NATIONAL INDUSTRIALIZATION COMPANY
(SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

NATIONAL INDUSTRIALIZATION COMPANY
(Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

INDEX	**PAGE**
Independent auditor's report	2 - 8
Consolidated statement of financial position	9
Consolidated statement of profit or loss	10
Consolidated statement of other comprehensive income	11
Consolidated statement of changes in equity	12
Consolidated statement of cash flows	13
Notes to the consolidated financial statements	14 - 59

الدكتور محمد العمري وشركاه
Dr. Mohamed Al-Amri & Co.

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Independent auditor's report

To the shareholders of
National Industrialization Company

Riyadh, Kingdom of Saudi Arabia

Opinion

We have audited the consolidated financial statements of National Industrialization Company ("Tasnee" or the "Company") a Saudi Joint Stock Company and its subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements from (1) to (38), including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") endorsed in the Kingdom of Saudi Arabia, and other standards and versions endorsed by Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters include:

Partners: Dr. Mohamed Al-Amri (60), Jamal M. Al-Amri (331), Gihad M. Al-Amri (362)
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Tronox transaction	
Key audit matter	***How the matter was addressed in our audit***
In February 2017, a conditional transaction agreement was signed to sell to Tronox Limited A.C.N. a public limited company registered under the laws of the State of Western Australia and listed on the New York stock exchange ("Tronox"), the domestic and international titanium dioxide (TiO2) business of the National Titanium Dioxide Company ("Cristal") (including but not limited to the sale of (a) all international subsidiaries of Cristal, (b) assets (including the Yanbu plant of Cristal) and liabilities relevant to such business; and (c) contracts, intellectual property and goodwill in respect of such business (the "Cristal Assets")) in return for US$ 1.673 billon (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). Management is of the view that the high probability test of transaction completion as required by IFRS had not been achieved at the statement of financial position date and consequently no reclassification has occurred. We considered this as a key audit matter as judgment is required by management to assess whether this transaction meets the "high probability" test described in IFRS 5 ("Non-Current Assets Held for Sale and Discontinued Operations"), which mandates how the assets subject to this conditional transaction agreement should be presented in these consolidated financial statements.	Our procedures included the following: - Assessing progress against milestones within the sales timeline to conclude on management's determination when a reclassification of assets and liabilities was required under International Financial Reporting Standard 5 as "Non-Current Assets Held for Sale and Discontinued Operations"; - In particular, our audit concentrated on assessing whether the "high probability" test under International Financial Reporting Standard 5 had or had not been achieved; and - Looking at the timing of approval of the transaction by Tronox shareholders, and progress in funding the transaction, and in clearing the transaction with regulators in a variety of jurisdictions. The current circumstances and results of our audit procedures support management's assessment that the "high probability" test has yet to be passed.
Refer to note (35) for related disclosures.	

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Revenue recognition	
Key audit matter	***How the matter was addressed in our audit***
Revenue represents sale of goods and rendering of services. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognizes revenue when it transfers control over a product or service to a customer in line with the requirements of International Financial Reporting Standard 15 ("Revenue from Contracts with Customers"). Revenue from sale of goods is recognized when control of the products has transferred, being when the products are delivered to the customers, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Revenue from providing services is recognized over a period of time as the related services are performed. For fixed-price contracts, revenue is recognized based on the 'over the time' method which measures actual service provided to the end of the reporting period as a proportion of the total services to be provided. Revenue recognition is considered a key audit matter as the timing and amount of revenue recognized in a financial period can have a material effect on the financial performance.	Our procedures included the following: - Considering appropriateness of revenue recognition as per the Group policies including those relating to discounts and assessing compliance with applicable accounting standards; - Testing the design and effectiveness of internal controls implemented by the Group through the revenue cycle; - Testing sales transactions taking place at either side of the reporting date to assess whether the revenue was recognized in the correct period; and - Performing analytical review on revenue based on trends of monthly sales and profit margins.
Refer to note (3.3) for accounting policy.	

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Carrying value of non-current assets

Key audit matter	*How the matter was addressed in our audit*
The Group makes and has significant investments in tangible and intangible assets that are associated with its operations and business units, together with major capital projects designed to enhance the future economic benefit of the Group. Management performs an annual impairment review of goodwill and performs an impairment assessment of the identified fixed assets when there are indicators of impairment. These valuations of the fixed assets and goodwill are performed by management using appropriate valuation models to determine the realizable values for the purposes of the impairment assessments. We considered this as a key audit matter since use of management assumptions and judgments could result in material over / understatement of the Group's profitability.	Our procedures included the following: - Considering management's testing of impairment of intangible and goodwill; - Considering management's assessment of indications of impairment, and their view of cash generating units; - Critically reviewing the inputs and assumptions in the impairment tests performed, and performed sensitivity analysis as part of testing to determine headroom within tests and the residual risk of material misstatement; - Examining evidence from management that capital work in progress comprised only ongoing projects valued at amounts which were reasonably expected to produce positive economic returns in present day terms when completed; - Examining the development of the Jizan Slagger which is experiencing technical issues and is behind schedule and over original budget; - Examining the development of the Yanbu Sponge plant which is behind schedule; - Discussing with management the actions they plan to complete the project, and examined third party evidence in support of the technical design of the plants; and - Critically examining the current cash flow projections associated with the project, and the major project risks in order to determine the appropriateness of the year end carrying value.
Refer to note (3.12) for accounting policy and note (6), (7) and (8) for related disclosures.	

Provision for equity accounted joint arrangement	
Key audit matter	***How the matter was addressed in our audit***
A joint arrangement of the Group has incurred losses and is facing financial difficulties. The joint arrangement shareholders have initially agreed to continue operations and are currently deliberating various options to agree on the quantum and nature of support. The Group has provided funds to the joint arrangement and has also recorded a provision in 2018 to ensure continuation of operations and to discharge its obligations towards the joint arrangement in compliance with "IAS - 37 – Provisions, contingent liabilities and contingent assets". We considered this as a key audit matter since management was required to make complex analyses regarding the existence and extent of the obligation, under International Accounting Standard 37 ("Provisions, contingent liabilities and contingent assets").	Our procedures included the following with respect to compliance with International Accounting Standard 37 ("Provisions, contingent liabilities and contingent assets"): - Reviewing management's determination of the existence of a constructive obligation present at the year-end; - Reviewing the computation of the quantum of the provision recorded by management at the year-end: and - Checking the accuracy and integrity of disclosures included in the notes to the financial statements.
Refer to note (3.12) for accounting policy and note (25.4) and (28) for related disclosures.	

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Other information
Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's/Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the management and Those Charged With Governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

For Dr. Mohamed Al-Amri & Co.

Gihad Al-Amri
Certified Public Accountant
Registration No. 362

Riyadh, on 28 February 2019 G
Corresponding to: 23 Jumada II' 1440 H

NATIONAL INDUSTRIALIZATION COMPANY
(Saudi Joint Stock Company)

Consolidated Statement of Financial Position
As at 31 December 2018
(SR in '000)

	Note	2018	2017
ASSETS			
Non-current assets			
Property, plant and equipment	6	8,914,200	9,328,349
Projects under progress	7	2,841,251	2,621,110
Intangible assets	8	2,728,199	2,817,793
Exploration and evaluation costs		297,389	374,685
Investments in associates and joint ventures	9	7,160,336	6,855,681
Investment in equity instruments designated as FVOCI	10	751,762	862,580
Deferred tax assets	11	220,173	287,107
Other non-current assets	12	812,249	1,205,729
Total non-current assets		23,725,559	24,353,034
Current assets			
Inventories	13	3,261,154	2,815,971
Trade receivables, net	14	2,515,051	2,726,665
Prepayments and other current assets	15	1,155,032	1,562,309
Cash and cash equivalents	16	2,909,045	2,535,215
Total current assets		9,840,282	9,640,160
Total assets		33,565,841	33,993,194
EQUITY AND LIABILITIES			
Equity			
Share capital	17	6,689,142	6,689,142
Statutory reserve	18	1,354,512	1,234,303
Other reserves	19	(667,395)	(450,155)
Retained earnings		1,959,677	877,792
Equity attributable to the equity holders of parent		9,335,936	8,351,082
Non-controlling interests		3,452,802	3,438,470
Total equity		12,788,738	11,789,552
Non-current liabilities			
Long term borrowings	20	11,272,425	14,785,848
Employee benefits	21	610,680	579,827
Deferred tax liabilities	11	223,030	271,094
Other non-current liabilities	22	588,848	992,845
Total non-current liabilities		12,694,983	16,629,614
Current liabilities			
Short term facilities	23	5,028	17,440
Borrowings – current portion	20	3,219,069	813,994
Trade payables	24	2,513,272	2,656,389
Provisions and other current liabilities	25	1,913,806	1,732,097
Zakat and income tax payable	11	430,945	354,108
Total current liabilities		8,082,120	5,574,028
Total liabilities		20,777,103	22,203,642
Total equity and liabilities		33,565,841	33,993,194

Chief Financial Officer | Chief Executive Officer | Authorized Board Member

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

NATIONAL INDUSTRIALIZATION COMPANY
(Saudi Joint Stock Company)

Consolidated Statement of Profit or Loss
For the year ended 31 December 2018
(SR in '000)

	Note	2018	2017
Revenue		**11,439,283**	10,796,424
Cost of revenue		**(8,379,940)**	(8,692,257)
Gross profit		**3,059,343**	2,104,167
Selling and distribution expenses	**26**	**(610,990)**	(582,136)
General and administrative expenses	**27**	**(1,191,372)**	(1,057,002)
Share of net profit / (loss) from associates and joint ventures, net	**9**	**1,624,490**	1,343,941
Impairment of assets		**(133,443)**	(185,136)
Operating profit		**2,748,028**	1,623,834
Other income / (expenses), net	**28**	**80,833**	230,911
Finance costs		**(706,031)**	(706,108)
Profit before zakat and income tax		**2,122,830**	1,148,637
Zakat and income tax	**11**	**(341,252)**	9,402
Net profit for the year		**1,781,578**	1,158,039
Attributable to:			
Equity holders of parent		**1,202,094**	716,156
Non-controlling interests		**579,484**	441,883
		1,781,578	1,158,039
Earnings per share	**29**		
Basic and diluted (SR)			
From operating profit		**4.11**	**2.43**
From net profit		**1.80**	**1.07**

Chief Financial Officer | Chief Executive Officer | Authorized Board Member

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

NATIONAL INDUSTRIALIZATION COMPANY
(Saudi Joint Stock Company)

Consolidated Statement of Other Comprehensive Income
For the year ended 31 December 2018
(SR in '000)

	2018	2017
Net profit for the year	**1,781,578**	1,158,039
Other comprehensive income		
Items to be reclassified to profit or loss in subsequent periods:		
Foreign currency translation differences	**(377,662)**	333,300
Cash flow hedge reserve	**2,945**	(879)
Total items to be reclassified to profit or loss in subsequent periods	**(374,717)**	332,421
Items not to be reclassified to profit or loss in subsequent periods:		
Re-measurement of defined benefit plan	**(5,576)**	24,229
Gains / (losses) on investments in equity instruments designated as FVOCI	**14,958**	41,013
Total items not to be reclassified to profit or loss in subsequent periods	**9,382**	65,242
Total comprehensive income for the year	**1,416,243**	1,555,702
Attributable to:		
Equity holders of parent	**919,042**	1,019,723
Non-controlling interests	**497,201**	535,979
	1,416,243	1,555,702

Chief Financial Officer | Chief Executive Officer | Authorized Board Member

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

NATIONAL INDUSTRIALIZATION COMPANY
(Saudi Joint Stock Company)

Consolidated Statement of Changes in Equity
For the year ended 31 December 2018
(SR in '000)

		Attributable to the equity holders of parent						
	Note	Share capital	Statutory reserve	Other reserves	Retained earnings	Total equity	Non-controlling interests	Total equity
As at 1 January 2017		6,689,142	1,162,687	(753,722)	233,252	7,331,359	3,213,428	10,544,787
Net profit for the year		-	-	-	716,156	716,156	441,883	1,158,039
Other comprehensive income		-	-	303,567	-	303,567	94,096	397,663
Total comprehensive income for the year		-	-	303,567	716,156	1,019,723	535,979	1,555,702
Transfer to statutory reserve	18	-	71,616	-	(71,616)	-	-	-
Net movement during the year		-	-	-	-	-	(310,937)	(310,937)
As at 31 December 2017	**17**	**6,689,142**	**1,234,303**	**(450,155)**	**877,792**	**8,351,082**	**3,438,470**	**11,789,552**
Net profit for the year		-	-	-	**1,202,094**	**1,202,094**	**579,484**	**1,781,578**
Other comprehensive income		-	-	**(283,052)**	-	**(283,052)**	**(82,283)**	**(365,335)**
Total comprehensive income for the year		-	-	**(283,052)**	**1,202,094**	**919,042**	**497,201**	**1,416,243**
Transfer to statutory reserve	**18**	-	**120,209**	-	**(120,209)**	-	-	-
Net movement during the year		-	-	**65,812**	-	**65,812**	**(482,869)**	**(417,057)**
As at 31 December 2018	**17**	**6,689,142**	**1,354,512**	**(667,395)**	**1,959,677**	**9,335,936**	**3,452,802**	**12,788,738**

Chief Financial Officer   Chief Executive Officer   Authorized Board Member

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

NATIONAL INDUSTRIALIZATION COMPANY
(Saudi Joint Stock Company)

Consolidated Statement of Cash Flows
For the year ended 31 December 2018
(SR in '000)

	Note	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit before zakat and income tax		**2,122,830**	1,148,637
Adjustments for:			
Depreciation and amortization	6,8	**829,109**	853,088
Provision and impairment of non-current assets		**332,334**	185,136
Share of net (profit) / loss from associates and joint ventures, net	9	**(1,624,490)**	(1,343,941)
Provision for slow moving inventories	13	**2,395**	14,037
Impairment of trade receivables	14	**22,855**	26,257
Employee benefits, net of adjustments	21	**161,801**	266,102
Finance costs		**706,031**	706,108
Changes in operating assets and liabilities:			
Other non-current assets		**537,710**	(118,639)
Inventories		**(447,578)**	119,390
Trade receivables, net		**188,759**	(744,745)
Prepayments and other current assets		**407,277**	(475,004)
Other non-current liabilities		**(452,061)**	383,638
Trade payables		**(143,117)**	423,216
Provisions and other current liabilities		**(168,256)**	244,388
Employee benefits paid	21	**(130,948)**	(113,914)
Zakat and income tax paid	11	**(183,701)**	(43,266)
Net cash flows from operating activities		**2,160,950**	1,530,488
CASH FLOW FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	6	**(900,201)**	(875,524)
Disposals / adjustments of property, plant and equipment, net	6	**314,536**	180,555
(Additions) / deletion to projects under progress, net		**(74,699)**	(111,533)
(Additions) / deletion to intangible assets, net	8	**41,414**	(80,298)
Investments in associates and joint ventures		**1,213,413**	1,328,011
Net cash flows from investing activities		**594,463**	441,211
CASH FLOWS FROM FINANCING ACTIVITIES			
Short term facilities, net		**(12,412)**	(50,578)
Borrowings, net		**(1,108,348)**	(927,270)
Finance costs paid		**(695,671)**	(671,855)
Non-controlling interests		**(565,152)**	(216,841)
Net cash flows used in financing activities		**(2,381,583)**	(1,866,544)
Net increase in cash and cash equivalents		**373,830**	105,155
Cash and cash equivalents at beginning of the year	16	**2,535,215**	2,430,060
Cash and cash equivalents at end of the year	16	**2,909,045**	2,535,215

Chief Financial Officer	Chief Executive Officer	Authorized Board Member

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

(SR in '000 unless otherwise noted)

1. STATUS AND NATURE OF ACTIVITIES

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

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

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

1.1 Subsidiaries

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

Company Name	Legal Form	*Shareholding (%)* **2018**	*Shareholding (%)* 2017
Tasnee and Sahara Olefins Company and its subsidiaries (1)	Closed joint stock	**60.45**	60.45
Rowad National Plastic Company ("Rowad") and its subsidiaries (2)	Limited liability	**100**	100
National Lead Smelting Company Ltd. ("Rassas") and its subsidiary (3)	Limited liability	**100**	100
National Batteries Company ("Battariat") (4)	Limited liability	**90**	90
National Operation and Industrial Services Company ("Khadamat") - under liquidation (5)	Limited liability	**88.33**	88.33
National Marketing and Industrial Services Company ("Khadamat II") (6)	Limited liability	**100**	-
National Inspection and Technical Testing Company Ltd. ("Fahss") (7)	Limited liability	**69.73**	69.73
TUV – Middle East WLL (8)	Limited liability	**69.73**	69.73
Taldeen Plastic Solution Company Ltd. (9)	Limited liability	**100**	100
Al Khadra Environment Company for Industrials Waste Management ("Khadra") (10)	Limited liability	**100**	100
The National Titanium Dioxide Company Ltd. ("Cristal") and its subsidiaries (11 & 35)	Limited liability	**79**	79
Advanced Metal Industries Company Ltd. ("AMIC") (12)	Limited liability	**89.50**	89.50
National Industrialization Petrochemical Marketing Company (13)	Limited liability	**100**	100
National Worldwide Industrial Advancement Company Ltd. (14)	Limited liability	**100**	100
National Gulf Company for Petrochemical Technology (14)	Limited liability	**100**	100
National Industrialization Company for Industrial Investments (14)	Limited liability	**100**	100
NIPRAS National Technical Company Ltd. (previously, Saudi Global Makasib for Trading and Industry Company) (14)	Limited liability	**100**	100
National Petrochemical Industrialization Company (14)	Limited liability	**100**	100

1 STATUS AND NATURE OF ACTIVITIES (Contd.)

1.1 Subsidiaries (Contd.)

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

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

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

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

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

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

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

5. National Operation and Industrial Services Company ("Khadamat") - under liquidation
National Operating and Industrial Services Company is a Saudi Limited Liability Company based in Riyadh, Saudi Arabia. The company is currently under liquidation.

6. National Marketing and Industrial Services Company ("Khadamat II")
National Marketing and Industrial Services Company is a Saudi Limited Liability Company based in Riyadh, Saudi Arabia. The company is engaged in marketing, sale and distribution of industrial products, including car batteries, plastic sheets, imports and exports, trading agencies for industrial products and investment in industrial services fields.

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

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

9. Taldeen Plastic Solution Company limited ("Taldeen")
Taldeen Plastic Solutions Company Ltd. is a Saudi Limited Liability Company based in Hail, Saudi Arabia. The company has four plants to producing plastic pallets, plastic pipes, agrifilm and waste water treatment units. The company has commenced its commercial operations partially.

(SR in '000 unless otherwise noted)

1 STATUS AND NATURE OF ACTIVITIES (Contd.)

1.1 Subsidiaries (Contd.)

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

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

Cristal owns directly or indirectly 100% of equity interests of the following subsidiaries: Cristal Inorganic Chemicals Ltd., Cristal Australia Pty Ltd., Cristal Metals U.S.A., Cristal US Holding LLC and Hong Kong Titanium Products Company Limited. (refer note 35).

12. Advanced Metal Industries Ltd. Company ("AMIC")
Advanced Metal Industries Ltd. Company ("AMIC") has been established with direct ownership percentage of 50% each by Tasnee and Cristal. AMIC is a Saudi Limited Liability Company and registered in Jeddah, Saudi Arabia. The company is engaged in setting up industrial projects related to Titanium metals of various type and other related substances including Titanium ore, Iron ore and manufacturing of Titanium dioxide through high pressure oxidation. (refer note 36).

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

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

1.2 Associates and Joint Arrangements

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

			Shareholding (%)	
Company Name	**Relationship**	**Legal Form**	**2018**	2017
Saudi Polyolefins Company	Joint Venture	Limited liability	**75**	75
Saudi Ethylene and Polyethylene Company	Joint Venture	Limited liability	**45.34**	45.34
Saudi Acrylic Monomer Company	Joint Venture	Limited liability	**39.22**	**39.22**
Saudi Acrylic Polymer Company	Joint Venture	Limited liability	**39.22**	**39.22**
Advanced Metal Industries Ltd. Company and Toho for Titanium Metal Ltd. Company	Joint Venture	Limited liability	**58.18**	58.18
Saudi Butanol Company	Joint Operations	Limited liability	**17.43**	17.43
National Metal Manufacturing and Casting Company	Associate	Saudi joint stock company	**35.45**	35.45
Clariant Masterbatches (Saudi Arabia) Ltd. Company	Associate	Limited liability	**40**	40

2 BASIS OF PREPARATION

(i) Statement of Compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed in Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization of Certified Public Accountants (SOCPA).

(ii) Basis of measurement

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

(iii) Functional and presentation currency

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

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of these annual consolidated financial statements are consistent with those used in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2017 except for the adoption of the following amendment to existing standards and new interpretation mentioned below which have had no significant financial impact on these consolidated financial statements of the Group:

(i) Amendments to IFRS 2 “Share Based Payment”

The amendments clarify accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share based payment transactions from cash-settled to equity-settled.

(ii) Amendments to IFRS 4 “Insurance Contract” and IFRS 9 “Financial Instruments”

The amendments provide two options for entities that issue insurance contracts within the scope of IFRS 4. This include an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach; and an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach.

(iii) Amendments to IFRS 15 “Revenue from Contracts with Customers”

The amendments add clarifications in the following areas:

- Identifying performance obligations; and
- Principal versus agent considerations; and
- Licensing application guidance.

The amendments introduce additional practical expedients for entities transitioning to IFRS 15 on (i) contract modifications that occurred prior to the beginning of the earliest period presented and (ii) contracts that were completed at the beginning of the earliest period presented.

(iv) Amendment to IAS 40 “Investment Property”

The amendments are intended to clarify that an entity can only reclassify a property to/from investment property when, and only when, there is evidence that a change in the use of the property has occurred.

3 SIGNIFICANT ACCOUNTING POLICIES (Contd.)

(v) Annual Improvements to IFRSs 2014 – 2016 Cycle - Amendments to IFRS 1 "First Time Adoption of International Financial Reporting Standards" and IAS 28 "Investments in Joint Venture and Associates"

- IFRS 1 "First Time Adoption of International Financial Reporting Standards": The amendments in IFRS 1 are exemptions in IFRS 1 that relates to disclosure about Financial Instruments (IFRS 7), Employee benefits (IAS 19), and investment entities (IFRS 12 and IAS 27). The reporting period to which the exemptions applied have already passed and as such, these exemptions are no longer applicable.

- IAS 28 "Investments in Joint venture and Associates": The amendments clarify that the option for a venture capital organization and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that the election should be made at initial recognition of the associate or joint venture.

  There is no impact of above amendments on these consolidated financial Statements.

(vi) IFRIC 22 "Foreign Currency Transaction and Advance Consideration"

The Interpretation clarifies that when an entity pays or receive consideration in advance in a foreign currency, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense, or income is the date of advance consideration i.e. when the prepayment or income receive in advance liability was recognized.

(vii) IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers"

The Group has already opted last year to early adopt IFRS 9 and IFRS 15 effective 1 January 2017. These standards were originally mandatory to be applied effective 1 January 2018 with an option of early adoption. At 1 January 2018, the Group was already in compliance with both standards.

3.1 Basis of consolidation and equity accounting

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2018.

(i) Subsidiaries

Subsidiaries are all entities over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:
- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee).
- Exposure, or rights, to variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement(s) with the other vote holders of the investee.
- Rights arising from other contractual arrangements.
- The Group's voting rights and potential voting rights.
- Any additional fact and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time decisions need to be made, including voting patterns at previous shareholders' meetings.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

3.1 Basis of consolidation and equity accounting (Contd.)

(i) Subsidiaries (Contd.)

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

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

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. When Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in the profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost. If the Group loses control over a subsidiary, it:
- Derecognises the assets (including goodwill) and liabilities of the subsidiary.
- Derecognises the carrying amount of any non-controlling interest.
- Derecognises the cumulative translation differences recorded in equity.
- Recognises the fair value of the consideration received.
- Recognises the fair value of any investment retained.
- Recognises any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

(ii) Associates

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

(iii) Joint arrangements

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

3.1 Basis of consolidation and equity accounting (Contd.)

(iii) Joint arrangements (Contd.)

Equity method

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

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

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

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

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

3.2 Business combinations and goodwill

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

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

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 re-measured and subsequent settlement is accounted for within equity.

3. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

3.2 Business combinations and goodwill (Contd.)

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

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

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

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

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

3.3 Revenue recognition

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

(i) Sale of goods

The Group manufactures and sells a wide range of products including chemicals, polymers and plastics. Revenue is recognized is at point in time 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.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

3.3 Revenue recognition (Contd.)

(ii) Rendering of services

Some of the subsidiaries provides services related to inspection of electrical, mechanical and industrial equipment, ISO Certification, academic training, information technology consultancy and laboratory testing under fixed-price and variable price contracts. Contract service revenues are recognised based on the value of work rendered to the customer in accordance with the terms and rates as specified in the service contracts. Revenue from providing services is recognised in the accounting period in which the services are rendered.

For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. This is determined based on the actual labor hours spent relative to the total expected labor hours. Services rendered but not invoiced as of period end are reflected as accrued income.

Where the contracts include multiple performance obligations, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin. If the contract includes an hourly fee, revenue is recognised in the amount to which the Group has a right to invoice. Customers are invoiced on a monthly basis and consideration is payable when invoiced. In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. Amounts received pertaining to services not performed at the end of the period are reflected as advance from customers.

Other service revenues are recognised when the services are rendered.

3.4 Cost of revenue, Selling, marketing and general and administrative expenses

Operating cost are recognized on a historical cost basis. Production costs which includes consumption of inventory, direct labor and attributable overhead costs are classified as cost of revenue.

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

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

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

3.5 Foreign currency translation

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

(i) Transactions and balances

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

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

(ii) Group companies

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

3. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

3.6 Zakat, income and deferred Taxes

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

(i) Zakat

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

(ii) Current income tax

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

(iii) Deferred taxes

Deferred 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. Un-recognised 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.

3.7 Property, plant and equipment

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

3.7 Property, plant and equipment (Contd.)

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

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

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

Asset class	**Useful lives (in years)**
Buildings	10 - 40
Leasehold improvements	Shorter of the lease term or useful life
Plant, machinery and equipment	2 - 40
Tools and capital spares	4 - 10
Furniture, fixtures and equipment	3 - 10
Motor vehicles	4 - 5
Computers	3 - 5
Mine development	5 - 30
Catalyst	1 - 5

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

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

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

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

3.8 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.

3.9 Leases

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

3.9 Leases (Contd.)

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

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

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

3.10 Intangible assets

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

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

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

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

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

(i) Goodwill

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

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

(ii) Software Technologies

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

3. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

3.10 Intangible assets (Contd.)

(iii) Other intangible assets

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

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

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

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

3.11 Exploration and evaluation costs

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

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

E&E assets are assessed for impairment if:
(i) sufficient data exists to determine technical feasibility and commercial viability, and
(ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount (refer note 3.12).

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

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

3.12 Impairment of non-financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

3.12 Impairment of non-financial assets (Contd.)

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. Long-term growth rate is calculated and applied to project future cash flows after the fifth year.

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

Impairment recognized previously on goodwill is not reversed.

3.13 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.

3.14 Cash and cash equivalents

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

3.15 Employee benefits

(i) Short term obligations

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

(ii) Post-employment obligations

Defined contribution plans

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

Defined benefit plans

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

3.15 Employee benefits (Contd.)

(ii) Post-employment obligations (Contd.)

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

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

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

(iii) Employees House Ownership Program

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

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

3.16 Provisions and contingent liabilities

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

(i) Decommissioning liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

3.16 Provisions and contingent liabilities (Contd.)

(ii) Rehabilitation and mine closure costs

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

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

(iii) Restructuring provisions

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

(iv) Environmental remediation costs

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

(v) Contingent liabilities

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

(vi) Overburden costs

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

3.17 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method less impairment. For impairment of financial assets, (refer to note 3.19 (iv)).

3. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

3.18 Trade 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.

3.19 Financial instruments

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

Financial assets

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

i. Classification

The financial assets are classified in the following measurement categories:

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

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

ii. Measurement

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

Debt Instruments

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

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

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

Equity Instruments

If the Group elects to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss. Dividends from such investments shall continue to be recognised in the consolidated statement of profit or 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 income / (expenses) in the consolidated statement of profit or loss as applicable.

3. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

3.19 Financial instruments (Contd.)

Financial assets (Contd.)

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

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

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

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

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

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

v. Income recognition

Murabaha income
For all financial instruments measured at amortized cost and interest bearing financial assets, Murabaha income is recognised using the effective interest rate (EIR), which is the rate that discounts the estimated future cash 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

3.19 Financial instruments (Contd.)

Financial assets (Contd.)

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

Financial liabilities

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

i. Classification
The financial liabilities are classified in the following measurement categories:
a) Those to be measured as financial liabilities at fair value through profit or loss; and
b) Those to be measured at amortized cost.

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

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

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

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

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

3.20 Derivative financial instruments and hedge accounting

The Group activities expose it to the financial risks of changes in foreign exchange rates and interest rates. Derivatives are used for economic hedge purposes and not as speculative investments.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

3.20 Derivative financial instruments and hedge accounting (Contd.)

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

(i) Derivatives that are not designated as hedges

The Group enters into certain derivative contracts to hedge risks which are not designated as hedges. Such contracts are accounted for at fair value through profit or loss, within 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.

3.21 Offsetting financial instruments

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

3.22 Statutory reserve

In accordance with the Saudi companies law, the Company transfers 10% of the net income in each year to the statutory reserve until it has built a reserve equal to 30% of the capital. This reserve is not available for distribution.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS ESTIMATES AND ASSUMPTIONS

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

The judgements estimate and assumptions that may 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:

4. SIGNIFICANT ACCOUNTING JUDGEMENTS ESTIMATES AND ASSUMPTIONS (Contd.)

(i) Impairment reviews

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

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

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

(ii) Estimation of useful life and residual value

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

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

(iii) Impairment losses on trade receivables

Trade receivables are stated at their amortized cost as reduced by appropriate allowances for estimated irrecoverable amounts. Estimated irrecoverable amounts are based on the ageing of the receivable balances and historical experience adjusted appropriately for the future expectations. Individual trade receivables are written off when management deems them not to be collectible, (refer to note 3.19 (iv))

(iv) Measurement of defined benefit obligations

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

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

The Group's Zakat and tax charge on ordinary activities is the sum of the total zakat, current and deferred taxes charges. The calculation of the Group's zakat and total taxes charge necessarily involves a degree of estimation and judgment in respect of certain items whose treatment cannot be finally determined until resolution has been reached with the relevant tax authority or, as appropriate, through a formal legal process.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS ESTIMATES AND ASSUMPTIONS (Contd.)

(v) Estimate of Zakat, current and deferred income taxes(contd.)

The final resolution of some of these items may give rise to material profits / (losses) and/or cash flows. The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future, against which the reversal of temporary differences can be deducted. To determine the future taxable profits, reference is made to the latest available profit forecasts. Where the temporary differences are related to losses, relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits.

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

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

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

Revenue from sale of goods is recognized when the control of the goods has been transferred to the customer. In making this assessment, the Group has exercised judgment based on the terms and conditions of the underlying contracts, (refer note 3.3)

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

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

5. NEW STANDARD ISSUED BUT NOT YET EFFECTIVE

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

(i) IFRS 16 Leases

The IASB has issued a new standard for the recognition of leases. This standard will replace:
- IAS 17 – 'Leases'
- IFRIC 4 – 'Whether an arrangement contains a lease'
- SIC 15 – 'Operating leases – Incentives'
- SIC-27 – 'Evaluating the substance of transactions involving the legal form of a lease'

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Group has decided to apply the modified retrospective approach. Under this approach, the comparable figures for the previous year are not restated and all adjustments of adoption will be made as of 1 January 2019.

5. NEW STANDARD ISSUED BUT NOT YET EFFECTIVE (Contd.)

(ii) IFRS 16 Leases (Contd.)

The Group will elect to use the following practical expedients that are available under modified retrospective approach.

- Exclusion of leases with remaining term of less than 12 months as of the date on initial application.
- Exclusion of initial direct cost from the value of right of use assets.

The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group will elect to use the recognition exemptions allowed by the standard on lease contracts with a lease term of 12 months or less and also where lease contracts for which the underlying asset is of low value.

The Group is currently working to determine the expected IFRS 16 implementation impact on assets, liabilities, and equity. The Groups implementation work is progressing according to plan.

(iii) IFRS 17 Insurance contracts

In May 2017, the IASB issued IFRS 17 – Insurance Contracts, which is effective for annual periods beginning on or after 1 January 2021. The standard introduces a new measurement model for insurance contracts. Early adoption is permitted if IFRS 9 and 15 have been applied as on the application date for this standard. The standard is not applicable on the Group.

(iv) Prepayments features with negative compensation (Amendments to IFRS 9)

Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation prepayments. There are other pronouncements / amendments issued but are not relevant to the Company's operations and therefore, are not disclosed in these financial statements.

(v) Amendments of existing requirements to IFRSs 2015 - 2017 Cycle:

- Amendments to IFRS 3 "Business Combination" The Company re-measures its previously held interest in joint operations when the company obtain control.

- Amendments to IFRS 11 "Joint Arrangements" The Company does not re-measure the previously held interest in joint operations when company obtain control.

- Amendments to IAS 23 "Borrowing Costs" The Company considers the loan designated for the development of any assets within loans in the event that it is intended to finance the qualifying assets ready for specific use or sale. This amendment is effective from 1 January 2019 with early application allowed.

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

(SR in ’000 unless otherwise noted)

6. PROPERTY, PLANT AND EQUIPMENT

	Land, buildings and construction	Plant, machinery and equipment	Tools and capital spares	Furniture, fixtures and equipment	Motor vehicles	Computers	Mines development	Catalyst	Assets under construction	Total
Cost										
Balance as at 1 January 2017	2,615,617	9,730,831	7,042	53,237	36,679	11,685	813,761	28,201	1,814,351	15,111,404
Additions	165,279	187,755	312	3,806	2,496	4,286	3,495	-	508,095	875,524
Disposals	(27,857)	(100,251)	-	(7)	(3,782)	-	(28,006)	-	(18,347)	(178,250)
Transfers / adjustments	42,442	442,634	17,641	5,129	-	-	58,052	-	(551,273)	14,625
Impairment of assets	-	(11,582)	-	-	-	-	-	-	-	(11,582)
Foreign currency translation adjustments	42,997	129,377	-	-	-	-	58,429	-	(70,145)	160,658
Balance as at 31 December 2017	**2,838,478**	**10,378,764**	**24,995**	**62,165**	**35,393**	**15,971**	**905,731**	**28,201**	**1,682,681**	**15,972,379**
Additions	**84,114**	**153,709**	**37,891**	**1,184**	**933**	**4,635**	**49**	**265**	**617,421**	**900,201**
Disposals	**(16,309)**	**(96,823)**	**(302)**	**(25,371)**	**(13,862)**	**-**	**(3,368)**	**-**	**(28,222)**	**(184,257)**
Transfers / adjustments	**54,759**	**332,822**	**15**	**(15)**	**-**	**1,801**	**11,110**	**-**	**(545,934)**	**(145,442)**
Impairment of assets	**-**	**(25,546)**	**-**	**-**	**-**	**-**	**-**	**-**	**(47,897)**	**(73,443)**
Foreign currency translation adjustments	**(81,738)**	**(264,681)**	**-**	**-**	**-**	**-**	**(77,295)**	**-**	**(24,396)**	**(448,110)**
Balance as at 31 December 2018	**2,879,304**	**10,478,245**	**62,599**	**37,963**	**22,464**	**22,407**	**836,227**	**28,466**	**1,653,653**	**16,021,328**
Accumulated depreciation										
Balance as at 1 January 2017	803,095	4,577,406	2,960	42,470	28,649	9,932	518,251	9,229	-	5,991,992
Charge for the year	115,468	584,158	2,788	5,502	3,058	1,345	81,179	10,614	-	804,112
Disposals	(25,923)	(91,917)	-	(5)	(3,668)	-	(27,960)	-	-	(149,473)
Transfers / adjustments	806	(806)	-	-	-	-	-	-	-	-
Foreign currency translation adjustments	(4,676)	(40,940)	-	-	-	-	43,015	-	-	(2,601)
Balance as at 31 December 2017	**888,770**	**5,027,901**	**5,748**	**47,967**	**28,039**	**11,277**	**614,485**	**19,843**	**-**	**6,644,030**
Charge for the year	**114,826**	**559,414**	**6,242**	**3,910**	**2,439**	**4,952**	**85,596**	**3,550**	**-**	**780,929**
Disposals	**(5,156)**	**(28,398)**	**(266)**	**(20,020)**	**(10,333)**	**-**	**-**	**-**	**-**	**(64,173)**
Transfers / adjustments	**-**	**-**	**11**	**(11)**	**-**	**-**	**-**	**-**	**-**	**-**
Foreign currency translation adjustments	**(36,853)**	**(154,186)**	**-**	**-**	**-**	**-**	**(62,619)**	**-**	**-**	**(253,658)**
Balance as at 31 December 2018	**961,587**	**5,404,731**	**11,735**	**31,846**	**20,145**	**16,229**	**637,462**	**23,393**	**-**	**7,107,128**
Net carrying value										
As at 31 December 2018	**1,917,717**	**5,073,514**	**50,864**	**6,117**	**2,319**	**6,178**	**198,765**	**5,073**	**1,653,653**	**8,914,200**
As at 31 December 2017	1,949,708	5,350,863	19,247	14,198	7,354	4,694	291,246	8,358	1,682,681	9,328,349

(SR in '000 unless otherwise noted)

6. PROPERTY, PLANT AND EQUIPMENT (Contd.)

6.1 Included in buildings is a cost of leasehold improvements with a net book value of SR 4.4 million (2017: SR 4.3 million).

6.2 Assets under constructions as at 31 December 2018 and 2017 mainly consist of costs of expansion of facilities of production lines, safety and environment improvement costs.

6.3 Certain lands on which certain factories and facilities of some the subsidiaries are situated was leased from the government at nominal rents, for periods up to 30 years, and renewable for further periods.

6.4 Certain subsidiaries' property, plant and equipment are mortgaged as security against loans extended to those companies (notes 20 and 23).

6.5 The capitalized borrowing costs during the year ended 31 December 2018 amounted to SR nil million (2017: SR 11.6 million).

6.6 During the year ended 31 December 2018 assets under construction relating to the power project totaling of SR 145.4 million (2017: SR nil) were transferred at cost to Advanced Metal Industrial Cluster Limited Company and reported under projects under progress.

7. PROJECTS UNDER PROGRESS

This mainly represents costs of establishing a project relating to Titanium metals of various types and other related substances including Titanium ore, Iron ore and manufacturing of Titanium dioxide through high pressure oxidation at Jizan by a subsidiary. During 2018, an amount of SR 9.83 million (2017: SR 5.76 million) has been capitalized, representing borrowing cost directly related to the projects under progress.

8. INTANGIBLE ASSETS

	Goodwill	Software technologies	Other intangible assets	Total
Cost				
Balance as at 1 January 2017	2,410,745	760,004	3,358	3,174,107
Additions	-	46,924	-	46,924
Disposals	-	(47,703)	-	(47,703)
Transfer	-	8,548	-	8,548
Foreign currency translation adjustments	17,561	20,418	-	37,979
Balance as at 31 December 2017	**2,428,306**	**788,191**	**3,358**	**3,219,855**
Additions	**-**	**9,192**	**-**	**9,192**
Disposals	**-**	**(5,913)**	**-**	**(5,913)**
Foreign currency translation adjustments	**(23,846)**	**(11,334)**	**-**	**(35,180)**
Balance as at 31 December 2018	**2,404,460**	**780,136**	**3,358**	**3,187,954**
Amortization				
Balance as at 1 January 2017	5,231	353,455	-	358,686
Charge for the year	-	45,618	3,358	48,976
Disposals	-	(18,747)	-	(18,747)
Transfer	-	4,200	-	4,200
Foreign currency translation adjustments	-	8,947	-	8,947
Balance as at 31 December 2017	**5,231**	**393,473**	**3,358**	**402,062**
Charge for the year	**-**	**48,180**	**-**	**48,180**
Disposals	**-**	**(2,270)**	**-**	**(2,270)**
Foreign currency translation adjustments	**-**	**11,783**	**-**	**11,783**
Balance as at 31 December 2018	**5,231**	**451,166**	**3,358**	**459,755**
Net carrying value				
As at 31 December 2018	**2,399,229**	**328,970**	**-**	**2,728,199**
As at 31 December 2017	2,423,075	394,718	-	2,817,793

(SR in ’000 unless otherwise noted)

8. INTANGIBLE ASSETS (Contd.)

8.1 Goodwill impairment review

Goodwill is tested annually for any impairment by the Group’s management, using discounted cash flow model. As a result of the goodwill assessment test performed during the year ended 31 December 2018, management found no evidence of impairment in goodwill.

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

- The projected cash flows used were based on 5 years’ business plan forecasts approved by the management. This is the best available information on projected sales and production volumes, sales prices and production costs.
- The growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts was 2%. Management believes that the estimated growth rates used do not exceed the average growth rates over the long term on the company's activities.
- The discount rate of 9.2% was applied to the cash flow projections, based on the weighted average cost of capital.

9. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	31 December 2018	31 December 2017
Investments in joint ventures (note 9.1)	**6,885,444**	6,572,677
Investments in associates (note 9.2)	**274,892**	283,004
	7,160,336	6,855,681

9.1 Investments in joint ventures

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

Saudi Ethylene and Polyethylene Company
Saudi Ethylene and Polyethylene Company (“SEPC”) is a Saudi Limited Liability Company with its head office based in Jubail, Saudi Arabia. The authorized and issued capital of SEPC is SR 2,737.5 million. The Company is 75% owned by TSOC and 25% of share capital owned by Basell Moyen Orient Investments SAS. The main objectives of SEPC are producing ethylene, propylene, polyethylene.

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

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

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

(SR in ’000 unless otherwise noted)

9. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (Contd.)

9.1 Investments in joint ventures (contd.)

The movements in investments in joint venture are as follows:

	31 December 2018	31 December 2017
Opening balance	**6,572,677**	6,345,586
Share in earnings, net	**1,621,970**	1,347,469
Additions / disposals, net	**106,797**	149,622
Dividends income	**(1,416,000)**	(1,270,000)
Closing balance	**6,885,444**	6,572,677

The joint ventures’ financial statements are as follows:

	31 December 2018	31 December 2017
Total Assets	**19,353,745**	19,442,496
Total Liabilities	**10,659,245**	10,882,444
Total Equity	**8,694,499**	8,560,052
Total Revenue	**10,666,686**	9,049,692
Total Expenses	**8,729,416**	7,126,740

9.2 Investments in associates

National Metal Manufacturing and Casting Company
National Metal Manufacturing and Casting Company (“Maadaniyah”) is a Saudi Joint Stock Company and listed in Saudi stock exchange. Its head office is based in Jubail, Saudi Arabia. The authorized and issued capital of Maadaniyah is SR 281 million. As at 31 December 2018, the Group own 35.45% of the issued share capital. The main objectives of the Company are manufacturing and marketing of drawn wire and related products, various sizes of axles and spare parts for trailers and dumping trucks, steel and non-steel casting, and trading in related products.

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

The movements in investments in associates are as follows:

	31 December 2018	31 December 2017
Opening balance	**283,004**	283,269
Share in earnings, net	**2,520**	(3,528)
Dividends income	**(2,492)**	(4,985)
Disposal / Adjustment	**(8,140)**	8,248
Closing balance	**274,892**	283,004

10. INVESTMENTS IN EQUITY INSTRUMENTS DESIGNATED AS FVOCI

	31 December 2018	31 December 2017
Unquoted equity shares (note 32)	**525,296**	578,661
Quoted equity shares (note 32)	**226,466**	283,919
	751,762	862,580

(SR in '000 unless otherwise noted)

11. ZAKAT AND INCOME TAX PAYABLE

11.1 Zakat and income tax

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

	31 December 2018	31 December 2017
At the beginning of the year	**354,108**	311,895
Paid during the year	**(183,701)**	(43,266)
Adjustments during the year	**(80,714)**	94,881
Provision during the year	**341,252**	(9,402)
At the end of the year	**430,945**	354,108

11.2 Zakat

Movement in zakat provision is as follows:

	31 December 2018	31 December 2017
At the beginning of the year	**283,145**	223,638
Paid during the year	**(80,321)**	(42,141)
Adjustments during the year	**(16,669)**	13,520
Provision during the year	**222,760**	88,128
At the end of the year	**408,915**	283,145

11.3 Income Tax

Movement in income tax is as follows:

	31 December 2018	31 December 2017
At the beginning of the year	**70,963**	88,257
Paid during the year	**(103,380)**	(1,125)
Adjustments during the year	**(64,045)**	81,361
Provision during the year	**118,492**	(97,530)
At the end of the year	**22,030**	70,963

11.4 Deferred Tax

Movement in deferred tax assets are as follows:

	31 December 2018	31 December 2017
At the beginning of the year	**287,107**	233,426
Provision during the year	**(66,934)**	53,681
At the end of the year	**220,173**	287,107

Movement in deferred tax liabilities is as follows:

	31 December 2018	31 December 2017
At the beginning of the year	**271,094**	260,156
(Adjustment) / provision during the year	**(48,064)**	10,938
At the end of the year	**223,030**	271,094

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

(SR in ’000 unless otherwise noted)

11. ZAKAT AND INCOME TAX PAYABLE (Contd.)

11.4 Deferred Tax (Contd.)

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

	31 December 2018	31 December 2017
Deferred tax assets		
Net operating losses	**240,064**	300,618
Research & Development tax credit carryovers	**62,733**	55,481
Interest expenses carryover	**31,968**	22,230
Others	**86,205**	96,576
Deferred tax liabilities		
Depreciation and amortization	**(213,518)**	(205,887)
Others	**(210,308)**	(253,005)

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

11.5 Status of zakat and income tax returns and assessments

During 2015, the Company received an approval from GAZT in the Kingdom of Saudi Arabia to file consolidated zakat returns of the Company and its Saudi 100% owned subsidiaries since 2008. As at 31 December 2018, the Company has filed consolidated zakat and income tax returns while non-wholly subsidiaries have filed their zakat and income tax returns with GAZT up to 31 December 2017.

As of 31 December 2018, the Company has finalized its zakat and income tax status with GAZT up to 2007, while zakat declarations for the years from 2008 to 2017 are still under review by GAZT.

Subsidiaries
Non-wholly owned subsidiaries in Kingdom of Saudi Arabia file their zakat and income tax returns individually for each company. Overseas subsidiaries file their income tax return based on the tax laws in their countries in which the operations are conducted and income is earned.

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

12. OTHER NON-CURRENT ASSETS

	31 December 2018	31 December 2017
Employee receivables	**335,818**	394,429
Prepayments and other receivables	**386,422**	732,690
Pension asset	**88,549**	74,007
Others	**1,460**	4,603
	812,249	1,205,729

13. INVENTORIES

	31 December 2018	31 December 2017
Finished goods	**1,501,615**	1,132,654
Raw materials	**1,112,889**	1,053,163
Work in progress	**355,963**	363,479
Consumables and spare parts	**314,571**	293,769
	3,285,038	2,843,065
Less: provision for slow moving inventories	**(23,884)**	(27,094)
	3,261,154	2,815,971

(SR in '000 unless otherwise noted)

13. INVENTORIES (Contd.)

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

	31 December 2018	31 December 2017
Opening balance	**27,094**	120,927
Charge for the year	**2,395**	14,037
Less: write-offs / reversals	**(5,605)**	(107,870)
Closing balance	**23,884**	27,094

During 2018, a write down of inventory amounting to SR 6 million (2017: SR 108 million) was recognised as an expense in the consolidated statement of profit or loss to reduce certain inventory items to their net realizable value.

14. <u>TRADE RECEIVABLES, NET</u>

	31 December 2018	31 December 2017
Trade receivables	**2,523,311**	2,604,825
Due from related parties – trade (note 30.2)	**85,720**	221,525
	2,609,031	2,826,350
Less: impairment of trade receivables	**(93,980)**	(99,685)
	2,515,051	2,726,665

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

The Group sells a broad range of industrial and performance chemicals and plastic products to a diverse group of customers to various industries, operating throughout the World. The Group's credit risk management policies are disclosed in note 33.1.

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

	31 December 2018	31 December 2017
Not due	**2,311,495**	2,480,361
Between 0 - 90 days	**177,319**	198,668
Between 91 - 180 days	**14,961**	38,414
Between 181 - 360 days	**4,359**	9,026
More than 360 days	**6,917**	196
	2,515,051	2,726,665

The impairment in trade receivables is determined based on ECL model and reviewed periodically. As at 31 December 2018, trade receivables with an initial carrying value of SR 94 million (2017: SR 99.7 million) were impaired and fully provided for.

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

	31 December 2018	31 December 2017
Opening balance	**99,685**	73,428
Charge for the year	**22,855**	26,257
Less: write-offs / reversals	**(28,560)**	-
Closing balance	**93,980**	99,685

(SR in '000 unless otherwise noted)

15. PREPAYMENTS AND OTHER CURRENT ASSETS

	31 December 2018	31 December 2017
Prepaid expenses	**299,542**	842,327
Due from related parties - non-trade (note 30.2)	**278,849**	174,020
Employees' receivables	**247,925**	245,800
Advances to suppliers	**46,679**	7,622
Other receivables	**282,037**	292,540
	1,155,032	1,562,309

16. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Short-term deposits and murabaha	**1,654,014**	1,568,259
Bank balances	**1,255,031**	966,956
	2,909,045	2,535,215

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

17. SHARE CAPITAL

Share capital amounted to SR 6,689,142 thousand as at 31 December 2018 (2017: SR 6,689,142 thousand) consisting of 668,914 thousand shares (2017: 668,914 thousand shares) of SR 10 each.

18. STATUTORY RESERVE

The Company is required to maintain the statutory reserve by allocating each year 10% from the net profit of the year until the statutory reserve becomes to 30% of share capital.

19. OTHER RESERVES

As at 31 December 2018, other reserves details are as follows:

	Foreign currency translation reserves	Hedging reserves	Actuarial gain / (loss) reserve	Other	Total
Opening balance, 1 January	**169,169**	**2,763**	**(23,383)**	**(598,704)**	**(450,155)**
Movement during the year	**(298,353)**	**1,739**	**(2,082)**	**81,456**	**(217,240)**
Closing balance, 31 December	**(129,184)**	**4,502**	**(25,465)**	**(517,248)**	**(667,395)**

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

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

Other mainly consists of a difference in the acquisition of the non-controlling interests amounting to SR 926 million (2017: SR 992 million).

(SR in '000 unless otherwise noted)

20. LONG TERM BORROWINGS

	Note	31 December 2018	31 December 2017
Sukuk	20.1	**2,000,000**	2,000,000
Saudi Industrial Development Fund	20.2	**1,569,948**	1,676,430
Commercial banks	20.3	**10,921,546**	11,923,412
Total loans		**14,491,494**	15,599,842
Less: Current portion of long term borrowings		**(3,219,069)**	(813,994)
Total non-current loans		**11,272,425**	14,785,848

20.1 Sukuk

On Jumada II' 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).

20.2 Saudi Industrial Development Fund ("SIDF")

The Group has multiple long-term facilities from the Saudi Industrial Development Fund. The total outstanding balance of these loans as at 31 December 2018 amounted to SR 1,570 million (2017: SR 1,676 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.

20.3 Loans from commercial banks

The Group has multiple long-term loan facilities from commercial banks. The outstanding balance of these loans as at 31 December 2018 amounted to SR 10,922 million (2017: SR 11,923 million). These loans are secured by promissory notes and guarantees of the shareholders and carry a commission that is commensurate with prevailing commercial rates. The loans contain certain covenants including the requirement to maintain specified financial ratios.

During 2017, the Group entered into syndicated murabaha facilities in a total amount of SR 3.9 billion to refinance its existing facilities. The new facilities have a seven years' maturity ending in 2024 and are repayable in sculpted semi-annual installments. The facilities are secured by promissory notes and carry a commission that is commensurate with prevailing commercial rates. The facilities contain certain covenants including the requirement to maintain specified financial ratios.

20.4 The maturity details of long term borrowings facilities as at December 31, are as follows:

	31 December 2018	31 December 2017
2018	**-**	813,994
2019	**3,219,069**	8,619,976
2020	**6,180,322**	510,855
2021	**580,110**	624,727
2022	**958,097**	1,027,635
2023	**1,369,263**	1,448,735
Above 5 Years	**2,184,633**	2,553,920
	14,491,494	15,599,842

21. EMPLOYEE BENEFITS

21.1 Defined Contribution plans

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

The total expense recognized in the consolidated statement of profit or loss for the years ended 31 December 2018 and 2017 are SR 49.16 million and SR 49.66 million respectively, represents the contributions earned by the participants at rates specified in the rules of the plans.

(SR in '000 unless otherwise noted)

21. EMPLOYEE BENEFITS (Contd.)

21.2 Defined benefit plans

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

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

21.2.1 Amount of benefits recognized as an expense

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

	31 December 2018	31 December 2017
Service cost	**56,563**	43,940
Interest cost, net	**75,123**	66,533
Net annual benefit expense	**131,686**	110,473

21.2.2 Movements in defined benefit obligation and plan assets

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

	31 December 2018	31 December 2017
Defined benefit obligation		
Opening defined benefit obligation, 1 January	**1,886,371**	1,781,936
Interest cost	**75,123**	66,533
Service cost	**56,563**	43,940
Benefits paid	**(130,948)**	(113,914)
Exchange differences	**(42,608)**	62,892
Plan Amendments	**(1,485)**	4,376
Changes in assumptions	**(97,946)**	(4,012)
Changes on account of experience adjustments	**27,225**	44,620
Closing defined benefit obligation, 31 December	**1,772,295**	1,886,371

	31 December 2018	31 December 2017
Plan assets		
Opening plan assets, 1 January	**1,306,544**	1,240,908
Employer contribution	**28,010**	25,816
Member contribution	**909**	995
Expected return	**39,071**	39,892
Expected administrative expenses	**(3,369)**	(4,636)
Benefits paid	**(82,313)**	(127,245)
Actuarial gain / (loss), net	**(79,440)**	66,854
Exchange differences	**(47,797)**	63,960
Fair value of plan assets, 31 December	**1,161,615**	1,306,544
Net closing of Defined Benefit Obligation, 31 December	**610,680**	579,827

(SR in '000 unless otherwise noted)

21. EMPLOYEE BENEFIT (Contd.)

21.2.3 Significant assumptions

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

	31 December 2018	31 December 2017
Discount rate		
• KSA	**5.80%**	4.95%
• USA and Europe	**2.90 - 5.80%**	2.55 - 4.95%
Future salary increases		
• KSA	**5%**	5.20%
• USA and Europe	**2 - 5%**	3 - 5.2%

21.2.4 A quantitative sensitivity analysis for significant assumption on the defined benefit obligation as at 31 December 2018 and 2017 is, as shown below:

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

	31 December 2018	31 December 2017
Discount rate		
Discount rate is 1% basis points higher, the DBO would decrease by	**247,100**	224,814
Discount rate is 1% basis points lower, the DBO would increase by	**302,700**	204,551
Future salary increases		
Future salary growth increase by 1%, the DBO would increase by	**97,800**	44,538
Future salary growth decrease by 1%, the DBO would decrease by	**85,300**	36,285

22. OTHER NON-CURRENT LIABILITES

	31 December 2018	31 December 2017
Provisions (note 22.1)	**392,485**	404,432
Derivative financial instruments (note 22.2)	**4,711**	8,528
Others	**191,652**	579,885
	588,848	992,845

22.1 Provisions

	Non-current	
	31 December 2018	31 December 2017
Provision for decommissioning liabilities (refer note 25)	**290,144**	309,691
Provision for rehabilitation and mines closure (refer note 25)	**87,248**	76,830
Others	**15,093**	17,911
Total	**392,485**	404,432

22.2 Derivative financial instruments

	31 December 2018	31 December 2017
Derivatives not designated as hedges:		
• Interest rate swaps	**-**	6,619
Derivatives designated as hedges:		
• Foreign exchange forward contracts (note 22.2.1)	**(315)**	604
• Interest rate swaps (note 22.2.2)	**(1,742)**	1,305
• Interest rate caps (note 22.2.2)	**6,768**	-
	4,711	8,528

(SR in '000 unless otherwise noted)

22. OTHER NON-CURRENT LIABILITES (Contd.)

22.2.1 Foreign exchange contracts

Management has considered the possibility of greater than expected budgeted increases in foreign exchange rates. The Group is exposed to certain transactions in foreign currencies due to exchange rate fluctuations. The Group forecasts that it will have US Dollar USD, Euro ("EUR"), Sterling ("GBP") and Australian Dollar ("AUD") denominated revenue and purchases and is exposed to variability in forecasted cash flows, as a result of foreign currency movements between the USD, EUR, GBP, AUD and SR.

Where appropriate and as per the Group policy, the Group uses forward foreign currency contracts, and foreign currency swaps to hedge these exposures. Fair value changes on these are accounted through the consolidated statement of other comprehensive income based on IFRS 9.

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

	31 December 2018	31 December 2017
Forward foreign currency contracts – contract values	**149,992**	156,962

22.2.2 Interest rate swaps and caps

The Group is exposed to fluctuations in variable interest rates on its short term and long-term debt. The Group maintains an interest rate risk management strategy that uses derivatives instruments such as interest rate swaps to economically convert a portion of its variable rate debt to fixed rate debt. The Group has entered into interest rate swap contracts and certain other interest rate derivatives with certain local banks. The fair value amounts of such contracts outstanding as at 31 December 2018 was SR 5,026 million (2017: SR 7.924 million).

23. SHORT TERM FACILITES

The Group has several short-term credit facilities to fund its working capital requirements and short-term funding needs. The outstanding balance of these facilities as at 31 December 2018 amounted to SR 5.0 million (2017: SR 17.4 million). These facilities are secured by promissory notes and carry a commission that is commensurate with prevailing commercial rates.

24. TRADE PAYABLES

	31 December 2018	31 December 2017
Due to related parties – trade (note 30.2)	**1,444,853**	1,420,859
Trade payables	**1,068,419**	1,235,530
	2,513,272	2,656,389

25. PROVISIONS AND OTHER CURRENT LIABILITIES

Provisions consist of the following as at 31 December 2018:

25.2 Provision for decommissioning liabilities

The provision for asset retirement costs for certain facilitates and landfills owned and / or operated by the Group are based on the Group's historical experience. The provision estimates the future costs and discounts the amounts to present value using the same discount rate as sued for asset impairment testing. The provisions are reviewed on annual basis. Revisions to the provisions could occur due to changes in the estimated retirement cots or useful lives, additional assets that require future decommissioning and new or revised government regulations (refer note 22).

25.3 Provision for rehabilitation and mines closure

A restructuring reserve was raised to cover the costs of closure of various plants in prior years for the costs associated with the dismantling and environmental cleanup. All cost related to the closure have been charged to the provision. The total restructuring costs are monitored closely and revised as current information with more precise costs become available (refer note 22).

(SR in '000 unless otherwise noted)

25. PROVISIONS AND OTHER CURRENT LIABILITIES (Contd.)

25.4 Other current liabilities

	31 December 2018	31 December 2017
Provisions and non-trade payables *	**643,445**	579,485
Accrued expenses	**826,770**	767,552
Accrued employee benefits	**132,150**	102,117
Product sales rebates	**130,905**	134,472
Dividends payable	**79,989**	80,975
Provision for rehabilitation and mines closure	**6,690**	14,196
Provision for decommissioning liabilities	**6,650**	12,076
Others	**87,207**	41,224
	1,913,806	1,732,097

* The amount includes a provision against financial support for a joint arrangement amounted to SR 198,891 (2017: SR Nil) which is expected to be expended in 2019.

26. SELLING AND DISTRIBUTION EXPENSES

	2018	2017
Freight and transportation	**365,675**	359,754
Salaries, wages and benefits	**144,609**	132,742
Distributors' incentives	**48,526**	42,891
Depreciation and Amortization	**1,048**	2,042
Others	**51,132**	44,707
	610,990	582,136

27. GENERAL AND ADMINISTRATIVE EXPENSES

	2018	2017
Salaries, wages and benefits	**435,652**	374,720
Research and development	**136,473**	132,793
Consulting and professional fees	**234,624**	263,597
Loss of disposal of assets	**78,943**	89,243
Subsidy to affiliates	**72,150**	68,513
Depreciation and amortization	**68,250**	74,349
Travel	**50,038**	21,401
Rent	**37,376**	17,746
Others	**77,866**	14,640
	1,191,372	1,057,002

28. OTHER INCOME / (EXPENSES), NET

	2018	2017
Research center income	**64,549**	60,917
House ownership program infrastructure retrieval	**62,400**	-
Dividends received	**16,616**	19,302
Proceeds from murabaha and other deposits	**8,082**	7,145
Compensations from legal cases	**-**	44,572
Foreign exchange gains / (losses), net	**(16,709)**	55,765
Others *	**(54,105)**	43,210
	80,833	230,911

* This primarily includes recovery of various costs and subsidy provided to joint ventures amounting to SR 145,965 (2017: SR 37,300) and a provision against financial support for a joint arrangement amounting to SR 198,891 (2017: SR Nil).

(SR in '000 unless otherwise noted)

29. EARNINGS PER SHARE

Earnings used in the calculation of basic earnings per share:

	2018	**2017**
Net profit from operations	**2,748,028**	1,623,834
Net profit for the year	**1,202,094**	716,156

The earnings per share attributable to income from net profit for the year are calculated based on total number of shares issued, that is 668,914 thousand shares as at 31 December 2018 (2017: 668,914 thousand shares).

30. RELATED PARTIES TRANSACTIONS AND BALANCES

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

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

30.1 Trading transactions

The following are the significant related party transactions:

	Sales		**Purchases**	
	Year ended 31 December 2018	**Year ended 31 December 2017**	**Year ended 31 December 2018**	**Year ended 31 December 2017**
Associates	**-**	1,423	-	-
Joint ventures	-	-	**1,117,628**	706,301

30.2 Amounts due from / to related parties

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

	Due from related parties		**Due to related parties**	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
Associates	-	-	-	-
Joint ventures				
Trade (note 14/note 24)	**85,720**	221,525	**1,444,853**	1,420,859
Non-trade (note 15)	**278,849**	174,020	**-**	-

30.3 Compensation of key management personnel

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

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

	31 December 2018	**31 December 2017**
Short term benefits (salaries and allowances)	**29,536**	32,206

(SR in '000 unless otherwise noted)

31. SEGMENT INFORMATION

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

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

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

All other eliminations are part of detailed reconciliation below:

	Chemical	Petrochemical	Downstream and others	Eliminations/ Adjustments	Total
For the year ended and as at 31 December 2018					
Segment revenues	**8,373,945**	**1,887,761**	**1,177,755**	**(178)**	**11,439,283**
Segment expenses	**7,028,412**	**1,839,989**	**1,447,166**	**178**	**10,315,745**
Depreciation and amortization	**634,244**	**99,193**	**95,672**	**-**	**829,109**
Share of profit of associated companies and joint ventures	**(4,688)**	**1,626,961**	**2,217**	**-**	**1,624,490**
Segment EBITDA	**1,810,429**	**1,339,796**	**507,745**	**-**	**3,657,970**
Segment assets	**16,917,660**	**9,023,750**	**16,382,003**	**(8,757,572)**	**33,565,841**
Segment liabilities	**10,028,504**	**2,788,280**	**8,002,445**	**(42,126)**	**20,777,103**
Investments in associated companies and joint ventures	**277,175**	**6,616,182**	**266,979**	**-**	**7,160,336**
For the year ended and as at 31 December 2017					
Segment revenues	8,035,598	1,737,693	1,028,777	(5,644)	10,796,424
Segment expenses	7,404,482	1,745,068	1,361,337	5,644	10,516,531
Depreciation and amortization	634,503	115,743	102,842	-	853,088
Share of profit of associated companies and joint ventures	(10,507)	1,366,740	(12,292)	-	1,343,941
Segment EBITDA	1,108,165	1,062,439	537,229	-	2,707,833
Segment assets	18,149,289	9,540,805	15,942,184	(9,639,084)	33,993,194
Segment liabilities	11,339,209	2,819,069	8,184,128	(138,764)	22,203,642
Investments in associated companies and joint ventures	282,289	6,297,812	275,580	-	6,855,681

(SR in '000 unless otherwise noted)

31. SEGMENT INFORMATION (Contd.)

Geographical information

The geographical distribution of revenue is as follows:

	2018				
	Chemical	Petrochemical	Downstream and others	Elimination	Total
KSA	**379,675**	**867,150**	**696,930**	**(178)**	**1,943,577**
Middle East and Asia	**2,178,743**	**921,332**	**220,348**	**-**	**3,320,423**
Europe	**2,235,462**	**40,397**	**60,125**	**-**	**2,335,984**
North and South of USA	**2,641,212**	**4,488**	**4,072**	**-**	**2,649,772**
Australia	**282,801**	**-**	**-**	**-**	**282,801**
Others	**656,052**	**54,394**	**196,280**	**-**	**906,726**
Total	**8,373,945**	**1,887,761**	**1,177,755**	**(178)**	**11,439,283**

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

32. FAIR VALUATION AND FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Group takes into account the characteristics of the assets or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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

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

(SR in '000 unless otherwise noted)

32. FAIR VALUATION AND FINANCIAL INSTRUMENTS (Contd.)

32.1 Fair valuation techniques

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

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

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

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

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

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

Nature of financial instrument	Carrying value	Level 1	Level 2	Level 3
As at 31 December 2018				
Investments in quoted equity shares	**226,466**	**226,466**	**-**	**-**
Investments in unquoted equity shares	**525,296**	**-**	**28,904**	**496,392**
Interest rate swaps	**(1,742)**	**-**	**(1,742)**	**-**
Interest rate caps	**6,768**	**-**	**6,768**	**-**
Foreign exchange forward contracts	**(315)**	**-**	**(315)**	**-**
As at 31 December 2017				
Investments in quoted equity shares	283,919	283,919	-	-
Investments in unquoted equity shares	578,661	-	87,384	491,277
Interest rate swaps	(7,924)	-	(7,924)	-
Foreign exchange forward contracts	(604)	-	(604)	-

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

32.2 Transfers between Levels 1 and 2

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

(SR in '000 unless otherwise noted)

32. FAIR VALUATION AND FINANCIAL INSTRUMENTS (Contd.)

32.3 Sensitivity analysis

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

	As at 31 December 2018	
	Increase	**Decrease**
Significant observable inputs		
Equity securities in unquoted investments measured through OCI	**5,115**	**(5,115)**
Average EV/EBITDA (0.5% movement)	**9,183**	**(9,183)**

	As at 31 December 2017	
	Increase	**Decrease**
Significant observable inputs		
Equity securities in unquoted investments measured through OCI	30,437	(30,437)
Average EV/EBITDA (0.5% movement)	8,114	(8,114)

32.4 Movements in investments in FVOCI equity instruments

	Quoted equity shares	Unquoted equity shares
As at 31 December 2017	**283,919**	**578,661**
Disposals / adjustments	**(72,411)**	**(53,365)**
Fair value gains recognised in OCI	**14,958**	**-**
As at 31 December 2018	**226,466**	**525,296**

33. FINANCIAL RISK MANAGEMENT

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

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

33.1 Credit risk

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

(SR in '000 unless otherwise noted)

33. FINANCIAL RISK MANAGEMENT (Contd.)

33.1 Credit risk (Contd.)

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

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

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

33.2 Liquidity risk

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

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

	Within 1 year	**1 to 5 years**	**Greater than 5 years**	**No fixed maturity**	**Total**
31 December 2018					
Short term facilitates	**5,028**	**-**	**-**	**-**	**5,028**
Borrowings	**3,219,069**	**7,718,529**	**3,553,896**	**-**	**14,491,494**
Trade payable	**2,513,272**	**-**	**-**	**-**	**2,513,272**
Other financial liabilities	**1,913,806**	**588,848**	**-**	**223,030**	**2,725,684**
	7,651,175	**8,307,377**	**3,553,896**	**223,030**	**19,735,478**
31 December 2017					
Short term facilitates	17,440	-	-	-	17,440
Borrowings	813,994	10,783,193	4,002,655	-	15,599,842
Trade payable	2,656,389	-	-	-	2,656,389
Other financial liabilities	1,732,097	992,845	-	271,094	2,996,036
	5,219,920	11,776,038	4,002,655	271,094	21,269,707

(SR in '000 unless otherwise noted)

33. FINANCIAL RISK MANAGEMENT (Contd.)

33.3 Market risk

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

33.4 Currency risk

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

The Group exposure to currency risk primarily arises from transactions denominated in USD, GBP, and EUR. For transactions denominated in USD, there is minimal currency risk since the SR to USD exchange rate is pegged and hence not considered.

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

	31 December 2018	31 December 2017
GBP	**42.2**	5.7
EUR	**51.5**	29.0
AUD	**3.0**	(60.5)

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

Currency	Change in exchange rate	31 December 2018	31 December 2017
EURO	+5%	**(10,048)**	(10,988)
	-5%	**10,048**	10,988
GBP	+5%	**3,365**	5,415
	-5%	**(3,365)**	(5,415)
AUD	+5%	**396**	(33,218)
	-5%	**(396)**	33,218

33.5 Commission rate risk

Commission rate risk is the risk that the value of financial instruments or their associated cash flows will fluctuate due to changes in market commission rates. The Group has no significant commission-bearing assets but has commission -bearing liabilities as at 31 December 2018 and 2017.

The Group manages its borrowings made at floating rates by using floating-to-fixed interest rate swaps or interest rate caps where appropriate and as per the Group policies. Such interest rate swaps and interest rate caps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with the counterparty to exchange the difference between fixed and variable rate contracts at specified intervals. Under the interest rate caps the Group agree with the counterpart to receives payments at the end of each period in which the interest rate exceeds the agreed strike price.

(SR in '000 unless otherwise noted)

33. FINANCIAL RISK MANAGEMENT (Contd.)

33.5 Commission rate risk (Contd.)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected, after the impact of hedge accounting. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings, as follows

		Gain / (loss) through the consolidated statement of profit and loss	
Currency	Change in exchange rate	**31 December 2018**	**31 December 2017**
6 Months SAIBOR	+100 basis points	**(132,306)**	(150,895)
	-100 basis points	**143,286**	150,895

Sensitivity analysis for variable rate financial instruments

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

33.6 Capital management

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

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

34. COMMITMENTS AND CONTINGENCIES

34.1 Capital and purchase commitments:

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

	31 December 2018	**31 December 2017**
Capital commitments for projects under progress and purchase of property, plant and equipment	**133,618**	117,578
Purchase of ore, certain raw materials, utilities and services	**2,075,578**	1,628,798

34.2 Operating leases commitments:

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

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

	31 December 2018	**31 December 2017**
One year	**71,390**	107,170
Two to five years	**105,923**	133,254
More than five years	**16,778**	19,590
Total minimum lease payments	**194,091**	260,014

(SR in '000 unless otherwise noted)

34. COMMITMENTS AND CONTINGENCIES (Contd.)

34.3 Contingencies:

	31 December 2018	31 December 2017
Letters of guarantee	**1,493,480**	1,470,800
Letters of credit	**33,918**	51,534
	1,527,398	1,522,334

Additionally, the Company has issued corporate guarantees to commercial banks and Saudi Industrial Development Fund by its share owned in share capital of some joint ventures against the loans, which have been obtained by these joint ventures from such parties. As at 31 December 2018 such guarantees amounted to SR 1,419 million (2017: SR 1,259 million).

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

35. SALE OF TITANIUM DIOXIDE BUSINESS

On February 21, 2017, Cristal entered into a conditional transaction agreement to sell to Tronox Limited, 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) substantially all international subsidiaries of Cristal, (b) assets (including the Yanbu plant of Cristal) and liabilities relevant to such business; and (c) contracts, intellectual property and goodwill in respect of such business (the "Cristal Assets")) in return for US$ 1.673 billion (SR 6.274 billion) cash and 37,580,000 of newly issued Class A shares in Tronox (which represents approximately 24% of the shareholding in Tronox at closing).

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

Tronox confirmed that 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 consideration due to Cristal per the above-mentioned agreement.

The only required Regulatory clearance not granted at the date of the statement of financial position and at the date of approval of these financial statements is from the U.S. Federal Trade Commission ('FTC').

On December 5, 2017, the FTC issued an administrative complaint challenging the acquisition. The administrative trial commenced on May 18, 2018 and is ongoing at the date of approval of these financial statements. A decision from the administrative law judge is expected in November or December this year, however that decision can be appealed to the full Federal Trade Commission, which could take several additional months to rule on the case.

On March 1, 2018, Cristal entered into an amendment to the transaction agreement with Tronox that extends the termination date under the transaction agreement to June 30, 2018, with automatic three-month extensions to March 31, 2019, if necessary, based on the status of outstanding regulatory approvals. This amendment also implemented a termination fee, potentially payable after December 31, 2018 based upon certain conditions, as set forth in the amendment, being met.

On September 5, 2018, the U.S. District Court for the District of Columbia granted the FTC's motion for Preliminary Injunction which prevents Tronox and Cristal from consummating the proposed transaction until the FTC's administrative complaint is dismissed by the Commission, set aside by an appeals court on review, or the Commission has issued a final order.

On December 4, 2018, Tronox announced a proposed $700 million divestiture of the two-plant Ashtabula titanium dioxide ("TiO2") complex to INEOS Enterprises A.G. ("INEOS") as a proposed remedy transaction aimed at addressing the FTC's competitive concerns relating to the proposed acquisition. The proposed divesture also includes research and development, sales, intellectual property and operations expertise. Any such divestiture would be subject to customary conditions, including regulatory approvals.

On December 10, 2018, Tronox confirmed receipt of an Initial Decision by the FTC's chief administrative law judge that the proposed acquisition of the titanium dioxide business of Cristal may substantially lessen competition for the sale of chloride-based TiO2 in North America. They further announced that they, Cristal and INEOS will continue to work with FTC staff to advocate for the proposed remedy transaction of divesting the two-plant Ashtabula TiO2 complex to INEOS. Subsequently, on February 4, 2019, Tronox filed an appeal of the Initial Decision with the FTC Commissioners.

35. SALE OF TITANIUM DIOXIDE BUSINESS (Contd.)

On December 21, 2018, Tronox and Cristal agreed to extend the date after which a termination, pursuant to Section 8.01(e) of the transaction agreement, would trigger the termination fee from January 1, 2019 to February 28, 2019.

On February 12, 2019, Tronox announced that they and the staff of the FTC have filed a joint motion with the FTC Commissioners requesting a delay of the remaining appeals deadlines. Tronox stated that the filing of the joint motion reflected progress in advancing settlement discussions regarding a remedy transaction intended to resolve the FTC's competitive concerns with the proposed acquisition. Tronox confirmed their proposed remedy included a divestiture of all Cristal's North American TiO2 business including its two-plant Ashtabula TiO2 complex to INEOS, for a cash purchase price of $700 million.

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

36. PURCHASE OPTION AGREEMENT FOR SLAGGER ASSET IN ADVANCED METAL INDUSTRIES CLUSTER COMPANY LIMITED ("AMIC")

On 10 May 2018, AMIC entered into an Option Agreement with Tronox Limited ("Tronox"), a public limited company registered under the laws of Western Australia, Australia. Under the Option Agreement:

(1) AMIC shall (a) incorporate a wholly owned Special Purpose Vehicle ("SPV") in the Kingdom of Saudi Arabia and (b) subject to certain exceptions as set out in the Option Agreement, transfer (or procure the transfer of) the assets, liabilities and contracts used for its Jazan-based titanium slag smelting Slagger Business (as defined in the Option Agreement) to the SPV; and

(2) subject to the satisfaction of certain conditions precedent set out in the Option Agreement (including but not limited to (a) in the case of AMIC (but not Tronox) exercising its option, the Slagger (as defined in the Option Agreement) reaching sustainable operations and (b) in the case of either party exercising its option, the completion of the transaction set out in the "Transaction Agreement" between Tronox Cristal, as referred to in note (35), AMIC shall have an option to require Tronox to purchase, and Tronox shall have an option to require AMIC to sell, 90 % of AMIC's ownership in the SPV.

The execution of the Option Agreement follows a Technical Services Agreement between AMIC and Tronox executed on 15 March 2018, whereby Tronox provides certain technical assistance to AMIC to facilitate start-up of the Slagger.

As part of the Option Agreement, Tronox has agreed to lend AMIC and/or the SPV (as applicable in accordance with the Option Agreement) up to USD 125 million for capital expenditures and operational expenses (as further detailed in the Option Agreement) (the "Tronox Loan"). The total consideration payable by Tronox is USD 447 million (comprised of the effective assumption of external debt of USD 322 million, plus the provision of the USD 125 million Tronox Loan), subject to post-closing adjustments for cash, debt and working capital (as further detailed in the Option Agreement). As of 31 December 2018, neither AMIC nor Tronox may exercise its option under the Option Agreement as their respective conditions to option exercise as specified in the Option Agreement have not yet been fulfilled.

At the consolidated statement of financial position date, the Group management is of the view that the high probability test of transaction completion as required by IFRS 5: "Non-current Assets Held-for-Sale and Discontinued Operations" before assets and liabilities are reclassified as "held for sale" had not been met due to status of the required regulatory clearances related to the completion of the transaction set out in the "Transaction Agreement" as well as uncertainty with respect to the conditions for the exercise of call or put Option, and consequently no reclassification has occurred.

37. EVENTS AFTER THE REPORTING DATE

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

38. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved from the Board of Directors on 28 February 2019G (corresponding to 23 Jumada II'1440H).