

BASIC CHEMICAL INDUSTRIES COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD AND YEAR ENDED
DECEMBER 31, 2016 AND LIMITED REVIEW REPORT

BASIC CHEMICAL INDUSTRIES COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND YEAR ENDED DECEMBER 31, 2016

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LIMITED REVIEW REPORT

January 18, 2017

To the shareholders of Basic Chemical Industries Company:
(A Saudi Joint Stock Company)

Scope of review

We have reviewed the accompanying interim consolidated balance sheet of Basic Chemical Industries Company (the "Company") and its subsidiaries (collectively referred to as the "Group") as of December 31, 2016 and the interim consolidated income statement for the three-month period and year ended December 31, 2016, and the interim consolidated statement of cash flows for the year then ended and the related notes which form an integral part of these interim consolidated financial statements. These interim consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us together with all the information and explanations which we required.

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

Review conclusion

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

PricewaterhouseCoopers

By: 

Ali H. Al Basri
License Number 409

BASIC CHEMICAL INDUSTRIES COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)
Interim consolidated balance sheet
(All amounts in Saudi Riyals unless otherwise stated)

		As at December 31,	
	Note	2016	2015
		(Unaudited)	(Audited)
Assets			
Current assets			
Cash and cash equivalents		227,918,228	153,859,221
Short-term deposit		30,000,000	40,000,000
Accounts receivable		128,841,202	157,779,269
Inventories		84,617,954	119,629,182
Prepayments and other receivable		12,985,315	12,136,306
		<u>484,362,699</u>	<u>483,403,978</u>
Non-current assets			
Investment in an associate	1	523,999	372,631
Property, plant and equipment		<u>183,510,798</u>	<u>202,165,346</u>
		<u>184,034,797</u>	<u>202,537,977</u>
Total assets		<u>668,397,496</u>	<u>685,941,955</u>
Liabilities			
Current liabilities			
Accounts payable		37,493,900	43,706,813
Accrued and other liabilities		33,204,888	41,335,796
Zakat and income taxes payable		<u>11,318,454</u>	<u>10,404,581</u>
		<u>82,017,242</u>	<u>95,447,190</u>
Non-current liability			
Employee termination benefits		<u>24,463,702</u>	<u>23,127,096</u>
Total liabilities		<u>106,480,944</u>	<u>118,574,286</u>
Equity			
Equity attributable to shareholders of the Company:			
Share capital		275,000,000	275,000,000
Statutory reserve		48,636,180	44,345,718
Retained earnings		<u>160,054,547</u>	<u>148,940,385</u>
Total shareholders' equity		<u>483,690,727</u>	<u>468,286,103</u>
Non-controlling interests		<u>78,225,825</u>	<u>99,081,566</u>
Total equity		<u>561,916,552</u>	<u>567,367,669</u>
Total liabilities and equity		<u>668,397,496</u>	<u>685,941,955</u>

Contingencies and commitments

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The accompanying notes from 1 to 5 form an integral part of these interim consolidated financial statements.

BASIC CHEMICAL INDUSTRIES COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)
Interim consolidated income statement
(All amounts in Saudi Riyals unless otherwise stated)

	For the three-month period ended December 31,		For the year ended December 31,	
	2016	2015	2016	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Sales	137,685,864	170,255,050	557,826,076	625,131,277
Cost of sales	(96,595,597)	(124,525,391)	(414,006,410)	(483,718,535)
Gross profit	41,090,267	45,729,659	143,819,666	141,412,742
Operating expenses				
Selling and distribution	(10,807,426)	(10,669,618)	(46,618,173)	(48,266,046)
General and administrative	(6,879,243)	(3,524,172)	(24,928,654)	(25,665,324)
Income from operations	23,403,598	31,535,869	72,272,839	67,451,372
Other income (expenses)				
Share in net income of an associate	53,808	372,631	151,368	97,344
Financial income	869,291	-	2,488,826	137,882
Other, net	402,177	244,974	4,686,737	3,733,969
Income before zakat, income tax and non-controlling interests	24,728,874	32,153,474	79,599,770	71,420,567
Zakat and income tax	(2,221,174)	(3,071,395)	(8,751,750)	(7,886,701)
Income before non-controlling interests	22,507,700	29,082,079	70,848,020	63,533,866
Non-controlling interests	(7,934,071)	(8,885,430)	(27,943,396)	(28,997,830)
Net income for the period / year	14,573,629	20,196,649	42,904,624	34,536,036
Earnings per share (Note 2.18):				
• Income from operations	0.85	1.15	2.63	2.45
• Net income for the period / year	0.53	0.73	1.56	1.26
Weighted average number of shares outstanding	27,500,000	27,500,000	27,500,000	27,500,000

The accompanying notes from 1 to 5 form an integral part of these interim consolidated financial statements.

BASIC CHEMICAL INDUSTRIES COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)
Interim consolidated cash flows statement
(All amounts in Saudi Riyals unless otherwise stated)

	For the year ended December 31,	
	2016 (Unaudited)	2015 (Audited)
Cash flows from operating activities		
Net income for the year	42,904,624	34,536,036
<u>Adjustments for non-cash items</u>		
Depreciation	29,604,368	29,317,630
Share in net income of an associate	(151,368)	(97,344)
Gain on disposal of property and equipment	(473,357)	(94,249)
Income applicable to non-controlling interests	27,943,396	28,997,830
<u>Changes in working capital</u>		
Accounts receivable	28,938,067	(7,571,261)
Inventories	35,011,228	(6,583,758)
Prepayments and other receivable	(849,009)	(26,955)
Accounts payable	(6,212,913)	17,098,337
Accrued and other liabilities	(8,130,908)	1,712,953
Zakat and income taxes payable	(4,460,264)	(4,790,851)
Employee termination benefits	1,336,606	770,151
Net cash generated from operating activities	145,460,470	93,268,519
Cash flows from investing activities		
Short-term deposit	10,000,000	(40,000,000)
Purchase of property, plant and equipment, net	(11,166,786)	(22,678,282)
Proceeds from disposal of property and equipment	698,323	464,647
Net cash utilized in investing activities	(476,463)	(62,213,635)
Cash flows from financing activities		
Dividends paid	(27,500,000)	(27,500,000)
Dividends paid by subsidiaries to non-controlling interests	(43,425,000)	(10,369,959)
Net cash utilized in financing activities	(70,925,000)	(37,869,959)
Net change in cash and cash equivalents	74,059,007	(6,815,075)
Cash and cash equivalents at beginning of year	153,859,221	160,674,296
Cash and cash equivalents at end of year	227,918,228	153,859,221
Supplemental cash flows information:		
Income taxes charged to non-controlling interests	(5,374,137)	(5,598,371)

The accompanying notes from 1 to 5 form an integral part of these interim consolidated financial statements.

BASIC CHEMICAL INDUSTRIES COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)
Notes to the interim consolidated financial statements
For the three-month period and year ended December 31, 2016 (Unaudited)
(All amounts in Saudi Riyals unless otherwise stated)

1 General information

Basic Chemical Industries Company (the "Company" or "BCI") and its subsidiaries (collectively the "Group") consist of the Company and its subsidiaries as indicated below. The Group is principally engaged in the manufacturing of various chemicals as well as to purchase, formulate, process, export, import, market, distribute and act as an agent for the sale of chemicals, also management and maintenance of projects and factories.

The Company is a Saudi joint stock company registered in the Kingdom of Saudi Arabia under commercial registration ("CR") No. 2050002795 issued in Dammam on 28 Dhul Al Hijjah 1392 H (February 2, 1973). The registered address of the Company is P.O. Box 1053, Dammam 31431, Kingdom of Saudi Arabia.

On January 11, 2015, the Company signed a memorandum of understanding ("MOU") to form a joint venture project with Ebrahim A. Juffali & Brothers ("Juffali"), a Saudi Arabian enterprise, for producing chlorine and its derivatives with an estimated production capacity of 200,000 ton per year. During the year ended December 31, 2016, the Company and Juffali have concluded not to extend the MOU. The Company now intends to set-up a similar project on its own with an estimated production capacity of 70,000 tons and has reached an agreement with Royal Commission for Jubail and Yanbu for allocation of land for this project.

The accompanying interim consolidated financial statements include the accounts of the Company and its directly controlled subsidiaries as mentioned below:

	Effective ownership at	
	December 31,	
	2016	2015
Basic Chemicals National Company ("BCNC")	100%	100%
Chemical Marketing and Distribution Company Limited ("CMDC")	100%	100%
Saudi Water Treatment Company ("SWTC")	100%	100%
Huntsman APC ("HAPC")	49%	49%
National Adhesives Company Limited ("NAL")	47%	47%

HAPC and NAL are consolidated as they are controlled and managed by the Company.

During 2013, CMDC acquired 50% equity interest in Mars Chemical Marketing and Distribution Company Limited ("Mars-CMDC"), a limited liability company incorporated in Qatar under CR No. 56892 issued on 12 Ramadhaan 1433 H (July 31, 2012). Mars-CMDC is engaged in marketing and distribution of various chemicals, solvents, additives, catalysts, plastics, polymers and resins. CMDC accounts for Mars-CMDC as an associate under the equity method of accounting.

The accompanying interim consolidated financial statements were authorized for issuance by the Company's Board of Directors on January 18, 2017.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these interim consolidated financial statements are set out below. These policies have been consistently applied to all periods presented.

2.1 Basis of preparation

The accompanying interim consolidated financial statements have been prepared under the historical cost convention on the accrual basis of accounting, and in compliance with the Standard of Accounting for Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants ("SOCPA"). Significant accounting policies adopted by the Group for preparing such interim consolidated financial statements are consistent with the accounting policies described in the 2015 annual audited consolidated financial statements of the Group.

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The interim financial statements for the three-month period and the year ended December 31, 2016 have been prepared in accordance with SOCPA's Standard of Accounting for Interim Financial Reporting, on the basis of integrated periods, which views each interim period as an integral part of the financial year. Accordingly, revenues, gains, expenses and losses of the period are recognized during the period. The accompanying interim financial statements include all adjustments comprising mainly of normal recurring accruals considered necessary by the Company's management to present fairly the statements of the financial position, results of operations and cash flows. These interim financial statements and notes should be read in conjunction with the annual audited financial statements and the related notes for the year ended December 31, 2015.

2.2 Critical accounting estimates and judgments

The preparation of interim consolidated financial statements in conformity with generally accepted accounting standards requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

2.3 Foreign currency translations

(a) Reporting currency

These interim consolidated financial statements are presented in Saudi Riyals, which is the reporting currency of the Group.

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the interim consolidated income statement. The net amounts of foreign exchange gains and losses were not significant for the three-month period and year ended December 31, 2016 and 2015.

2.4 Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments with maturities of three months or less from the purchase date.

2.5 Short-term deposits

Short-term deposits include placements with banks and other short-term highly liquid investments with original maturities of three months or more but not more than one year from the purchase date.

2.6 Accounts receivable

Accounts receivable are carried at original invoice amount less provision for doubtful debts. A provision against doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the interim consolidated income statement and reported under "General and administrative expenses". When an account receivable is uncollectible, it is written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited against "General and administrative expenses" in the interim consolidated income statement.

BASIC CHEMICAL INDUSTRIES COMPANY AND SUBSIDIARIES

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Notes to the interim consolidated financial statements

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(All amounts in Saudi Riyals unless otherwise stated)

2.7 Inventories

Inventories are carried at the lower of cost or net realizable value. Cost is determined using the weighted average method. The cost of finished products include the cost of raw materials, labor and production overheads.

Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

2.8 Investments

(a) Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies to obtain economic benefit generally accompanying a shareholding of more than one half of the voting rights.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given or liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated.

(b) Associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost.

The Group's share of its associates' post-acquisition income or losses is recognized in the interim consolidated income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Dilution gains and losses arising in investments in associates are recognized in the interim consolidated income statement.

2.9 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation, except construction in progress which is stated at cost. Land is not depreciated. Depreciation is charged to the interim consolidated income statement, using the straight-line method, to allocate the costs of the related assets to their residual values over the following estimated useful lives:

	Number of years
• Buildings and leasehold improvements	25
• Plant and machinery	15
• Furniture, fixtures and office equipment	3 – 5
• Motor vehicles	4 - 7

Leasehold improvements are depreciated over the lower of estimated useful life or lease term.

BASIC CHEMICAL INDUSTRIES COMPANY AND SUBSIDIARIES

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For the three-month period and year ended December 31, 2016 (Unaudited)

(All amounts in Saudi Riyals unless otherwise stated)

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the interim consolidated income statement.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the income statement as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

2.10 Impairment of non-current assets

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-current assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the interim consolidated income statement.

2.11 Accounts payable and accruals

Liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Group.

2.12 Zakat and taxes

The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT"). Foreign shareholders in the consolidated subsidiaries are subject to income tax. Income tax provisions related to the foreign shareholders in such subsidiaries are charged to the non-controlling interests. Provision for zakat for the Company and zakat related to the Company's ownership in the subsidiaries is charged to the interim consolidated income statement. Additional amounts payable, if any, at the finalization of assessments are accounted for when such amounts are determined.

The Group withholds taxes on certain transactions with non-resident parties, including dividend payments to foreign shareholders of the subsidiaries, in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

2.13 Employee termination benefits

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Group and charged to the interim consolidated income statement. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should the employee leave at the interim consolidated balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the labor law of Saudi Arabia.

2.14 Revenues

Revenues are recognized upon delivery of the products or on performance of services. Revenues are shown net of certain expenses and after eliminating sales within the Group.

2.15 Selling, distribution and general and administrative expenses

Selling, distribution and general and administrative expenses include direct and indirect costs not specifically part of cost of sales as required under generally accepted accounting standards. Allocations between selling, distribution, and general and administrative expenses and cost of sales, when required, are made on a consistent basis.

2.16 Dividends

Dividends are recorded in the interim consolidated financial statements in the period in which they are approved by shareholders of the Company.

BASIC CHEMICAL INDUSTRIES COMPANY AND SUBSIDIARIES**(A Saudi Joint Stock Company)****Notes to the interim consolidated financial statements****For the three-month period and year ended December 31, 2016 (Unaudited)****(All amounts in Saudi Riyals unless otherwise stated)****2.17 Operating leases**

Rental expense under operating leases is charged to the interim consolidated income statement over the period of the respective lease. Rental income is recognized on the accrual basis in accordance with the terms of the contracts.

2.18 Earnings per share

Earnings per share for the three-month periods and years ended December 31, 2016 and 2015 has been computed by dividing the operating income and net income for each period / year by weighted average number of shares outstanding during such periods / years.

2.19 Segment reporting**(a) Business segment**

A business segment is group of assets, operations or entities:

- (i) engaged in revenue producing activities;
- (ii) results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
- (iii) financial information is separately available.

(b) Geographical segment

A geographical segment is group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments.

2.20 Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Company transfers 10% of the net income for the year to a statutory reserve until such reserve equals 50% of its share capital. The statutory reserve in the accompanying interim consolidated financial statements is the statutory reserve of the Company. This reserve currently is not available for distribution to the shareholders of the Company.

3 Segment information

The Group operates principally in the following business segments:

- (i) Manufacturing, selling and trading of various types of chemicals; and
- (ii) Manufacturing and selling of adhesive and other materials.

Selected financial information for the years ended December 31, 2016 and 2015, summarized by the above business segments, was as follows:

	Chemicals	Adhesive and other materials	Total
2016 (Unaudited)			
Sales	322,885,790	234,940,286	557,826,076
Net income	18,620,604	24,284,020	42,904,624
Depreciation	22,182,335	7,422,033	29,604,368
Property, plant and equipment	135,052,453	48,458,345	183,510,798
Total assets	496,499,623	171,897,873	668,397,496
2015 (Audited)			
Sales	370,801,805	254,329,472	625,131,277
Net income	9,468,415	25,067,621	34,536,036
Depreciation	22,386,147	6,931,483	29,317,630
Property, plant and equipment	144,938,661	57,226,685	202,165,346
Total assets	474,608,493	211,333,462	685,941,955

The Group's operations are principally conducted in Saudi Arabia.

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4 Dividends

The shareholders of the Company in their general assembly meeting held on May 15, 2016 approved dividends of Saudi Riyal 1.0 per share, amounting to Saudi Riyals 27.5 million for the year ended December 31, 2016 (2015: Saudi Riyals 27.5 million) which were fully paid during the year.

5 Contingencies and commitments

- (i) The Group was contingently liable for bank guarantees and letters of credit issued in the normal course of business amounting to Saudi Riyals 16.8 million as of December 31, 2016 (2015: Saudi Riyals 15.9 million);
- (ii) The capital expenditure contracted by the Group but not yet incurred till December 31, 2016 was approximately Saudi Riyals 19.5 million (2015: Saudi Riyals 28.1 million); and
- (iii) The Group has received additional zakat assessments from the GAZT in 2012 amounting to Saudi Riyals 10.4 million for the years 2003 through 2010. The Group has filed appeals against such additional assessments, which are at various appellate levels and the management believes that no material liability will arise upon the ultimate resolution of these appeals and accordingly, no provision for such additional assessments have been recorded in the accompanying interim consolidated financial statements.