

NATIONAL INDUSTRIALIZATION COMPANY
(SAUDI JOINT STOCK COMPANY)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)
AND INDEPENDENT AUDITOR'S REVIEW
REPORT
FOR THE THREE MONTHS PERIOD
ENDED 31 MARCH 2018**

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018

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Independent Auditor's Review Report

**To the shareholders of
National Industrialization Company**

Riyadh, Kingdom of Saudi Arabia

We have reviewed the accompanying interim condensed consolidated statement of financial position of National Industrialization Company ("the Company") and its subsidiaries (the "Group") as of 31 March 2018 and the related interim condensed consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the three months period then ended, and a summary of significant accounting policies and other selected explanatory notes.

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

Scope of Review

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

Conclusion

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

For Dr. Mohamed Al-Amri & Co.

Gihad Al-Amri
Certified Public Accountant
Registration No. 362



Riyadh, on 24 April 2018 G
Corresponding to: 8 Sha'ban 1439 H

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2018
(SR in '000)

		31 March	31 December
		2018	2017
	Note	(Unaudited)	(Audited)
ASSETS			
Current assets			
Cash and cash equivalents		2,653,896	2,535,215
Trade receivables		2,584,728	2,726,665
Inventories		2,762,837	2,815,971
Prepayments and other current assets		1,449,341	1,562,309
Total current assets		9,450,802	9,640,160
Non-current assets			
Property, plant and equipment	5	9,306,106	9,328,349
Projects under progress		2,624,067	2,621,110
Intangible assets		2,807,006	2,817,793
Exploration and evaluation costs		374,954	374,685
Investments in equity accounted associates and joint ventures	6	7,283,929	6,855,681
Investment in equity instruments designated as FVOCI		855,572	862,580
Deferred tax assets		276,656	287,107
Other non-current assets		1,273,659	1,205,729
Total non-current assets		24,801,949	24,353,034
Total assets		34,252,751	33,993,194
LIABILITIES AND EQUITY			
Current liabilities			
Short term facilities	7	11,922	17,440
Borrowings – current portion	8	1,309,512	813,994
Trade payables		2,505,597	2,656,389
Provisions and other current liabilities		1,723,228	1,732,097
Zakat and income tax payable	9	351,757	354,108
Total current liabilities		5,902,016	5,574,028
Non-current liabilities			
Long term borrowings	8	14,235,156	14,785,848
Employee benefits		572,782	579,827
Deferred tax liabilities		262,560	271,094
Other non-current liabilities		908,157	992,845
Total non-current liabilities		15,978,655	16,629,614
Total liabilities		21,880,671	22,203,642
Equity			
Share capital	10	6,689,142	6,689,142
Statutory reserve		1,270,439	1,234,303
Other reserves	11	(342,131)	(450,155)
Retained earnings		1,203,015	877,792
Equity attributable to the equity holder of parent		8,820,465	8,351,082
Non-controlling interests		3,551,615	3,438,470
Total equity		12,372,080	11,789,552
Total liabilities and equity		34,252,751	33,993,194

The accompanying notes from 1 to 20 form an integral part of these interim condensed consolidated financial statements

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
(UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018
(SR in '000)

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Revenue		2,820,251	2,480,532
Cost of revenue		<u>(2,002,264)</u>	<u>(2,053,667)</u>
Gross profit		817,987	426,865
Selling and distribution expenses		(161,069)	(152,052)
General and administrative expenses		(325,736)	(247,950)
Share of net profit from equity accounted associates and joint ventures	6	361,150	313,636
Operating Profit		692,332	340,499
Other income / (expense), net		44,625	43,934
Finance costs		(161,796)	(185,476)
Profit before zakat and income tax		575,161	198,957
Zakat and income tax expense	9	(63,714)	(15,910)
Net profit for the period		511,447	183,047
Attributable to:			
Equity holder of parent		361,359	103,338
Non-controlling interests		150,088	79,709
		511,447	183,047
Earnings per share:			
Basic and diluted (SR)	12	0.54	0.15

The accompanying notes from 1 to 20 form an integral part of these interim condensed consolidated financial statements.

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018
(SR in '000)**

	<u>2018</u>	<u>2017</u>
Net profit for the period	511,447	183,047
Other comprehensive income		
<i>Items to be reclassified to profit or loss in subsequent periods:</i>		
Exchange adjustments on translation of foreign operations	20,666	106,633
Cash flow hedge reserve	(8,546)	(131)
Total items to be reclassified to profit or loss in subsequent periods	12,120	106,502
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>		
Gains on investments in equity instruments designated as FVOCI	33,728	25,606
Total items not to be reclassified to profit or loss in subsequent periods	33,728	25,606
Total comprehensive income for the period	557,295	315,155
Attributable to:		
Equity holder of parent	403,571	228,133
Non-controlling interests	153,724	87,022
	557,295	315,155

The accompanying notes from 1 to 20 form an integral part of these interim condensed consolidated financial statements.

NATIONAL INDUSTRIALIZATION COMPANY

(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018

(SR in '000)

	Attributable to equity holder of parent				Total equity	Non-controlling interests	Total equity
	Share capital	Statutory reserve	Other reserves	Retained earnings			
As at 1st January 2017	6,689,142	1,162,687	(753,722)	233,252	7,331,359	3,213,428	10,544,787
Net profit for the period	-	-	-	103,338	103,338	79,709	183,047
Other comprehensive income	-	-	124,795	-	124,795	7,313	132,108
Total comprehensive income for the period	-	-	124,795	103,338	228,133	87,022	315,155
Net movements during the period	-	-	-	-	-	10,330	10,330
Transfer to statutory reserve	-	10,334	-	(10,334)	-	-	-
As at 31 March 2017	6,689,142	1,173,021	(628,927)	326,256	7,559,492	3,310,780	10,870,272
As at 1st January 2018	6,689,142	1,234,303	(450,155)	877,792	8,351,082	3,438,470	11,789,552
Net profit for the period	-	-	-	361,359	361,359	150,088	511,447
Other comprehensive income	-	-	42,212	-	42,212	3,636	45,848
Total comprehensive income for the period	-	-	42,212	361,359	403,571	153,724	557,295
Net movements during the period	-	-	-	-	-	(40,579)	(40,579)
Transfer to statutory reserve	-	36,136	-	(36,136)	-	-	-
Others	-	-	65,812	-	65,812	-	65,812
As at 31 March 2018	6,689,142	1,270,439	(342,131)	1,203,015	8,820,465	3,551,615	12,372,080

The accompanying notes from 1 to 20 form an integral part of these interim condensed consolidated financial statements.

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018
(SR in '000)

	<u>2018</u>	<u>2017</u>
<u>CASH FLOW FROM OPERATING ACTIVITIES</u>		
Net profit before Zakat and income tax	575,161	198,957
<i>Adjustments for:</i>		
Depreciation and amortization	193,347	201,143
Provision for slow moving inventories	-	3,212
Employee benefits, net	(7,045)	(1,998)
Share of net profit from equity accounted associates and joint ventures	(361,150)	(313,636)
Finance costs	161,796	185,476
<i>Changes in operating assets and liabilities:</i>		
Trade receivables	141,937	58,877
Inventories	53,134	(27,240)
Prepayments and other current assets	112,968	(15,618)
Other non-current assets	(57,748)	934,882
Trade payables	(150,792)	(1,189,371)
Provisions and other current liabilities	20,776	92,586
Other non-current liabilities	(93,033)	44,129
Net cash flows from operating activities	589,351	171,399
<u>CASH FLOW FROM INVESTING ACTIVITIES</u>		
Additions to property, plant and equipment	(171,138)	(217,401)
Disposals of property, plant and equipment, net	11,782	-
(Additions) / deletion to projects under progress, net	(2,957)	(35,889)
(Additions) / deletion to intangible assets, net	(961)	(7,159)
Investments in equity accounted on associates and joint ventures, net	(67,099)	56,975
Investments in equity instruments designated as FVOCI, net	7,008	-
Net cash flows used in investing activities	(223,365)	(203,474)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Short term facilities, net	(5,518)	(25,314)
Borrowings, net	(55,362)	127,523
Finance costs paid	(149,482)	(185,476)
Non-controlling interests	(36,943)	17,642
Net cash flows used in financing activities	(247,305)	(65,625)
Net increase / (decrease) in cash and cash equivalents	118,681	(97,700)
Cash and cash equivalents at beginning of the period	2,535,215	2,430,060
Cash and cash equivalents at end of the period	2,653,896	2,332,360

Chief Financial Officer

Chief Executive Officer

Authorized Board Member

The accompanying notes from 1 to 20 form an integral part of these interim condensed consolidated financial statements.

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018
(SR'000 unless otherwise noted)

1. STATUS AND NATURE OF ACTIVITIES

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

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

The registered office of the Company is as follows:

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

1.1 Subsidiaries

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

Company Name	Legal Form	Shareholding (%)	
		31 March 2018	31 March 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 Ltd. Company ("Rassas") and its subsidiary (3)	Limited liability	100	100
National Batteries Company ("Battariat") (4)	Limited liability	90	90
National Operation and Industrial Services Company ("Khadamat") - under liquidation (5)	Limited liability	88.33	88.33
National 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 Co. Ltd (9)	Limited liability	100	-
Al Khadra Environment Company for Industrials Waste Management ("Khadra") (10)	Limited liability	100	-
The National Titanium Dioxide Ltd. Company ("Cristal") and its subsidiaries (11). Also, refer to note 17	Limited liability	79	79
Advanced Metal Industries Ltd Company (12)	Limited liability	89.50	89.50
National Industrialization Petrochemical Marketing Company (13)	Limited liability	100	100
National Worldwide Industrial Advancement Ltd. Company (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
Saudi Global Makasib for Trading and Industry Company (14)	Limited liability	100	100
National Petrochemical Industrialization Company (14)	Limited liability	100	100

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(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**
(SR'000 unless otherwise noted)

1 STATUS AND NATURE OF ACTIVITIES (Contd.)

1.1 Subsidiaries (Contd.)

1. Tasnee and Sahara Olefins Company

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

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

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

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

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

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

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

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

4. National Batteries Company ("Battariat")

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

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

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

6. National 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 & exports, trading agencies for industrial products, investment in industrial services fields including environment preservation services, quality services and technical testing.

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, quality, environmental management systems, quality management and environment systems (ISO).

8. TUV – Middle East WLL ("TUV")

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.

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018
(SR'000 unless otherwise noted)

1 STATUS AND NATURE OF ACTIVITIES (Contd.)

1.1 Subsidiaries (Contd.)

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’s objective includes four plants to producing plastic pallets, plastic pipes, agrifilm and waste water treatment units. The company has commenced its commercial operations partially.

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”)

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

Cristal owns directly or indirectly owns 100% of equity interests of the following subsidiaries: Cristal Inorganic Chemicals Ltd., Cristal Australia Pty Ltd., Cristal Metals U.S.A., Cristal US Holding LLC and Hong Kong Titanium Products Company Limited. Also, refer to note 17.

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

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

13. National Industrialization Petrochemical Marketing Company (“Tasnee Marketing”)

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 interim condensed consolidated financial statements and effective ownership percentages:

Company Name	Relationship	Legal Form	Shareholding (%)	
			31 March 2018	31 March 2017
Saudi Polyolefin Company	Joint Venture	Limited liability	75	75
Saudi Ethylene and Polyethylene Company	Joint Venture	Limited liability	45.34	45.34
Saudi Acrylic Monomer Company	Joint Venture	Limited liability	39.22	39.22
Saudi Acrylic Polymer Company	Joint Venture	Limited liability	39.22	39.22
Advanced Metal Industries Ltd. Company and Tohoo for Titanium Metal Ltd. Company	Joint Venture	Limited liability	58.18	58.18
Saudi Butanol Company	Joint Operations	Limited liability	17.43	17.43
National Metal Manufacturing and Casting Company	Associate	Saudi joint stock company	35.45	35.45
Saudi Claryant for Colorants Ltd Company	Associate	Limited liability	40	40

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED)**
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018
(SR'000 unless otherwise noted)

2 BASIS OF PREPARATION

(i) Statement of Compliance

These interim condensed consolidated financial statements have been prepared in accordance with the International Accounting Standard No. 34 – “Interim Financial Reporting” as endorsed in Kingdom of Saudi Arabia by Saudi Organization for Certified Public Accountants (“SOCPA”).

The interim condensed consolidated financial statements do not include all information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2017.

(ii) Functional and presentation currency

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

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the 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 interim condensed 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;
- 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.

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED)**
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(SR'000 unless otherwise noted)

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 deletes the short term 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 interim condensed 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 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 of these standards.

4. USE OF CRITICAL ESTIMATES AND JUDGMENTS

In preparing these interim condensed 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 significant judgments made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended 31 December 2017.

5. PROPERTY, PLANT AND EQUIPMNET

During the three month period ended 31 March 2018, the Group added property, plant and equipment with a cost of SR 171.1 million (the three months period ended 31 March 2017: SR 217.4 million). Property, plant and equipment with a net book value of SR 11.8 million were disposed of the Group during the three months period ended 31 March 2018 (the three months period ended 31 March 2017: SR Nil)

The capitalized borrowing costs during the three months period ended March 2018 amounted to SR 1.8 million (the three months period ended 31 March 2017: SR 17.1 million).

NATIONAL INDUSTRIALIZATION COMPANY
(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**
(SR'000 unless otherwise noted)

6. INVESTMENTS IN EQUITY ACCOUNTED IN ASSOCIATES AND JOINT VENTURES

	31 March 2018 <u>(Unaudited)</u>	31 December 2017 <u>(Audited)</u>
Investments in equity accounted associates (note 6.1)	277,076	283,004
Investments in equity accounted joint ventures (note 6.2)	7,006,853	6,572,677
	7,283,929	6,855,681

6.1. The movements in investments in associates are as follows:

	31 March 2018 <u>(Unaudited)</u>	31 December 2017 <u>(Audited)</u>
At the beginning of the period/year	283,004	283,269
Share in earnings, net	3,473	(3,528)
Dividends income	-	(4,985)
Disposal/adjustment	(9,401)	8,248
At the end of the period/year	277,076	283,004

6.2. The movements in investments in joint venture are as follows:

	31 March 2018 <u>(Unaudited)</u>	31 December 2017 <u>(Audited)</u>
At the beginning of the period/year	6,572,677	6,345,586
Share in earnings, net	357,677	1,347,469
Dividends income	-	(1,270,000)
Addition/disposal, net	76,499	149,622
At the end of the period/year	7,006,853	6,572,677

7. SHORT TERM FACILITIES

The Group has several short-term credit facilities to fund its working capital requirements and short-term funding needs. The outstanding balance of these facilities as at 31 March 2018 amounted to SR 11.9 million (31 December 2017: SR 17.4 million). These facilities are secured by promissory notes and carry a commission that is commensurate with prevailing commercial rates.

8. LONG TERM BORROWINGS

	Note	31 March 2018 <u>(Unaudited)</u>	31 December 2017 <u>(Audited)</u>
Sukuk	8.1	2,000,000	2,000,000
Saudi Industrial Development Fund	8.2	1,676,430	1,676,430
Commercial banks	8.3	11,868,238	11,923,412
Total loans		15,544,668	15,599,842
Less: Current portion of long term borrowings		(1,309,512)	(813,994)
Total non-current loans		14,235,156	14,785,848

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8. LONG TERM BORROWINGS (Contd.)

8.1. Sukuk

On 30 Jumada II' 1433H, (corresponding to 21 May 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 SAIBOR plus a pre-determined margin, payable semi-annually in advance. The Sukuk is repayable at maturity at par value on its expiry date of 16 Ramadan 1440H (corresponding 21 May 2019G).

8.2. 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 March 2018 amounted to SR 1,676 million (31 December 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.

8.3. Loans from commercial banks

The Group has multiple long-term loan facilities from commercial banks. The outstanding balance of these loans as at 31 March 2018 amounted to SR 11,868 million (31 December 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 the year ended 31 December 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.

9. ZAKAT AND INCOME TAX PAYABLE

Status of Zakat and income tax returns and assessments

The Company

During 2015, the Company received an approval from the General Authority of Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia to file consolidated Zakat returns of the Company and its 100% owned subsidiaries since 2008. As at 31 March 2018, the Company's has filed its consolidated Zakat and income returns is with GAZT up to 31 December 2016.

As of 31 March 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 2016 are still under review by GAZT.

Subsidiaries

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

Some of the subsidiaries in KSA have received assessments from the GAZT for several years, resulting requirement for additional liability amounted to SR 210 million. The same subsidiaries have submitted appeal against these assessments which is still under review by GAZT. The management of the Company is optimistic and expects to amend the GAZT assessment for its benefit. Accordingly, the management believes that the final outcome will not lead to any material obligations.

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10. SHARE CAPITAL

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

11. OTHER RESERVES

Other reserves mainly consists of a foreign currencies differences from translation of the overseas subsidiaries financial statements amounting to SR 234.8 million as at 31 March 2018 (31 December 2017: SR 214.1 million) and a difference in the acquisition of the non-controlling interests amounting to SR 926 million as at 31 March 2018 (31 December 2017: SR 992 million).

12. EARNINGS PER SHARE

	31 March 2018 (Unaudited)	31 March 2017 (Unaudited)
Basic and diluted earnings per share from operating profit	1.04	0.51
Basic and diluted earnings per share from net profit	0.54	0.15

Earnings used in the calculation of basic earnings per share:

	31 March 2018 (Unaudited)	31 March 2017 (Unaudited)
Net profit from operations	692,332	340,499
Net profit for the period	361,359	103,338

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

13. FAIR VALUE MEASUREMENT OF 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 interim condensed consolidated statement of profit or loss or interim condensed consolidated statement of 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.

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13. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Contd.)

13.1. 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 classified as Level 1 and 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 interim condensed consolidated statement of financial position.

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

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value:

Nature of financial instrument	Carrying value	Level 1	Level 2	Level 3
As at 31 March 2018				
Financial Assets				
Investments in quoted equity shares	316,399	316,399	-	-
Investments in unquoted equity shares	539,173	-	47,896	491,277
Financial Liabilities				
Interest rate swaps	(8,550)	-	(8,550)	-
Foreign exchange forward contracts	(1,919)	-	(1,919)	-
As at 31 December 2017				
Financial Assets				
Investments in quoted equity shares	283,919	283,919	-	-
Investments in unquoted equity shares	578,661	-	87,384	491,277
Financial Liabilities				
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.

13.2. Transfers between Levels 1 and 2

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

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14. DERIVATIVE FINANCIAL INSTRUMENTS

	31 March 2018 (Unaudited)	31 December 2017 (Audited)
Derivatives not designated as hedges		
• Interest rate swaps	(1,919)	(6,619)
• Foreign exchange forward contracts	13	(604)
Derivatives designated as hedges		
• Interest rate swaps	-	(1,305)
• Foreign exchange forward contracts	(8,563)	-
	(10,469)	(8,528)

14.1. Foreign exchange forward 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 interim condensed consolidated statement of other comprehensive income based on IFRS 9.

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

	31 March 2018 (Unaudited)	31 December 2017 (Audited)
Forward foreign currency contracts – Notional amount	240,977	156,962

14.2. Interest rate swaps

The Group is exposed to fluctuations in variable interest rates on its short term and long-term debt. The Group maintains an interest rate risk management strategy that uses derivatives instruments such as interest rate swaps to economically convert a portion of its variable rate debt to fixed rate debt. The Group has entered into interest rate swap contracts and certain other interest rate derivatives with certain local banks.

15. 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:

15.1. Trading transactions and balances

	Sales		Purchases	
	31 March 2018 (Unaudited)	31 March 2017 (Unaudited)	31 March 2018 (Unaudited)	31 March 2017 (Unaudited)
Associates	195	183	-	-
Joint ventures	-	-	160,531	206,482

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15. RELATED PARTIES TRANSACTIONS AND BALANCES (Contd.)

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

	Amount due from related parties		Amount due to related parties	
	31 March 2018 (Unaudited)	31 December 2017 (Audited)	31 March 2018 (Unaudited)	31 December 2017 (Audited)
Associates	-	-	-	-
Joint ventures	284,047	395,545	1,418,907	1,420,859

15.2. 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 period are as follows:

	31 March 2018 (Unaudited)	31 March 2017 (Unaudited)
Short term benefits (Salaries and allowances)	8,173	6,936

16. SEGMENT INFORMATION

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

Segment	Description of activities
Chemical	Includes the production of titanium dioxide 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.

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16. SEGMENT INFORMATION (Contd.)

The Group's total revenue, expenses items for the three months then ended, by operating segments, are as follows:

	Chemical	Petrochemical Sector	Downstream & others	Eliminations/ Adjustments	Total
For the three months period ended 31 March 2018					
Segment revenues	2,200,125	328,844	291,456	(174)	2,820,251
Segment expenses	1,780,934	352,614	355,347	174	2,489,069
Depreciation and amortization	146,778	20,751	25,818	-	193,347
Share of profit of associated companies and joint ventures	(541)	358,219	3,472	-	361,150
Segment EBITDA	551,422	262,551	116,331	-	930,304
For the three months period ended 31 March 2017					
Segment revenues	1,793,104	490,756	391,186	(194,514)	2,480,532
Segment expenses	1,762,579	484,165	331,713	(124,788)	2,453,669
Depreciation and amortization	162,609	4,544	33,990	-	201,143
Share of profit of associated companies and joint ventures	-	311,631	2,005	-	313,636
Segment EBITDA	189,382	277,186	118,914	-	585,482

The Group's total assets and liabilities as at 31 March 2018 and 31 December 2017 by operating segments are as follows:

	Chemical	Petrochemical Sector	Downstream & others	Eliminations/ Adjustments	Total
As at 31 March 2018					
Segment assets	18,689,169	9,745,825	15,366,952	(9,549,195)	34,252,751
Segment liabilities	11,465,709	2,678,727	8,043,219	(306,984)	21,880,671
Investments in associated companies and joint ventures	256,947	6,757,515	269,467	-	7,283,929
As at 31 December 2017					
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

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17. SALE OF TITANIUM DIOXIDE BUSINESS

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

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

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

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

On 5 December 2017, the FTC issued an administrative complaint challenging the acquisition. The administrative trial is scheduled to begin on 18 May 2018.

On 20 December 2017, Tronox confirmed that the European Commission had initiated a Phase II review of their planned acquisition, after which they would make a final decision on whether the proposed transaction would significantly impede effective competition in the European Economic Area. Furthermore, on 20 March 2018, Tronox announced that it had received a Statement of Objections from the European Commission regarding the planned acquisition. The Statement of Objections reflects the preliminary assessment of the European Commission and does not prejudge the outcome of the investigation and/or the need to offer any particular remedy.

On 1 March 2018, Cristal entered into an amendment to the transaction agreement with Tronox that extends the termination date under the transaction agreement to 30 June 2018, with automatic three-month extensions to 31 March 2019, if necessary, based on the status of outstanding regulatory approvals.

At the interim condensed 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 to the status of the required regulatory approvals and consequently no reclassification has occurred.

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18. COMMITMENTS AND CONTINGENCIES

18.1. Capital and purchase commitments:

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

	31 March 2018 (Unaudited)	31 December 2017 (Audited)
Capital commitments for projects under progress and purchase of property, plant and equipment	156,612	117,578

18.2. 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 March 2018 (Unaudited)	31 December 2017 (Audited)
One year	76,076	107,170
Two to five years	82,991	133,254
More than five years	16,575	19,590
Total minimum lease payments	175,642	260,014

18.3. Contingencies

The Group contingencies as of reporting date are as follows:

	31 March 2018 (Unaudited)	31 December 2017 (Audited)
Letters of guarantee	1,471,351	1,470,800
Letters of credit	50,814	51,534
	1,522,165	1,522,334

Additionally, the Group 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 March 2018 such guarantees amounted to SR 6,975 million (31 December 2017 SR 6,999 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 interim condensed consolidated financial statements; the Group's management does not expect that these claims will have a material adverse effect on the Group's interim condensed consolidated financial statements.

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19. NEW STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

(i) IFRS 16 Leases

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

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

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

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

(ii) IFRS 17 Insurance contracts

In May 2017, the IASB issued IFRS 17 – Insurance Contracts, which is effective for annual periods beginning on or after 1 January 2021. The standard introduces a new measurement model for insurance contracts and establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard.

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

20. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved from the Board of Directors on 24 April 2018 G (corresponding to 8 Sha'ban 1439 H).
