENCIES**

**(a) Capital commitments**

The Company's subsidiaries has the following capital commitments as at December 31,:

	<b>2016 (Un-audited)</b>	<b>2015 (Audited)</b>
Capital commitments for Projects under progress and consulting	<b>347,136</b>	989,331

**(b) Contingences**

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

**15 OTHER INCOME/(EXPENSES), NET**

During 2014 and the first quarter of 2015, National Titanium Dioxide Company (a subsidiary) entered into derivative financial instruments futures contracts to minimized the risk of fluctuations in currency exchange and other financial derivatives relating to interest rates with a number of local banks. During the first quarter of 2015, the Group's management considered the futility of retaining those contracts, and it has been agreed with the relevant financial institutions to terminate and settle these contracts. As a result, a negative fair value as at December 31, 2016 amounting to SR nil (December 31, 2015: SR 393 million) has been recorded in the account of other income/(expenses), net.

**16 APPROVAL OF FINANCIAL STATEMENTS**

These interim consolidated financial statements were approved by management of the Company on January 18, 2017.