

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

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED) AND
INDEPENDENT AUDITORS' REVIEW REPORT
FOR THE THREE AND NINE MONTHS
PERIOD ENDED 30 SEPTEMBER 2017**

NATIONAL INDUSTRIALIZATION COMPANY
(SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2017

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the shareholders of
National Industrialization Company
(A Saudi Joint Stock Company)

Riyadh, Kingdom of Saudi Arabia

Introduction:

We have reviewed the accompanying interim condensed consolidated financial statements of **National Industrialization Company** "Saudi Joint Stock Company" ("the Company") and its subsidiaries (the "Group") that include the interim condensed consolidated statement of financial position as of September 30, 2017 and the related interim condensed consolidated statements of profit or loss and other comprehensive income for the three and nine months period then ended, and the interim condensed consolidated statements of changes in equity and cash flows for the nine months period then ended, and a summary of significant accounting policies and other selected explanatory notes from (1) to (19).

Management is responsible for the preparation and fair presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 – ("IAS 34") "Interim Financial Reporting" endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", endorsed in the Kingdom of Saudi Arabia. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared in all material respects, in accordance with IAS 34 endorsed in the Kingdom of Saudi Arabia.

For Dr. Mohamed Al-Amri & Co.



Gihad Al-Amri
Certified Public Accountant
License Number 362



October 25, 2017 (G)
Safer 5, 1439 (H)

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Interim condensed consolidated statement of financial position (Unaudited)

As at 30 September 2017

(SR in '000)

| | Note | 30 September 2017 | 31 December 2016 | 01 January 2016 |
|---|-------------|------------------------------|-----------------------------|----------------------------|
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | | 2,224,885 | 2,445,983 | 3,133,699 |
| Trade and other receivables, net | 7 | 2,656,353 | 2,208,718 | 1,978,606 |
| Inventories | | 2,667,271 | 2,949,398 | 3,639,132 |
| Prepayments and other current assets | | 1,270,744 | 1,176,834 | 1,066,408 |
| Total current assets | | 8,819,253 | 8,780,933 | 9,817,845 |
| Non-current assets | | | | |
| Property, plant and equipment | | 9,083,078 | 9,119,412 | 9,073,873 |
| Projects under progress | | 4,605,646 | 4,227,965 | 3,528,816 |
| Intangible assets | | 2,835,215 | 2,815,421 | 2,794,409 |
| Exploration and evaluation costs | | 373,799 | 392,337 | 229,815 |
| Investments in equity accounted associates and joint ventures | | 6,706,964 | 6,400,546 | 6,432,464 |
| Investment in equity instruments designated as FVOCI | 7 | 736,429 | 856,561 | 1,326,034 |
| Deferred tax assets | 9 | 266,645 | 233,426 | 307,334 |
| Other non-current assets | | 192,478 | 161,461 | 63,864 |
| Total non-current assets | | 24,800,254 | 24,207,129 | 23,756,609 |
| Total Assets | | 33,619,507 | 32,988,062 | 33,574,454 |
| LIABILITIES AND EQUITY | | | | |
| Current liabilities | | | | |
| Borrowings– current portion | 8 | 1,593,115 | 1,642,134 | 5,213,590 |
| Trade and other payables | 7 | 2,295,344 | 2,357,724 | 2,301,572 |
| Provisions and other current liabilities | | 1,595,608 | 1,544,204 | 1,068,110 |
| Zakat and tax payable | 9 | 416,921 | 311,895 | 296,775 |
| Total current liabilities | | 5,900,988 | 5,855,957 | 8,880,047 |
| Non-current liabilities | | | | |
| Borrowings | 8 | 14,655,402 | 14,946,884 | 12,459,344 |
| Employee benefits | | 540,995 | 495,583 | 441,800 |
| Deferred tax liabilities | 9 | 234,567 | 260,155 | 460,789 |
| Other non-current liabilities | | 612,610 | 851,477 | 527,179 |
| Total non-current liabilities | | 16,043,574 | 16,554,099 | 13,889,112 |
| Equity | | | | |
| Share capital | 11 | 6,689,142 | 6,689,142 | 6,689,142 |
| Statutory reserve | | 1,201,531 | 1,162,687 | 1,141,862 |
| Other reserves | 12 | (520,259) | (753,521) | (689,974) |
| Retained earnings | | 610,105 | 260,501 | 136,644 |
| Equity attributable to the equity holder of parent | | 7,980,519 | 7,358,809 | 7,277,674 |
| Non-controlling interests | | 3,694,426 | 3,219,197 | 3,527,621 |
| Total equity | | 11,674,945 | 10,578,006 | 10,805,295 |
| Total liabilities and equity | | 33,619,507 | 32,988,062 | 33,574,454 |

The accompanying notes from 1 to 19 form an integral part of these interim condensed consolidated financial statements.

NATIONAL INDUSTRIALIZATION COMPANY

(A Saudi Joint Stock Company)

Interim condensed consolidated statement of profit or loss (Unaudited)

For the three and nine months period ended 30 September 2017

(SR in '000)

| | Note | For the three months period ended 30 September | | For the nine months period ended 30 September | |
|--|------|--|-------------|---|-------------|
| | | 2017 | 2016 | 2017 | 2016 |
| Revenue | | 2,759,117 | 2,080,079 | 7,907,132 | 6,334,567 |
| Cost of revenue | | (2,222,433) | (1,811,829) | (6,518,568) | (5,820,976) |
| Gross profit | | 536,684 | 268,250 | 1,388,564 | 513,591 |
| Selling and distribution expenses | | (142,880) | (149,251) | (422,012) | (378,216) |
| General and administrative expenses | | (272,146) | (302,985) | (769,198) | (791,555) |
| Share of net profit from associates and joint ventures | | 435,545 | 412,436 | 1,027,468 | 1,101,785 |
| Operating profit | | 557,203 | 228,450 | 1,224,822 | 445,605 |
| Other income / (expenses), net | | 24,740 | 84,724 | 144,483 | 118,185 |
| Finance costs | | (173,575) | (128,936) | (556,845) | (365,833) |
| Profit before zakat and income tax | | 408,368 | 184,238 | 812,460 | 197,957 |
| Zakat and income tax | | (42,946) | (19,418) | (78,524) | (13,658) |
| Net profit for the period | 15 | 365,422 | 164,820 | 733,936 | 184,299 |
| Attributable to: | | | | | |
| Equity holders of parent | | 191,552 | 107,940 | 388,448 | 91,981 |
| Non-controlling interests | | 173,870 | 56,880 | 345,488 | 92,318 |
| | | 365,422 | 164,820 | 733,936 | 184,299 |
| Earnings per share: | | | | | |
| Basic and diluted (SR) | 13 | 0.29 | 0.16 | 0.58 | 0.14 |

The accompanying notes from 1 to 19 form an integral part of these interim condensed consolidated financial statements.

NATIONAL INDUSTRIALIZATION COMPANY

(A Saudi Joint Stock Company)

Interim condensed consolidated statement of comprehensive income (Unaudited)

For the three and nine months period ended 30 September 2017

(SR in '000)

| | <u>Note</u> | For the three months period ended 30 September | | For the nine months period ended 30 September | |
|---|-------------|---|-----------------|--|-----------------|
| | | 2017 | 2016 | 2017 | 2016 |
| Net profit for the period | | 365,422 | 164,820 | 733,936 | 184,299 |
| Other comprehensive income | | | | | |
| Items to be reclassified to profit or loss in subsequent periods: | | | | | |
| Exchange adjustments on translation of foreign operations | | 172,107 | 50,577 | 291,895 | 72,568 |
| Cash flow hedging reserve | | (539) | (13,733) | 2,276 | (13,464) |
| Total items to be reclassified to profit or loss in subsequent periods | | 171,568 | 36,844 | 294,171 | 59,104 |
| Items not to be reclassified to profit or loss in subsequent periods: | | | | | |
| Gains / (losses) on investments in equity instruments designated as FVOCI | | 3,888 | (95,141) | 1,005 | (38,950) |
| Total items not to be reclassified to profit or loss in subsequent periods | | 3,888 | (95,141) | 1,005 | (38,950) |
| Total comprehensive income for the period | 15 | 540,878 | 106,523 | 1,029,112 | 204,453 |
| Attributable to: | | | | | |
| Equity holder of parent | | 330,841 | 41,905 | 621,710 | 99,723 |
| Non-controlling interests | 15 | 210,037 | 64,618 | 407,402 | 104,730 |
| | | 540,878 | 106,523 | 1,029,112 | 204,453 |

The accompanying notes from 1 to 19 form an integral part of these interim condensed consolidated financial statements.

NATIONAL INDUSTRIALIZATION COMPANY

(A Saudi Joint Stock Company)

Interim condensed consolidated statement of changes in equity (Unaudited)

For the nine months period ended 30 September 2017

(SR in '000)

| | <u>Note</u> | Attributable to equity holder of parent | | | | Total equity | Non-controlling interests | Total equity |
|--|-------------|---|-------------------|------------------|-------------------|------------------|---------------------------|-------------------|
| | | Share Capital | Statutory Reserve | Other reserves | Retained earnings | | | |
| As at 1st January 2016 (audited) | | 6,689,142 | 1,141,862 | (689,974) | 136,644 | 7,277,674 | 3,527,621 | 10,805,295 |
| Net profit for the period | | - | - | - | 91,981 | 91,981 | 92,318 | 184,299 |
| Transfer to statutory reserve | | - | 13,119 | - | (13,119) | - | - | - |
| Other comprehensive income | | - | - | 7,742 | - | 7,742 | 12,412 | 20,154 |
| Net movement during the period | | - | - | - | - | - | 328,567 | 328,567 |
| As at 30 September 2016 (unaudited) | 15 | 6,689,142 | 1,154,981 | (682,232) | 215,506 | 7,377,397 | 3,960,918 | 11,338,315 |
| As at 1st January 2017 (audited) | | 6,689,142 | 1,162,687 | (753,521) | 260,501 | 7,358,809 | 3,219,197 | 10,578,006 |
| Net profit for the period | | - | - | - | 388,448 | 388,448 | 345,488 | 733,936 |
| Transfer to statutory reserve | | - | 38,844 | - | (38,844) | - | - | - |
| Other comprehensive income | | - | - | 233,262 | - | 233,262 | 61,914 | 295,176 |
| Net movement during the period | | - | - | - | - | - | 67,827 | 67,827 |
| As at 30 September 2017 (unaudited) | | 6,689,142 | 1,201,531 | (520,259) | 610,105 | 7,980,519 | 3,694,426 | 11,674,945 |

The accompanying notes from 1 to 19 form an integral part of these interim condensed consolidated financial statements.

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Interim condensed consolidated statement of cash flows (Unaudited)
For the nine months period ended 30 September 2017
(SR in '000)

| | 2017 | 2016 |
|---|------------------|------------------|
| <u>CASH FLOW FROM OPERATING ACTIVITIES</u> | | |
| Net profit before zakat and income tax | 812,460 | 197,957 |
| <i>Adjustments for:</i> | | |
| Depreciation and amortization | 648,761 | 643,248 |
| Provision for slow moving inventories | 3,731 | 4,767 |
| Employee benefits, net | 45,412 | 41,997 |
| Share of net profit from associates and joint ventures | (1,027,468) | (1,101,785) |
| Finance costs | 556,845 | 365,833 |
| Cash flows from operating activities | 1,039,741 | 152,017 |
| <i>Changes in operating assets and liabilities:</i> | | |
| Inventories | 278,396 | 683,812 |
| Trade and other receivables, net | (447,635) | (155,261) |
| Prepayments and other current assets | (93,910) | (349,339) |
| Other non-current assets | (45,698) | (279,369) |
| Trade and other payables | (62,380) | 147,101 |
| Provisions and other current liabilities | (479,137) | (110,570) |
| Other non-current liabilities | (245,667) | 146,597 |
| Net cash flows (used in)/from operating activities | (56,290) | 234,988 |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | |
| Additions to property, plant and equipment | (573,657) | (624,125) |
| Disposal of property, plant and equipment, net | 27,943 | 46,868 |
| Additions/deletion to projects under progress, net | (377,682) | (620,314) |
| Additions/deletion to intangible assets, net | (68,522) | (72,387) |
| Investments in equity accounted associated companies and joint ventures | 721,049 | 486,314 |
| Investments in equity instruments designated as FVOCI, net | 299,285 | 517,263 |
| Net cash flows from/(used in) investing activities | 28,416 | (266,381) |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES</u> | | |
| Borrowings, net | 669,165 | (169,680) |
| Non-controlling interests | (862,389) | (567,103) |
| Net cash flows used in financing activities | (193,224) | (736,783) |
| Net decrease in cash and cash equivalents | (221,098) | (768,176) |
| Cash and cash equivalents at beginning of the period | 2,445,983 | 3,133,699 |
| Cash and cash equivalents at end of the period | 2,224,885 | 2,365,523 |

The accompanying notes from 1 to 19 form an integral part of these interim condensed consolidated financial statements.

NATIONAL INDUSTRIALIZATION COMPANY

(A Saudi Joint Stock Company)

Notes to the interim condensed consolidated financial statements (Unaudited)

For the nine months period ended 30 September 2017

(SR'000 unless otherwise noted)

1. STATUS AND NATURE OF ACTIVITIES

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

The principal activities of the Company and its subsidiaries (collectively referred to as "the Group") comprises of industrial investment, transfer of advanced industrial technology to the Kingdom of Saudi Arabia 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 electrical conductors, twisted re-enforcement wires for concrete and welding wires. It also includes production and marketing of liquid batteries for vehicles and for industrial usage and the production and marketing of lead and sodium sulfate. It also includes conducting technical tests on industrial facilities, chemical, petrochemical and metal plants, and water desalination and electricity generating plants; setting up all types of plastic industries and production and marketing of acrylic boards; the production and marketing of titanium dioxide and the production of ethylene, polyethylene, propylene and polypropylene, owning mines and specialized operations for the production of Al-Rutayl which is the raw material for producing the titanium dioxide.

The registered office of the Company is as follows:

National Industrialization Company
P. O. Box 26707
Riyadh 11496, Kingdom of Saudi Arabia

1.1 Subsidiaries

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

| Company Name | Legal Form | Shareholding (%) | |
|---|--------------------------|------------------|-------|
| | | 2017 | 2016 |
| 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 ("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 II") | Limited liability | 88.33 | 88.33 |
| National Batteries Company ("Battariat") | Limited liability | 90 | 90 |
| 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 |
| National Inspection and Technical Testing Company Ltd. ("Fahss") | Limited liability | 69.73 | 69.73 |
| TUV – Middle East | Limited liability | 69.73 | 69.73 |

NATIONAL INDUSTRIALIZATION COMPANY

(A Saudi Joint Stock Company)

Notes to the interim condensed consolidated financial statements (Unaudited)

For the nine months period ended 30 September 2017

(SR'000 unless otherwise noted)

1. STATUS AND NATURE OF ACTIVITIES (Contd.)

1.1 Subsidiaries (Contd.)

1. Al-Rowad National Plastic Company

Al-Rowad National Plastic Company owns 97% and 62.5% equity interests 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

National Lead Smelting Company owns a 100% (direct and indirect ownership) equity interest in Technical Tetravalent Company for Lead Recycling, a Saudi Limited Liability Company registered in Jeddah.

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 a 100% of equity interest in the following subsidiaries: Cristal Inorganic Chemicals Ltd. located in the Cayman Island, Cristal Australia Pty Ltd. located in Australia and Cristal Metal, U.S.A. located in the United States of America. (Also, refer Note 17)

4. Advanced Metal Industries Ltd Company

During the year ended 31 December 2014, Advanced Metal Industries Ltd. Company ("AMIC") has been established with a direct ownership percentage of 50% to each of National Industrialization Company and Cristal Company. AMIC is a Saudi limited liability company registered in Jeddah with share capital of SR 3 million.

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 construction of the plant for ATTM is in progress and commercial activity has not commenced.

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 are the production and marketing of petrochemical and chemical materials.

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

1.2 Associates and Joint Arrangements

The following are the list of associated companies and joint arrangements included in these interim condensed consolidated financial statements and the combined direct and indirect ownership percentages:

| Company Name | Relationship | Legal Form | Shareholding (%) | |
|--|------------------|-------------------|------------------|-------|
| | | | 2017 | 2016 |
| Saudi Polyolefin Company | Joint Venture | Limited liability | 75 | 75 |
| Saudi Ethylene and Polyethylene Company | Joint Venture | Limited liability | 75 | 75 |
| Saudi Acrylic Monomer Company | Joint Venture | Limited liability | 75 | 75 |
| Saudi Acrylic Polymer Company | Joint Venture | Limited liability | 75 | 75 |
| Saudi Butanol Company | Joint Operations | Limited liability | 33.33 | 33.33 |
| National Metal Manufacturing and Casting Company | Associate | Limited liability | 35.45 | 35.45 |
| Saudi Claryant for Colorants Ltd Company | Associate | Limited liability | 40 | 40 |

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the interim condensed consolidated financial statements (Unaudited)
For the nine months period ended 30 September 2017
(SR'000 unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

(i) Statement of Compliance

These interim condensed consolidated financial statements are prepared in accordance with International Accounting Standard (“IAS”) “Interim Financial Reporting” (“IAS 34”) as endorsed in Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization of Certified Public Accountants (“SOCPA”). These interim condensed financial statements for the nine months ended 30 September 2017 of the Group are prepared for part of the period covered by the first annual consolidated financial statements, and in preparation of these interim condensed financial statements, IFRS 1 “First time Adoption of International Financial Reporting Standards”, as endorsed in Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, has been applied. These interim condensed consolidated financial statements do not include all information and disclosures required for a full set of annual consolidated financial statements prepared under IFRS as endorsed in KSA, which will be prepared for the year ending 31 December 2017.

The accounting policies set out in this note have been applied in preparing the interim condensed consolidated financial statements for the three and nine months ended 30 September 2017, the comparative information presented in these consolidated financial statements for both the three and nine months ended 30 September 2016 and the opening IFRS balance sheet at 1 January 2016 (the “transition date”).

Refer to note 15 for an explanation of how the transition from generally accepted accounting standards in the Kingdom of Saudi Arabia to IFRS has affected the Group’s financial position, financial performance and cash flow.

(ii) Historical cost convention

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

(iii) Basis of measurement

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

2.2 Basis of consolidation and equity accounting

The interim condensed consolidated financial statements comprise the financial statements of the Company, its subsidiaries, associates and joint arrangements as on 30 September 2017.

(i) Subsidiaries

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

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

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

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

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the interim condensed consolidated financial statements (Unaudited)
For the nine months period ended 30 September 2017
(SR'000 unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.2 Basis of consolidation and equity accounting (Contd.)

(i) Subsidiaries (Contd.)

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

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

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

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

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

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

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

(ii) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method (see note (iv) below), after initially being recognised at cost.

(iii) Joint arrangements

Under IFRS 11 Joint Arrangements, joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations made in determining whether joint control exists or not are similar to those necessary to determine control over subsidiaries.

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

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

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

Notes to the interim condensed consolidated financial statements (Unaudited)
For the nine months period ended 30 September 2017
(SR'000 unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

(iii) Joint arrangements (contd.)

Joint ventures:

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

Interests in joint ventures are accounted for using the equity method (see note (iv) below), after initially being recognised at cost in the condensed consolidated statement of financial position.

Joint operations:

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

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

(iv) Equity method

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

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

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

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

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

2.3 Business combinations and goodwill

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.3 Business combinations and goodwill (Contd.)

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

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

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

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

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

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

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

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

2.4 Revenue recognition

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

(i) Sale of goods

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.4 Revenue recognition (Contd.)

(i) Sale of goods (Contd.)

Revenue recognised is measured at the transaction price as agreed in the sales contract. The transaction price is adjusted for any variable consideration in form of price concessions, discounts, rebates, refunds, credits etc. The Group estimates the variable consideration as the expected value of the likely transaction price adjustment. The Group includes in the transaction price some or all of an amount of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the associated variable consideration is subsequently resolved.

Transaction price adjustments in case of Group entities involve primarily adjustments relating to subsequent price adjustments in case of certain sales which are made on provisional basis, discounts, rebates and other concessions which are offered by the Group entities to customers. A contract liability is recognised for expected discounts, concessions, and rebates payable to customers in relation to sales made until the end of the reporting period.

(ii) Rendering of services

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

2.5 Selling, Marketing and General and Administrative expenses

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

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

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

2.6 Foreign currency translation

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

(i) Transactions and balances

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

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

(ii) Group companies

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.7 Zakat, income and deferred Tax

Saudi and other Gulf Cooperation Council country shareholders in the Company and its subsidiaries in the Kingdom of Saudi Arabia are subject to General Authority of Zakat and Tax ("GAZT") which is then included in the interim condensed consolidated statement of profit or loss.

(i) Zakat

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

(ii) Current income tax

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

(iii) Deferred taxes

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

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

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

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

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

2.8 Property, plant and equipment

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.8 Property, plant and equipment (Contd.)

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

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

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

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

| Asset class | Useful lives (in years) |
|--|--|
| Buildings and constructions | 10-40 |
| Leasehold improvements | Shorter of the lease term or useful life |
| Machinery and equipment | 2-40 |
| Tools and spares parts | 2-14 |
| Furniture, fixtures and office equipment | 3-10 |
| Vehicles | 4-5 |
| Computers | 3 |
| Mine development | 5-30 |
| Catalysts | 1.5 |

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

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

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

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

As required by IFRS, useful life and residual value has been reviewed at the date of transition, and based on this review the useful life for certain plant and machinery has been revised from 20 to 25 years and 14 to 20 years respectively and a residual value has been considered for computation of depreciation for certain plant and machinery.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.9 Borrowing costs

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

2.10 Leases

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

Finance leases that transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction in the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the interim condensed consolidated statement of profit or loss. A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

2.11 Intangible assets

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

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

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

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

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.11 Intangible assets (Contd.)

(i) Goodwill

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

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

(ii) Research and development costs

Research and development costs are charged to the consolidated statement of profit or loss during the period incurred, except for the clear and specified projects, in which development costs can be recovered through the commercial activities generated by these projects. In this case, the development costs are considered intangible assets and are amortized using the straight-line method over a period of 7 to 15 years.

(iii) Computer software operation costs

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

(iv) Other intangibles

Other intangible assets, consisting primarily of trademarks, trade names, technology and customer relationships, are valued at fair value with the assistance of independent appraisers, effective from the date of acquisition of the subsidiary. A subsidiary, Cristal Inorganic Company's trade name is considered an intangible asset with an indefinite life and is not being amortized but instead is measured for impairment at least annually, or when events indicate that impairment exists.

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

2.12 Exploration and evaluation costs

Pre-license costs are recognised in the interim condensed consolidated statement of profit or loss.

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

E&E assets are assessed for impairment if:

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

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

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.13 Impairment of non-financial assets

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

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

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

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

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

Impairment recognised previously on goodwill is not reversed.

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

2.14 Inventories

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

2.15 Cash and cash equivalents

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

2.16 Employee benefits

(i) Short term obligations

Liabilities for wages and salaries and any other short term benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the interim condensed consolidated statement of financial position.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.16 Employee benefits (Contd.)

(ii) Post-employment obligations

1. Defined contribution plans

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

2. Defined benefit plans

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

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

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

2.17 Provisions and contingent liabilities

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

(i) Decommissioning liabilities

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

(ii) Rehabilitation and mine closure costs

Provision is made for anticipated costs of restoration and rehabilitation work necessitated by disturbance arising from exploration, evaluation, development and production activities. Costs included in the provision comprise land reclamation, plant removal and on-going re-vegetation programs. Rehabilitation and mine closure costs are provided for at the present value of the expenditures expected to settle the obligation at the reporting date, based on current legal requirements and technology. Future rehabilitation and mine closure costs are reviewed annually and any changes are reflected in the present value of the provision at the end of the reporting period. The cost of rehabilitation and mine closure is capitalized as property and equipment to the extent it gives rise to future economic benefits. The amount capitalized is depreciated as part of property and equipment using the units of production method.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.17 Provisions and contingent liabilities (Contd.)

(iii) Restructuring provisions

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

(iv) Environmental remediation costs

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

(v) Contingent liabilities

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

(vi) Overburden costs

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

2.18 Trade receivables

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

2.19 Trade and other payables

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

2.20 Financial instruments

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

(i) Financial assets

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.20 Financial instruments (Contd.)

(i) Financial assets (Contd.)

1. Classification

The financial assets are classified in the following measurement categories:

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

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

2. Measurement

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

• **Debt Instrument**

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

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

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

• **Equity Instrument**

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

3. De-recognition of financial assets

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.20 Financial instruments (Contd.)

(i) Financial assets (Contd.)

4. Impairment of Financial Assets

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

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

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

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

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

5. Income Recognition

Interest income

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

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

Dividends income

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.20 Financial instruments (Contd.)

(ii) Financial liabilities

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

1. Classification

The financial liabilities are classified in the following measurement categories:

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

2. Measurement

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

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

The effective interest rate ("EIR") method calculates the amortized cost of a debt instrument by allocating interest charge over the relevant effective interest rate period. The effective interest rate is the rate that exactly discounts estimated future cash outflow (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. This category generally applies to borrowings, trade payables etc.

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

3. Derecognition of financial liabilities

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

2.21 Derivative financial instruments and hedge accounting

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

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

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

(i) Derivatives that are not designated as hedges

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

(ii) Derivatives that are designated as cash flow hedges

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

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

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

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

2.22 Offsetting financial instruments

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

2.23 Statutory reserve

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

3. USE OF CRITICAL ESTIMATES AND JUDGEMENTS

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

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

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

(i) Impairment reviews

IFRS requires management to undertake an annual test for impairment of indefinite lived assets and, for finite lived assets, to test for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Impairment testing is an area involving management judgement, requiring inter alia an assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including management's expectations of:

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

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

(ii) Estimation of useful life and residual value

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

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

(iii) Impairment losses on trade receivables

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

(iv) Measurement of defined benefit obligations

The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted.

The present value of the obligation is determined based on actuarial valuation at the interim condensed consolidated statement of financial position date by an independent actuary using the Projected Unit Credit Method, which recognizes each period of service as giving rise to an additional unit of employee benefit entitlement and measures. The obligation is measured at the present value of the estimated future cash flows. The discount rates used for determining the present value of the obligation under defined benefit plan are determined by reference to US bond yields, (as the Saudi Riyal is pegged to the US dollar) adjusted for an additional risk premium reflecting the possibility of the linkage being broken.

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

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

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

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

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

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

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

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

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

(i) IFRS 15 - Revenue from contracts with customers

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

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

(ii) IFRS 9 – Financial instruments

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

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

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

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

(i) IFRS 16 Leases

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

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

Under IAS 17, lessees are required to make a distinction between a finance lease (on statement of financial position) and an operating lease (off statement of financial position). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a ‘right-of-use asset’ for all lease contracts apart from an optional exemption for certain short-term leases. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The mandatory date of adoption for the standard is 1 January 2019.

(ii) Amendment to existing standards

In addition to the above standard, certain amendments to following existing standards are also issued but not yet effective up to the date of issuance of the Group’s interim condensed consolidated financial statements.

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

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

6. APPLICATION OF NEW STANDARDS AND AMENDMENTS TO EXISTING STANDARDS

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

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

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

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

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

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

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6. APPLICATION OF NEW STANDARDS AND AMENDMENTS TO EXISTING STANDARDS (Contd.)

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

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

7. FINANCIAL INSTRUMENTS & FAIR VALUATION

7.1 Financial Assets

| | 30 September 2017 | 31 December 2016 | 01 January 2016 |
|--|------------------------------|-----------------------------|----------------------------|
| Unquoted equity shares | 463,524 | 631,504 | 645,036 |
| Quoted equity shares | 272,905 | 225,057 | 680,998 |
| Total financial instruments at fair value | 736,429 | 856,561 | 1,326,034 |
| Financial assets at amortized cost | | | |
| Trade and other receivables | 2,656,353 | 2,208,718 | 1,978,606 |
| Total financial instruments at amortized cost | 2,656,353 | 2,208,718 | 1,978,606 |

7.2 Financial liabilities

| | | | |
|--|-------------------|------------|------------|
| Interest rate swaps | 12,557 | 18,789 | 15,213 |
| Foreign exchange forward contracts | 238 | 486 | 9,440 |
| Total financial liabilities at Level 3 fair value | 12,795 | 19,275 | 24,653 |
| Financial liabilities at amortized cost | | | |
| Borrowings (note 8) | 16,248,517 | 16,589,018 | 17,672,934 |
| Trade and other payables | 2,295,344 | 2,357,724 | 2,301,572 |
| Total financial liabilities at amortized cost | 18,543,861 | 18,946,742 | 19,974,506 |

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

The management assessed that current financial assets and liabilities approximate to their carrying amounts largely due to the short-term maturities of these instruments. The Group has used the fair value hierarchy as provided by IFRS 13 and discussed below:

- **Level 1** - quoted prices (unadjusted) in active markets for identical assets or liabilities
- **Level 2** - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- **Level 3** - inputs for the asset or liability that are not based on observable market data (unobservable inputs). Investments in unlisted equity shares classified as FVOCI have been fair valued using market comparison technique comprising of the below:

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

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

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7. FINANCIAL INSTRUMENTS & FAIR VALUATION (Contd.)

7.3 Derivatives measured at FV

The Group has executed forward foreign currency contracts as it is exposed to certain transactions in foreign currencies due to exchange rate fluctuations. The fair value amounts of such contracts outstanding as at 30 September 2017 was SR 0.238 million (31 December 2016: SR 0.49 million, 1 January 2016: SR 9.44 million).

The Group maintains an interest rate risk management strategy that uses derivatives instruments such as interest rate swaps to economically convert a portion of its variable rate debt to fixed rate debt. The Group has entered into interest rate cap contracts and certain other interest rate derivatives with certain local banks. The fair value amounts of such contracts outstanding as at 30 September 2017 was SR 12.56 million (31 December 2016: SR 18.79 million, 1 January 2016: SR 15.21 million). The Company did not apply hedge accounting to these contracts.

8. BORROWINGS

| | | 30 September 2017 | 31 December 2016 | 01 January 2016 |
|--|--------------|------------------------------|-----------------------------|----------------------------|
| | Notes | (SR'000) | (SR'000) | (SR'000) |
| Sukuk | 8.1 | 2,000,000 | 2,000,000 | 2,000,000 |
| Saudi Industrial Development Fund | 8.2 | 1,830,315 | 1,973,722 | 1,815,973 |
| Commercial banks and others | 8.3 | 12,395,094 | 12,188,784 | 11,912,685 |
| Term Facilities and Murabaha | 8.4 | 23,108 | 426,512 | 1,944,276 |
| Total borrowings | | 16,248,517 | 16,589,018 | 17,672,934 |
| Less: Current loans and facilities | | (23,108) | (426,512) | (1,944,276) |
| Less: Current portion of long term loans | | (1,570,007) | (1,215,622) | (3,269,314) |
| Total non-current borrowings | | 14,655,402 | 14,946,884 | 12,459,344 |

8.1 Sukuk

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

8.2 Saudi Industrial Development Fund (“SIDF”)

The Group has multiple long term facilities from the Saudi Industrial Development Fund (“SIDF”). The total outstanding balance of these loans as at 30 September 2017 amounted to SR 1,830 million (31 December 2016: SR 1,974 million, 1 January 2016 SR 1,816 million). These facilities are secured by mortgages on all property, plant, and equipment of the subsidiaries for which the loans were granted and promissory notes, and corporate guarantees from the shareholders. The loan agreements contain certain covenants which among others, require that the companies maintain specified financial ratios.

As at 30 September, 2017, SR 1,589 million (31 December 2016: SR 1,603 million, 1 January 2016: SR 1,603 million) was undrawn from the total approved facilities of SIDF subject to the satisfaction of the loan conditions. The Group has obtained bridge loans equivalent to the entire undrawn amount from commercial banks which are secured by these SIDF facilities.

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8. BORROWINGS (Contd.)

8.3 Loans from commercial banks- secured

The Group has multiple long term loan facilities from commercial banks. The outstanding balance of these loans as at 30 September 2017 amounted to SR 12,395 million (31 December 2016: SR 12,189 million, 1 January 2016: SR 11,913 million). These loans are secured by promissory notes, mortgages on certain assets and property, plant and equipment of subsidiaries and guarantees of the shareholders. These loans carry a commission that is commensurate with prevailing commercial rates and contain certain covenants including the requirement to maintain specified financial ratios.

Further, during 2016, a subsidiary of the Group entered into a syndicated facility agreement with its lenders for an aggregate amount of SR 6,955 million to refinance its existing liabilities. The facility has a bullet repayment at the end of the third year with an option to extend for an additional two years if certain conditions are met.

8.4 Term Facilities and Murabaha

The Group has several short-term credit facilities to fund its working capital requirements and short term funding needs. The outstanding balance of these facilities as at 30 September 2017 amounted to SR 23 million (31 December 2016: SR 427 million, 1 January 2016: SR 1,944 million). These facilities are secured by promissory notes and carry a commission that is commensurate with prevailing commercial rates and contain certain covenants including the requirement to maintain specified financial ratios.

9. ZAKAT, INCOME TAX AND DEFERRED TAX

9.1 Zakat and Income Tax

Movement in the zakat and income tax provision for the nine months ended 30 September 2017 are as follows:

| | <u>Zakat</u> | <u>Income tax</u> | <u>Total</u> |
|------------------------------------|----------------|-------------------|----------------|
| At the beginning of the period | 223,619 | 88,276 | 311,895 |
| Paid/adjustments during the period | (28,096) | 54,598 | 26,502 |
| Provision during the period | 73,365 | 5,159 | 78,524 |
| At the end of the period | <u>268,888</u> | <u>148,033</u> | <u>416,921</u> |

Movement in the zakat and income tax provision for the year ended 31 December 2016 are as follows:

| | <u>Zakat</u> | <u>Income tax</u> | <u>Total</u> |
|----------------------------------|----------------|-------------------|----------------|
| At the beginning of the year | 226,331 | 70,444 | 296,775 |
| Paid/adjustments during the year | (64,288) | 5,012 | (59,276) |
| Provision during the year | 61,595 | 12,801 | 74,396 |
| At the end of the year | <u>223,638</u> | <u>88,257</u> | <u>311,895</u> |

Movement in the zakat and income tax provision for the nine months ended 30 September 2016 are as follows:

| | <u>Zakat</u> | <u>Income tax</u> | <u>Total</u> |
|------------------------------------|----------------|-------------------|----------------|
| At the beginning of the period | 226,331 | 70,444 | 296,775 |
| Paid/adjustments during the period | (16,413) | (31,148) | (47,561) |
| Provision during the period | 15,750 | (29,408) | (13,658) |
| At the end of the period | <u>225,668</u> | <u>9,888</u> | <u>235,556</u> |

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9. ZAKAT, INCOME TAX AND DEFERRED TAX (Contd.)

9.2 Deferred Tax

Movement in deferred tax liabilities is as follows:

| | For the nine months period ended 30 September 2017 | For the year ended 31 December 2016 | For the nine months period ended 30 September 2016 |
|-------------------------------------|---|--|---|
| At the beginning of the period/year | 260,155 | 460,789 | 460,789 |
| Charge during the period/year | <u>(25,588)</u> | <u>(200,634)</u> | <u>(10,163)</u> |
| At the end of the period/year | <u><u>234,567</u></u> | <u><u>260,155</u></u> | <u><u>450,626</u></u> |

9.3 Status of zakat and income tax returns and assessments

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

During 2015, the Company received approval from the General Authority of Zakat and Tax ("GAZT") to consolidate zakat returns of the holding company and wholly-owned subsidiaries from the beginning of 2008. The Company prepared the Group's consolidated financial statements and the adjusted zakat returns from 2008 and up to 2014. 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 2016, and settled the zakat dues accordingly and obtained restricted certificates. The company has cleared its zakat status with GAZT up to 2007 but has not received the final zakat assessments yet for the subsequent years from the GAZT.

Some of subsidiaries received revised assessments from the GAZT for several years, which showed additional zakat differences amounted to SR 153.6 million. The subsidiaries submitted an appeal against these assessments, and management believes that no material liability is likely to arise.

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10. RELATED PARTY TRANSACTIONS AND BALANCES

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

| | For the nine months period ended <u>30 September 2017</u> | For the nine months period ended <u>30 September 2016</u> |
|--|--|--|
| Revenues | <u>2,915,209</u> | <u>2,879,141</u> |
| Allowances, expenses, salaries and benefits for Board of Directors, committees and key management personnel | <u>23,851</u> | <u>22,415</u> |

The above transactions terms and conditions were approved by the Board of Directors or management as required.

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.

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

11. SHARE CAPITAL

Share capital amounted to SR 6,689,142 thousand as at 30 September 2017 consisting of 668,914 thousand shares (31 December and 1 January 2016: 668,914 thousand shares) of SR 10 each.

12. OTHER RESERVES

As at 30 September 2017, other reserves mainly consist of other comprehensive income which comprises of gains on account of fair value of FVOCI equity investments amounting to SR 299.52 million (31 December 2016: SR 350.43 million, 1 January 2016: SR 331.54 million) and a difference in the acquisition of the non-controlling interests amounting to SR 992.13 million (31 December 2016: SR 992.13 million and 1 January 2016: SR 977.69 million).

13. EARNINGS 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 30 September 2017 (30 September 2016: 668,914 thousand shares).

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14. CONTINGENCIES AND CAPITAL COMMITMENTS

14.1 Capital commitments

| | 30 September 2017 | 31 December 2016 | 01 January 2016 |
|---|------------------------------|-----------------------------|----------------------------|
| Capital commitments for projects under progress and purchase of property, plant and equipment | 549,759 | 401,829 | 316,931 |
| Commitments for consulting contracts | - | - | 227,000 |
| Total Capital Commitments | 549,759 | 401,829 | 543,931 |

14.2 Operating lease commitments

Operating lease 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.

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

| | 30 September 2017 | 31 December 2016 | 01 January 2016 |
|-------------------------------------|------------------------------|-----------------------------|----------------------------|
| One year | 64,894 | 74,344 | 71,546 |
| Two to five years | 78,998 | 121,748 | 163,620 |
| More than five years | 3,439 | 6,075 | 14,749 |
| Total minimum lease payments | 147,331 | 202,167 | 249,915 |

14.3 Contingencies

The Group has letters of credit and letters of guarantee outstanding as at 30 September 2017 amounting to SR 40 million and SR 1,986 million, respectively (31 December 2016: SR 116 million and SR 1,517 million, 1 January 2016: SR 47 million and SR 1,305 million, respectively).

The Group has issued corporate guarantees to commercial banks and SIDF against certain loans obtained from such parties. As at 30 September 2017, such guarantees amounted to SR 6,671 million (31 December 2016: SR 6,986 million, 1 January 2016: SR 8,408 million).

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15. FIRST TIME ADOPTION OF IFRS

For all periods, up to and including the year ended 31 December 2016, the Group prepared its consolidated financial statements in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia as issued by ("previous GAAP"). On transition to IFRS, the Group has prepared its consolidated financial statements for the period beginning 1 January 2016 (date of transition) and restated the previously reported consolidated financial statements for the year ended 31 December 2016 and all comparative periods presented. The impact of the restatement for the Group previously reported consolidated financial statements for the year ended 31 December 2016 and the impact on the transition date of 1 January 2016 and the impact on comparative periods were disclosed in the Group's interim condensed consolidated financial statements for the three-months period ended 31 March 2017 and six months period ended 30 June 2017.

An explanation of significant exemptions availed by the Group and how the transition from previous GAAP to IFRS has affected the Group's interim condensed consolidated financial position, financial performance and cash flows for the nine months period ended 30 September 2017 is set out in the following tables and the notes that accompany the tables.

Exemptions

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

A) Accounting estimates

The estimates at 1 January 2016 and at 30 September 2016 are consistent with those made for the same dates in accordance with previous GAAP (after adjustments to reflect any differences in accounting policies) apart from defined employee benefit obligation where application of previous GAAP did not require estimation the estimates used by the Group to present these amounts in accordance with IFRS reflect conditions at 1 January 2016, the date of transition.

B) Business combinations

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

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

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

C) Cumulative translation adjustments

IFRS 1 provides an optional exemption to deem all the foreign currency translation differences that arose prior to the transition date to be nil. Accordingly, the Group has deemed all the cumulative foreign currency translation differences to be zero as at the transition date i.e. 1 January 2016. Consequently, an amount of SR 1,251 million has been adjusted against the retained earnings as disclosed in note no. 15.7. However, this does not have any impact on the total equity as on the transition date.

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15. FIRST TIME ADOPTION OF IFRS (Contd.)

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

| | Note | 01 January 2016 (Previous GAAP) | IFRS Adjustments | | 01 January 2016 (IFRS) |
|---|------------|---------------------------------------|---------------------|------------------|------------------------------|
| | | | Reclassification | Re-measurement | |
| ASSETS | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | 15.9.6 | 3,819,070 | (685,371) | - | 3,133,699 |
| Trade and other receivables, net | 15.9.5/6 | 3,214,500 | (1,225,431) | (10,463) | 1,978,606 |
| Inventories | 15.9.1/5/6 | 4,816,171 | (1,149,271) | (27,768) | 3,639,132 |
| Prepayments and other current assets | 15.9.6 | 1,169,035 | (102,627) | - | 1,066,408 |
| Total current assets | | 13,018,776 | (3,162,700) | (38,231) | 9,817,845 |
| Non-current assets | | | | | |
| Property, plant and equipment | 15.9.1/6 | 22,749,453 | (13,687,480) | 11,900 | 9,073,873 |
| Projects under progress | 15.9.7/6 | 3,734,207 | 560,859 | (766,250) | 3,528,816 |
| Intangible assets | 15.9.6 | 2,945,584 | (151,175) | - | 2,794,409 |
| Exploration and evaluation costs | | 229,815 | - | - | 229,815 |
| Investments in equity accounted associates and Joint ventures | 15.9.6 | 1,174,319 | 5,409,959 | (151,814) | 6,432,464 |
| Investment in equity share at FVOCI | 15.9.6 | 751,696 | 404,302 | 170,036 | 1,326,034 |
| Deferred tax assets | 15.9.6 | 307,334 | - | - | 307,334 |
| Other non-current assets | 15.9.6 | 63,864 | - | - | 63,864 |
| Total non-current assets | | 31,956,272 | (7,463,535) | (736,128) | 23,756,609 |
| Total Assets | | 44,975,048 | (10,626,235) | (774,359) | 33,574,454 |
| EQUITY AND LIABILITIES | | | | | |
| Current liabilities | | | | | |
| Borrowings-current portion | 15.9.3/6 | 6,419,170 | (1,205,580) | - | 5,213,590 |
| Trade and other payables | 15.9.6 | 1,758,048 | 543,524 | - | 2,301,572 |
| Provisions and other current liabilities | 15.9.6 | 1,500,205 | (432,095) | - | 1,068,110 |
| Zakat and tax payable | 15.9.6 | 296,775 | - | - | 296,775 |
| Total current liabilities | | 9,974,198 | (1,094,151) | - | 8,880,047 |
| Non-current liabilities | | | | | |
| Borrowings | 15.9.3/6 | 19,913,368 | (7,454,060) | 36 | 12,459,344 |
| Employee benefits | 15.9.4 | 354,059 | - | 87,741 | 441,800 |
| Deferred tax liabilities | 15.9.6 | - | 460,789 | - | 460,789 |
| Other non-current liabilities | 15.9.6 | 985,312 | (458,133) | - | 527,179 |
| Total non-current liabilities | | 21,252,739 | (7,451,404) | 87,777 | 13,889,112 |
| Equity | | | | | |
| Share capital | | 6,689,142 | - | - | 6,689,142 |
| Statutory reserve | | 1,141,862 | - | - | 1,141,862 |
| Other Reserves | 15.9.2 | (2,112,006) | 1,251,996 | 170,036 | (689,974) |
| Retained earnings | 15.5 | 2,249,167 | (1,251,996) | (860,527) | 136,644 |
| Equity attributable to the equity holder of parent | | 7,968,165 | - | (690,491) | 7,277,674 |
| Non-controlling interests | | 5,779,946 | (2,080,680) | (171,645) | 3,527,621 |
| Total equity | | 13,748,111 | (2,080,680) | (862,136) | 10,805,295 |
| Total liabilities and equity | | 44,975,048 | (10,626,235) | (774,359) | 33,574,454 |

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15. FIRST TIME ADOPTION OF IFRS (Contd.)

15.2 Group reconciliation of equity as at 31 December 2016

| | | 31 December 2016 | IFRS Adjustments | | 31 December 2016 |
|---|------------|---------------------|--------------------|------------------|---------------------|
| | Note | (Previous GAAP) | Reclassification | Re-measurement | (IFRS) |
| ASSETS | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | 15.9.6 | 2,906,658 | (460,675) | - | 2,445,983 |
| Trade and other receivables, net | 15.9.5/6 | 3,257,423 | (1,024,394) | (24,311) | 2,208,718 |
| Inventories | 15.9.1/5/6 | 4,163,424 | (1,192,717) | (21,309) | 2,949,398 |
| Prepayments and other current assets | 15.9.6 | 1,274,850 | (98,016) | - | 1,176,834 |
| Total current assets | | 11,602,355 | (2,775,802) | (45,620) | 8,780,933 |
| Non-current assets | | | | | |
| Property, plant and equipment | 15.9.1/6 | 21,645,024 | (12,537,476) | 11,864 | 9,119,412 |
| Projects under progress | 15.9.7/6 | 4,959,216 | 19,336 | (750,587) | 4,227,965 |
| Intangible assets | 15.9.6 | 2,846,795 | (31,374) | - | 2,815,421 |
| Exploration and evaluation costs | | 392,337 | - | - | 392,337 |
| Investments in equity accounted associates and Joint ventures | 15.9.6 | 1,221,966 | 5,330,878 | (152,298) | 6,400,546 |
| Investment in equity share at FVOCI | 15.9.6 | 273,342 | 403,629 | 179,590 | 856,561 |
| Deferred tax assets | 15.9.6 | 233,426 | - | - | 233,426 |
| Other non-current assets | 15.9.6 | 161,461 | - | - | 161,461 |
| Total non-current assets | | 31,733,567 | (6,815,007) | (711,431) | 24,207,129 |
| Total Assets | | 43,335,922 | (9,590,809) | (757,051) | 32,988,062 |
| EQUITY AND LIABILITIES | | | | | |
| Current liabilities | | | | | |
| Borrowings-current portion | 15.9.3/6 | 2,873,929 | (1,251,786) | 19,991 | 1,642,134 |
| Trade and other payables | 15.9.6 | 1,993,653 | 364,071 | - | 2,357,724 |
| Provisions and other current liabilities | 15.9.6 | 1,662,936 | (115,539) | (3,193) | 1,544,204 |
| Zakat and tax payable | 15.9.6 | 506,675 | (194,780) | - | 311,895 |
| Total current liabilities | | 7,037,193 | (1,198,034) | 16,798 | 5,855,957 |
| Non-current liabilities | | | | | |
| Borrowings | 15.9.3/6 | 21,260,187 | (6,336,263) | 22,960 | 14,946,884 |
| Employee Benefits | 15.9.6 | 414,243 | (11) | 81,351 | 495,583 |
| Deferred tax liabilities | 15.9.6 | - | 260,155 | - | 260,155 |
| Other non-current liabilities | 15.9.6 | 1,109,291 | (257,814) | - | 851,477 |
| Total non-current liabilities | | 22,783,721 | (6,333,933) | 104,311 | 16,554,099 |
| Equity | | | | | |
| Share capital | | 6,689,142 | - | - | 6,689,142 |
| Statutory reserve | | 1,162,687 | - | - | 1,162,687 |
| Other Reserves | 15.9.2 | (2,235,774) | 1,252,197 | 230,056 | (753,521) |
| Retained earnings | 15.5 | 2,436,591 | (1,252,197) | (923,893) | 260,501 |
| Equity attributable to the equity holder of parent | | 8,052,646 | - | (693,837) | 7,358,809 |
| Non-controlling interests | | 5,462,362 | (2,058,842) | (184,323) | 3,219,197 |
| Total equity | | 13,515,008 | (2,058,842) | (878,160) | 10,578,006 |
| Total liabilities and equity | | 43,335,922 | (9,590,809) | (757,051) | 32,988,062 |

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15. FIRST TIME ADOPTION OF IFRS (Contd.)

15.3 Group reconciliation of equity as at 30 September 2016

| | | 30 September 2016 | IFRS Adjustments | | 30 September 2016 |
|---|-------------|------------------------------|-------------------------|-----------------------|------------------------------|
| | Note | (Previous GAAP) | Reclassification | Re-measurement | (IFRS) |
| ASSETS | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | 15.9.6 | 3,459,968 | (1,094,445) | - | 2,365,523 |
| Trade and other receivables, net | 15.9.5/6 | 3,202,677 | (1,053,421) | (15,389) | 2,133,867 |
| Inventories | 15.9.1/5/6 | 4,119,369 | (1,145,199) | (23,615) | 2,950,555 |
| Prepayments and other current assets | 15.9.6 | 1,346,906 | 68,840 | - | 1,415,746 |
| Total current assets | | 12,128,920 | (3,224,225) | (39,004) | 8,865,691 |
| Non-current assets | | | | | |
| Property, plant and equipment | 15.9.1/6 | 21,705,396 | (12,674,346) | 10,926 | 9,041,976 |
| Projects under progress | 15.9.7/6 | 4,880,380 | - | (731,250) | 4,149,130 |
| Intangible assets | 15.9.6 | 2,872,503 | (39,801) | - | 2,832,702 |
| Exploration and evaluation costs | | 379,750 | - | - | 379,750 |
| Investments in equity accounted associates and Joint ventures | 15.9.6 | 1,483,167 | 5,583,830 | (19,063) | 7,047,934 |
| Investment in equity share at FVOCI | 15.9.6 | 225,057 | 413,678 | 170,036 | 808,771 |
| Deferred tax assets | 15.9.6 | 331,576 | - | - | 331,576 |
| Other non-current assets | 15.9.6 | 169,056 | - | - | 169,056 |
| Total non-current assets | | 32,046,885 | (6,716,639) | (569,351) | 24,760,895 |
| Total Assets | | 44,175,805 | (9,940,864) | (608,355) | 33,626,586 |
| EQUITY AND LIABILITIES | | | | | |
| Current liabilities | | | | | |
| Borrowings-current portion | 15.9.3/6 | 2,186,005 | (1,079,430) | - | 1,106,575 |
| Trade and other payables | 15.9.6 | 1,709,270 | 739,403 | - | 2,448,673 |
| Provisions and other current liabilities | 15.9.6 | 1,555,437 | (157,187) | - | 1,398,250 |
| Zakat and tax payable | 15.9.6 | 361,395 | (125,839) | - | 235,556 |
| Total current liabilities | | 5,812,107 | (623,053) | - | 5,189,054 |
| Non-current liabilities | | | | | |
| Borrowings | 15.9.3/6 | 22,553,137 | (7,082,077) | 9,795 | 15,480,855 |
| Employee Benefits | 15.9.4 | 378,683 | - | 105,114 | 483,797 |
| Deferred tax liabilities | 15.9.6 | 450,626 | - | - | 450,626 |
| Other non-current liabilities | 15.9.6 | 681,599 | 2,067 | 273 | 683,939 |
| Total non-current liabilities | | 24,064,045 | (7,080,010) | 115,182 | 17,099,217 |
| Equity | | | | | |
| Share capital | | 6,689,142 | - | - | 6,689,142 |
| Statutory reserve | | 1,154,981 | - | - | 1,154,981 |
| Other Reserves | 15.9.2 | (2,154,729) | 1,251,881 | 220,616 | (682,232) |
| Retained earnings | 15.5 | 2,367,248 | (1,251,881) | (899,861) | 215,506 |
| Equity attributable to the equity holder of parent | | 8,056,642 | - | (679,245) | 7,377,397 |
| Non-controlling interests | | 6,243,011 | (2,237,801) | (44,292) | 3,960,918 |
| Total equity | | 14,299,653 | (2,237,801) | (723,537) | 11,338,315 |
| Total liabilities and equity | | 44,175,805 | (9,940,864) | (608,355) | 33,626,586 |

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15. FIRST TIME ADOPTION OF IFRS (Contd.)

15.4 Group reconciliation of net profit or loss for year ended 31 December 2016

| | Note | 31 December 2016 (Previous GAAP) | IFRS Adjustments Reclassification | Re-measurement | 31 December 2016 (IFRS) |
|--|------------|--|--------------------------------------|-----------------|-------------------------------|
| Revenue | 15.9.5/6 | 15,196,970 | (3,722,643) | (2,854,795) | 8,619,532 |
| Cost of revenue | 15.9.1/5/6 | (11,724,510) | 1,149,065 | 2,862,951 | (7,712,494) |
| Gross profit | | 3,472,460 | (2,573,578) | 8,156 | 907,038 |
| Selling and distribution expenses | 15.9.2/6 | (805,506) | 269,356 | (3,594) | (539,744) |
| General and administrative expenses | 15.9.2/6 | (1,060,953) | 77,567 | (8,479) | (991,865) |
| Impairment of non-current assets | | (9,895) | - | - | (9,895) |
| Share of net profit/(loss) from associates and joint ventures | 15.9.6 | 60,262 | 1,360,963 | (484) | 1,420,741 |
| Operating Profit | | 1,656,368 | (865,692) | (4,401) | 786,275 |
| Other income / (expenses), net | | 177,470 | 37,246 | (50,465) | 164,251 |
| Finance costs | 15.9.3 | (801,063) | 290,670 | (18,825) | (529,218) |
| Income before zakat and net income tax | | 1,032,775 | (537,776) | (73,691) | 421,308 |
| Zakat and income tax | | (242,806) | 168,410 | - | (74,396) |
| Net profit | | 789,969 | (369,366) | (73,691) | 346,912 |
| Attributable to: | | | | | |
| Equity holder of parent | | 208,249 | 35 | (63,602) | 144,682 |
| Non-Controlling interest | | 581,720 | (369,401) | (10,089) | 202,230 |

15.4.1 Group reconciliation of comprehensive income for the year ended 31 December 2016:

| | 31 December 2016 (Previous GAAP) | IFRS Adjustments Reclassification | Re-measurement | 31 December 2016 (IFRS) |
|---|--|--------------------------------------|-----------------|-------------------------------|
| Net profit | 789,969 | (369,366) | (73,691) | 346,912 |
| Other comprehensive income: | | | | |
| Items to be reclassified to profit or loss in subsequent periods: | | | | |
| Exchange adjustments on translation of net assets of foreign operations | - | (119,162) | - | (119,162) |
| Cash flow hedging reserve | - | (4,916) | - | (4,916) |
| Total items to be reclassified to profit or loss in subsequent periods | - | (124,078) | - | (124,078) |
| Items not to be reclassified to profit or loss in subsequent periods: | | | | |
| Fair value gains / (losses) on FVOCI investments | - | 56,251 | - | 56,251 |
| Total items not to be reclassified to profit or loss in subsequent periods | - | 56,251 | - | 56,251 |
| Total comprehensive income | 789,969 | (437,193) | (73,691) | 279,085 |
| Attributable to: | | | | |
| Equity holder of parent | 208,249 | 42,009 | (83,780) | 166,478 |
| Non-controlling interests | 581,720 | (479,202) | 10,089 | 112,607 |

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15. FIRST TIME ADOPTION OF IFRS (Contd.)

15.5 Group reconciliation of net profit and loss for the three months period ended 30 September 2016

| | Note | For the three | IFRS Adjustments | | For the three |
|--|------------|---|------------------|----------------|--|
| | | months period ended 30 September 2016 (Previous GAAP) | Reclassification | Re-measurement | months period ended 30 September 2016 (IFRS) |
| Revenue | 15.9.5/6 | 3,864,029 | (991,837) | (792,113) | 2,080,079 |
| Cost of revenue | 15.9.1/5/6 | (2,941,911) | 338,130 | 791,952 | (1,811,829) |
| Gross profit | | 922,118 | (653,707) | (161) | 268,250 |
| Selling and distribution expenses | 15.9.2/6 | (205,378) | 56,127 | - | (149,251) |
| General and administrative expenses | 15.9.2/6 | (287,266) | (10,698) | (5,021) | (302,985) |
| Share of net profit/(loss) from associates and joint ventures | 15.9.6 | 15,132 | 378,649 | 18,655 | 412,436 |
| Income from main operations | | 444,606 | (229,629) | 13,473 | 228,450 |
| Other income / (expenses), net | | 112,799 | (18,088) | (9,987) | 84,724 |
| Finance costs | 15.9.3 | (206,814) | 81,430 | (3,552) | (128,936) |
| Income before zakat and income tax | | 350,591 | (166,287) | (66) | 184,238 |
| Zakat and income tax | | (70,225) | 50,807 | - | (19,418) |
| Net profit | | 280,366 | (115,480) | (66) | 164,820 |
| Attributable to: | | | | | |
| Equity holder of parent | | 122,152 | (30,129) | 15,917 | 107,940 |
| Non-controlling interests | | 158,214 | (85,351) | (15,983) | 56,880 |

15.5.1 Group reconciliation of comprehensive income for the three months period ended 30 September 2016:

| | For the three | IFRS Adjustments | | For the three |
|---|---|------------------|----------------|--|
| | months period ended 30 September 2016 (Previous GAAP) | Reclassification | Re-measurement | months period ended 30 September 2016 (IFRS) |
| Net profit | 280,366 | (115,480) | (66) | 164,820 |
| Other comprehensive income: | | | | |
| Items to be reclassified to profit or loss in subsequent periods: | | | | |
| Exchange adjustments on translation of net assets of foreign operations | - | 50,577 | - | 50,577 |
| Cash flow hedging reserve | - | (13,733) | - | (13,733) |
| Total items to be reclassified to profit or loss in subsequent periods | - | 36,844 | - | 36,844 |
| Items not to be reclassified to profit or loss in subsequent periods: | | | | |
| Fair value gains / (losses) on FVOCI investments | - | (95,141) | - | (95,141) |
| Total items not to be reclassified to profit or loss in subsequent periods | - | (95,141) | - | (95,141) |
| Total comprehensive income | 280,366 | (173,777) | (66) | 106,523 |
| Attributable to: | | | | |
| Equity holder of parent | 122,152 | (96,164) | 15,917 | 41,905 |
| Non-controlling interests | 158,214 | (77,613) | (15,983) | 64,618 |

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15. FIRST TIME ADOPTION OF IFRS (Contd.)

15.6 Group reconciliation of net profit and loss for the nine months period ended 30 September 2016

| | Note | For the nine months period ended 30 September 2016 | IFRS Adjustments | | For the nine months period ended 30 September 2016 |
|---|------------|--|--------------------|-----------------|--|
| | | (Previous GAAP) | Reclassification | Re-measurement | (IFRS) |
| Revenue | 15.9.5/6 | 11,391,729 | (2,826,333) | (2,230,829) | 6,334,567 |
| Cost of revenue | 15.9.1/5/6 | (8,964,258) | 915,107 | 2,228,175 | (5,820,976) |
| Gross profit | | 2,427,471 | (1,911,226) | (2,654) | 513,591 |
| Selling and distribution expenses | 15.9.2/6 | (590,379) | 212,163 | - | (378,216) |
| General and administrative expenses | 15.9.2/6 | (861,774) | 87,592 | (17,373) | (791,555) |
| Share of net profit/(loss) from associates and joint ventures | 15.9.6 | 44,762 | 1,038,412 | 18,611 | 1,101,785 |
| Income from main operations | | 1,020,080 | (573,059) | (1,416) | 445,605 |
| Other income / (expenses), net | | 188,668 | (20,018) | (50,465) | 118,185 |
| Finance costs | 15.9.3 | (573,247) | 217,345 | (9,931) | (365,833) |
| Income before zakat and income tax | | 635,501 | (375,732) | (61,812) | 197,957 |
| Zakat and income tax | | (140,274) | 126,616 | - | (13,658) |
| Net profit | | 495,227 | (249,116) | (61,812) | 184,299 |
| Attributable to: | | | | | |
| Equity holder of parent | | 131,201 | - | (39,220) | 91,981 |
| Non-controlling interests | | 364,026 | (249,116) | (22,592) | 92,318 |

15.6.1 Group reconciliation of comprehensive income for the nine months period ended 30 September 2016:

| | For the nine months period ended 30 September 2016 | IFRS Adjustments | | For the nine months period ended 30 September 2016 |
|---|--|------------------|-----------------|--|
| | (Previous GAAP) | Reclassification | Re-measurement | (IFRS) |
| Net profit | 495,227 | (249,116) | (61,812) | 184,299 |
| Other comprehensive income: | | | | |
| Items to be reclassified to profit or loss in subsequent periods: | | | | |
| Exchange adjustments on translation of net assets of foreign operations | - | 72,568 | - | 72,568 |
| Cash flow hedging reserve | - | (13,464) | - | (13,464) |
| Total items to be reclassified to profit or loss in subsequent periods | - | 59,104 | - | 59,104 |
| Items not to be reclassified to profit or loss in subsequent periods: | | | | |
| Fair value gains / (losses) on FVOCI investments | - | (38,950) | - | (38,950) |
| Total items not to be reclassified to profit or loss in subsequent periods | - | (38,950) | - | (38,950) |
| Total comprehensive income | 495,227 | (228,962) | (61,812) | 204,453 |
| Attributable to: | | | | |
| Equity holder of parent | 131,201 | 7,742 | (39,220) | 99,723 |
| Non-controlling interests | 364,026 | (236,704) | (22,592) | 104,730 |

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15. FIRST TIME ADOPTION OF IFRS (Contd.)

15.7 Total equity reconciliation as at 31 December 2016, 30 September 2016 and 1 January 2016

| | Note | 31 December 2016 | 30 September 2016 | 1 January 2016 |
|---|--------|---------------------|----------------------|--------------------|
| Equity under Previous GAAP as at the reporting date | | 13,515,008 | 14,299,653 | 13,748,111 |
| IFRS Adjustments | | | | |
| Impact on account of reclassification of items of stores and spares to property, plant and equipment and consequential depreciation | 15.9.1 | (29,649) | (26,151) | (28,146) |
| Impact on account of application of IFRS 9 to financial instruments | | | | |
| SIDF loans carried at amortized cost | 15.9.3 | (25,041) | (19,349) | (6,217) |
| Fair value of FVOCI investments | 15.9.2 | 179,590 | 170,036 | 170,036 |
| Impact on account of creation of provision for EOSB | 15.9.4 | (81,352) | (105,114) | (87,741) |
| Impact for IFRS adjustments of equity accounted investees | 15.9.6 | (2,240,722) | (2,248,885) | (2,259,380) |
| Impact on account of deferral of revenue until transfer of control to the customer | 15.9.5 | (1,178) | (622) | (115) |
| Impact of impairment of non-current assets | 15.9.7 | (731,253) | (731,253) | (731,253) |
| Impact of setting Currency Translation Adjustments on transition date to nil | 15 C | 1,251,996 | 1,251,996 | 1,251,996 |
| Impact of above being transferred to retained earnings | 15 C | (1,251,996) | (1,251,996) | (1,251,996) |
| Others | | (7,397) | - | - |
| Total IFRS Adjustments | | (2,937,002) | (2,961,338) | (2,942,816) |
| Total equity under IFRS as at the reporting date | | 10,578,006 | 11,338,315 | 10,805,295 |

15.7.1 Comprehensive income reconciliation for the year ended 31 December 2016, nine months period ended 30 September 2016 and three months period ended 30 September 2016:

| | Note | Year ended 31 December 2016 | Nine months period ended 30 September 2016 | Three months period ended 30 September 2016 |
|---|--------|-----------------------------------|---|--|
| Net profit under Previous GAAP | | 789,969 | 495,227 | 280,365 |
| IFRS Adjustments | | | | |
| Impact on account of reclassification of items of stores and spares to PPE and consequential depreciation | 15.9.1 | (1,502) | (2,285) | 1,155 |
| Impact on account of application of IFRS 9 to financial instruments | | | | |
| SIDF loans carried at amortized cost | 15.9.3 | (18,824) | (9,931) | (1,725) |
| Reclassification of AFS reserve to OCI | | 15,774 | 11,515 | (4,198) |
| Impact on account of creation of provision for ESOB | 15.9.4 | 6,389 | (17,373) | (5,011) |
| Impact for IFRS adjustments of equity accounted investees | 15.9.6 | (380,338) | (331,237) | (200,291) |
| Impact on account of deferral of revenue until transfer of control to the customer | 15.9.5 | (1,063) | (567) | (616) |
| Others | 15.9.8 | (7,242) | - | - |
| Total IFRS adjustments to statement of profit or loss | | (386,806) | (349,878) | (210,686) |
| Net profit under IFRS | | 403,163 | 145,349 | 69,679 |
| Exchange adjustments on translation of net assets of foreign operations | 15.4.1 | (119,162) | 72,568 | 50,577 |
| Cash flow hedging reserve | | (4,916) | (13,464) | (13,733) |
| Total Comprehensive income under IFRS | | 279,085 | 204,453 | 106,523 |

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15. FIRST TIME ADOPTION OF IFRS (Contd.)

15.8 Impact of transition to IFRS on the consolidated statement of cash flows for the nine months period ended 30 September 2016 is as follows:

| | Note | For the nine months period ended 30 September 2016 (Previous GAAP) | IFRS adjustments | For the nine months period ended 30 September 2016 (IFRS) |
|--|--------|--|--------------------|---|
| Net cash flow from operating activities | 15.9.6 | 2,429,912 | (2,287,242) | 142,670 |
| Net cash flow used in investing activities | 15.9.6 | (1,304,794) | 1,038,413 | (266,381) |
| Net cash flow used in financing activities | 15.9.6 | (1,484,220) | 839,755 | (644,465) |
| Net decrease in cash and cash equivalents | | (359,102) | (409,074) | (768,176) |
| Cash and cash equivalents as at 1 January 2016 | 15.9.6 | 3,819,070 | (685,371) | 3,133,699 |
| Cash and cash equivalents as at 30 September 2016 | | 3,459,968 | (1,094,445) | 2,365,523 |

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

15.9.1 Stores and spares

Stores and spares meeting the definition of Property, Plant & Equipment have been capitalized based on the requirements of IAS 16. Further, depreciation on certain capital spares that were capitalized and depreciated over the life of related asset, has been computed from the date of purchase over the estimated life of the underlying capital spare. The consequential impact of this has been accounted for retrospectively on the transition date through the retained earnings. Accordingly, SR 28.15 million has reduced the retained earnings on the transition date. This has also resulted in a reduction in the comprehensive income by SR 2.3 million for the nine months period ended 30 September 2016 and SR 1.5 million in the year ended 31 December 2016.

15.9.2 Fair valuation of certain equity investments through OCI

Under the previous GAAP certain quoted equity investments were carried at FV and the changes in fair valuation are credited to Investments available for sale reserve, while unquoted equity investments were carried at cost. As allows by IFRS 9 - Financial instruments (IFRS 9), the Group has opted to designate these investments as FVOCI. This has resulted in an increase in retained earnings by SR 170 million on the transition date and increase in comprehensive income by SR 9.54 million in the year ended 31 December 2016. The movement in unrealized gains of investments available for sale reserve amounting to SR 89.4 million for the nine months period ended 30 September 2016 and SR 40.48 million for the year ended 31 December 2016 has been reclassified to other comprehensive income. This has no impact on equity on the respective reporting dates.

15.9.3 Borrowings

Under previous GAAP, loans were accounted at the nominal value of cash received. Transaction costs (if any) were either generally expensed except for certain entities having qualifying assets where these were capitalized. As required by IFRS 9 such loans have been accounted at amortized cost using the effective interest rate method (EIR). The transaction costs are included in the initial recognition amount of financial liability and charged to profit or loss.

This has resulted in a net reduction in the equity as at the transition date by SR 6.2 million. Further, this has resulted in reduction in the comprehensive income by SR 9.9 million for the nine months period ended 30 September 2016 and SR 18.82 million for the year ended 31 December 2016.

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15. FIRST TIME ADOPTION OF IFRS (Contd.)

15.9.4 Employee benefits

Under previous GAAP, the Group recognised costs related to its employee benefits provisions based on the Saudi labor law. Under IFRS, such liabilities are recognised based on actuarial valuation. The employee benefits provisions liability has been recognised in full against retained earnings based on actuarial valuation done by independent value. Below are the key assumptions used for the purposes of the actuarial valuation:

- Average salary increases: 5.5%
- Discount rate: 5.25%
- Retirement age: 60 years

This has reduced the retained earnings by SR 87.74 million on the transition date, comprehensive income by SR 17.37 million for the nine months period ended 30 September 2016 and increased the same by SR 6.39 million for the year ended 31 December 2016.

15.9.5 Revenue recognition

Under previous GAAP, certain export sales were recorded at the time of dispatch. However, under IFRS 15, recognition of revenue on these transactions has been delayed till the transfer of control of the goods to customers. This has resulted in a net reduction in equity by SR 0.12 million as on the transition date. Further, the comprehensive income for the nine months period ended 30 September 2016 increased by SR 0.57 million and has reduced by SR 1.06 million for the year ended 31 December 2016.

Further, based on requirements of IFRS 15, revenue has been accounted net of the variable consideration in the form of net-back adjustments, in each reporting period. Under the previous GAAP, these were accounted on net basis at the year end. However, this does not have any impact on the total equity at the reporting dates.

15.9.6 Accounting for joint ventures

Under the previous GAAP certain petrochemical entities were consolidated as subsidiaries. However, under IFRS 10 and IFRS 11, the contractual arrangements for these entities have been re-assessed and concluded as investments in joint arrangements. Accordingly, these entities have been de-consolidated and accounted for in these interim condensed consolidated financial statements as investments in joint ventures by using equity method of accounting or investments in jointly controlled operations by using proportionate consolidation of accounting where the Group records its share of income, expenses, assets and liabilities. These changes in accounting methods have not resulted any impact on shareholder's equity or net-worth of the Group at the respective reporting date.

The financial statement line items impacted have been disclosed at respective places in note no. 15.1 and 15.7. Further, the impacts of IFRS adjustments of each of these entities have been included in appropriate line items where necessary.

15.9.7 Impairment on non-current assets

In accordance with the requirements of IFRS 1, an impairment assessment was done to determine whether any impairment loss for non-current assets existed at the date of transition to IFRS. Consequently, a subsidiary of the Group recorded an impairment loss. Under the previous GAAP, this assessment was done by using undiscounted cash flows as against the discounted cash flows used under IFRS. This has resulted in a reduction of retained earnings by SR 731 million on the transition date.

15.9.8 Others

Others mainly include an impairment loss on the trade receivables under the expected credit loss model in line with the requirements of IFRS 9. The same has been accounted through the interim condensed consolidated statement of profit or loss for the year ended 31 December 2016. This has resulted in a corresponding reduction in the equity by SR 7.24 million reported under the previous GAAP as on 31 December 2016.

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16. SEGMENT INFORMATION

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

| Segment | Description of activities |
|---------------------|---|
| Chemical | Includes the production of titanium dioxide, production processes and specialized production operation of Rutile which is the raw material for the production of titanium dioxide |
| Petrochemical | Includes basic chemicals, and polymers. |
| Downstream & Others | Includes the production of liquid batteries for cars, production of lead and sodium sulfate, all kinds of plastic productions and the production of acrylic panels. Also, includes the operations of the head office, and technical centers, innovations and investment activities. |

The Board of Directors (BOD), who have been identified as the Chief Operating Decision Maker (CODM) monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Transactions between the operating segments are on terms approved by the management. Inter segment revenue are eliminated upon consolidation and reflected in adjustments and elimination column. All other eliminations are part of detailed reconciliation below:

Nine months period ended and as at 30 September 2017

| | Chemical | Petro-chemical | Down-stream & Others | Eliminations/ Adjustments | Total |
|--|-----------------|-----------------------|---------------------------------|----------------------------------|--------------|
| Segment revenues | 5,917,022 | 1,193,214 | 797,352 | (456) | 7,907,132 |
| Segment expenses | 5,467,663 | 1,211,394 | 1,031,177 | (456) | 7,709,778 |
| Depreciation and amortization | 477,690 | 106,318 | 64,753 | - | 648,761 |
| Share of profit of associated companies and joint ventures | - | 1,028,046 | (578) | - | 1,027,468 |
| Segment EBITDA | 886,482 | 889,764 | 241,820 | - | 2,018,066 |
| Segment assets | 17,451,394 | 9,482,110 | 15,430,926 | (8,744,923) | 33,619,507 |
| Segment liabilities | 12,108,724 | 2,579,513 | 7,429,034 | (172,709) | 21,944,562 |
| Investments in associated companies and joint ventures | - | 6,545,509 | 161,455 | - | 6,706,964 |

Year ended 31 December 2016

| | Chemical | Petro-chemical | Down-stream & Others | Eliminations/ Adjustments | Total |
|--|-----------------|-----------------------|---------------------------------|----------------------------------|--------------|
| Segment revenues | 6,514,045 | 1,169,063 | 948,162 | (11,738) | 8,619,532 |
| Segment expenses | 6,955,329 | 1,357,608 | 952,799 | (11,738) | 9,253,998 |
| Depreciation and amortization | 653,437 | 36,091 | 88,320 | - | 777,848 |
| Share of profit of associated companies and joint ventures | - | 1,402,959 | 17,782 | - | 1,420,741 |
| Segment EBITDA | 211,113 | 1,029,574 | 487,688 | - | 1,728,375 |
| Segment assets | 17,696,055 | 9,040,907 | 15,697,906 | (9,446,806) | 32,988,062 |
| Segment liabilities | 12,418,525 | 2,723,158 | 7,851,360 | (582,987) | 22,410,056 |
| Investments in associated companies and joint ventures | - | 6,121,260 | 279,286 | - | 6,400,546 |

Nine month period ended and as at 30 September 2016

| | Chemical | Petro-chemical | Down-stream & Others | Eliminations/ Adjustments | Total |
|--|-----------------|-----------------------|---------------------------------|----------------------------------|--------------|
| Segment revenues | 4,901,854 | 736,530 | 704,333 | (8,150) | 6,334,567 |
| Segment expenses | 5,272,070 | 946,550 | 798,800 | (26,673) | 6,990,747 |
| Depreciation and amortization | 490,227 | 97,560 | 55,461 | - | 643,248 |
| Share of profit of associated companies and joint ventures | - | 1,081,345 | 20,440 | - | 1,101,785 |
| Segment EBITDA | 134,135 | 811,260 | 338,967 | (77,324) | 1,207,038 |
| Segment assets | 17,969,107 | 9,410,375 | 15,773,528 | (9,526,423) | 33,626,587 |
| Segment liabilities | 12,261,334 | 2,673,154 | 7,449,870 | (96,087) | 22,288,271 |
| Investments in associated companies and joint ventures | 268,125 | 6,494,080 | 285,728 | - | 7,047,933 |

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16. SEGMENT INFORMATION (Contd.)

Geographical Information

The geographical distribution of revenues for the nine months period ended 30 September 2017 is as follows:

| | <u>Chemical</u> | <u>Petrochemical</u> | <u>Downstream & Others</u> | <u>For the nine months period ended 30 September 2017</u> |
|-------------------------|------------------|----------------------|------------------------------------|---|
| Saudi Arabia | 259,898 | 561,100 | 577,931 | 1,398,929 |
| Middle East and Asia | 1,896,111 | 492,330 | 124,148 | 2,512,589 |
| Europe | 1,496,044 | 54,325 | 34,608 | 1,584,977 |
| North and South America | 2,028,919 | 17,079 | 6,791 | 2,052,789 |
| Australia | 149,630 | - | - | 149,630 |
| Others | 143,576 | 33,428 | 31,214 | 208,218 |
| | <u>5,974,178</u> | <u>1,158,262</u> | <u>774,692</u> | <u>7,907,132</u> |

The geographical distribution of revenues for the nine months period ended 30 September 2016 is as follows:

| | <u>Chemical</u> | <u>Petrochemical</u> | <u>Downstream & Others</u> | <u>For the nine months period ended 30 September 2016</u> |
|-------------------------|------------------|----------------------|------------------------------------|---|
| Saudi Arabia | 202,253 | 282,678 | 573,785 | 1,058,716 |
| Middle East and Asia | 1,510,586 | 244,078 | 182,469 | 1,937,133 |
| Europe | 1,261,272 | 26,932 | 18,348 | 1,306,552 |
| North and South America | 1,725,582 | 8,467 | - | 1,734,049 |
| Australia | 117,005 | - | - | 117,005 |
| Others | 128,070 | 26,127 | 26,915 | 181,112 |
| | <u>4,944,768</u> | <u>588,282</u> | <u>801,517</u> | <u>6,334,567</u> |

The basis of segmentation has remained unchanged for all periods presented.

17. SALE OF TITANIUM DIOXIDE BUSINESS

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

The Closing of the transaction is 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, Tronox shareholders' approval, governmental and regulatory approvals in the relevant jurisdictions and the conclusion of Cristal reorganization.

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

On October 2, 2017 at a special meeting of the shareholders of Tronox, a resolution was approved to issue 37,580,000 Class A Tronox shares which will form part of the full consideration due to Cristal per the above-mentioned agreement. The Management has concluded that in line with IAS 10: "Events after the Reporting Period", this is a non-adjusting event as of the statement of financial position at 30 September 2017. Accordingly, the Group will present assets and liabilities of Cristal Assets as "Assets and Liabilities held for sale", in the consolidated financial statements of the reporting period after this date. 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.

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18. COMPARATIVE FIGURES

Certain of the prior period amounts have been reclassified to can form with the presentation in the current period.

19. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved by the Board of Directors on 25 October 2017G (corresponding 5 Safer 1439H).
