

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

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE-MONTH PERIOD ENDED  
MARCH 31, 2014 AND LIMITED REVIEW REPORT**

**BASIC CHEMICAL INDUSTRIES COMPANY AND SUBSIDIARIES  
(A Saudi Joint Stock Company)  
INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2014**

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## **LIMITED REVIEW REPORT**

April 17, 2014

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 March 31, 2014 and the interim consolidated statements of income, cash flows for the three-month period 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**

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

	Note	March 31, 2014 (Unaudited)	December 31, 2013 (Audited)	March 31, 2013 (Unaudited)
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents		203,436,376	178,392,356	215,996,584
Accounts receivable		133,955,272	138,264,695	204,220,245
Inventories		120,281,436	129,936,358	135,245,925
Prepayments, advances and other receivable		25,475,962	21,847,756	14,884,777
		<u>483,149,046</u>	<u>468,441,165</u>	<u>570,347,531</u>
<b>Non-current assets</b>				
Investment in an associate	1	12,949	90,328	-
Property, plant and equipment		176,234,121	179,171,501	184,524,582
		<u>176,247,070</u>	<u>179,261,829</u>	<u>184,524,582</u>
<b>Total assets</b>		<u>659,396,116</u>	<u>647,702,994</u>	<u>754,872,113</u>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable		24,002,145	29,838,428	80,056,788
Accrued and other liabilities		25,649,288	22,949,993	35,718,587
Zakat and income taxes payable		7,817,078	8,163,458	13,412,549
		<u>57,468,511</u>	<u>60,951,879</u>	<u>129,187,924</u>
<b>Non-current liabilities</b>				
Employee termination benefits		23,469,902	23,054,629	23,194,083
<b>Total liabilities</b>		<u>80,938,413</u>	<u>84,006,508</u>	<u>152,382,007</u>
<b>Equity</b>				
Equity attributable to shareholders of the Company:				
Share capital		275,000,000	275,000,000	275,000,000
Statutory reserve		39,376,290	38,500,829	35,891,869
Retained earnings		159,215,544	151,336,392	167,305,751
<b>Total shareholders' equity</b>		<u>473,591,834</u>	<u>464,837,221</u>	<u>477,997,620</u>
<b>Non-controlling interests</b>		104,865,869	98,859,265	124,492,486
<b>Total equity</b>		<u>578,457,703</u>	<u>563,696,486</u>	<u>602,490,106</u>
<b>Total liabilities and equity</b>		<u>659,396,116</u>	<u>647,702,994</u>	<u>754,872,113</u>
<b>Contingencies and commitments</b>	4			

The notes on pages from 7 to 11 form an integral part of these consolidated financial statements.

  
**Saleh Al-Yami**  
 Chief Executive Officer

  
**Khalid Al-Moammer**  
 Authorized Board Member

  
**Ossama Farouk**  
 Chief Financial Officer

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

	Note	For the three-month periods ended March 31,	
		2014 (Unaudited)	2013 (Unaudited)
Sales		162,895,832	176,251,919
Cost of sales		(123,277,423)	(130,241,327)
Gross profit		39,618,209	46,010,592
<b>Operating expenses</b>			
Selling and distribution		(10,844,021)	(11,789,129)
General and administrative		(10,594,821)	(5,959,084)
Income from operations		18,179,367	28,262,379
<b>Other income (expenses)</b>			
Financial income		71,240	21,875
Share in net loss of an associate		(77,379)	-
Other, net		(175,274)	(214,218)
Income before zakat and non-controlling interests		17,997,954	28,070,036
Zakat		(2,147,155)	(1,400,000)
Income before non-controlling interests		15,850,799	26,670,036
Non-controlling interests		(7,096,186)	(10,430,924)
<b>Net income for the period</b>		<b>8,754,613</b>	<b>16,239,112</b>
<b>Earnings per share (Saudi Riyals):</b>			
• Operating income		0.66	1.03
• Net income for the period		0.32	0.59
Weighted average number of shares outstanding	2.17	27,500,000	27,500,000

The notes on pages from 7 to 11 form an integral part of these consolidated financial statements.

  
**Saleh Al-Yami**  
 Chief Executive Officer

  
**Khalid Al-Moammer**  
 Authorized Board Member

  
**Ossama Farouk**  
 Chief Financial Officer

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

	Note	Three-month period ended	
		March 31,	
		2014	2013
		(Unaudited)	(Unaudited)
<b>Cash flow from operating activities</b>			
Net income for the period		8,754,613	16,239,112
<b>Adjustments for non-cash items</b>			
Depreciation		5,771,545	5,521,662
Gain on disposal of property and equipment		(152,538)	(34,071)
Share in net loss of an associate	1	77,379	-
Income applicable to non-controlling interests		7,096,186	10,430,924
<b>Changes in working capital</b>			
Accounts receivable		4,309,423	(31,631,120)
Inventories		9,654,922	(9,027,267)
Prepayments, advances and other receivable		(3,628,206)	(961,272)
Accounts payable		(5,836,283)	25,158,023
Accrued and other liabilities		2,699,295	(3,316,478)
Zakat and income taxes payable		(1,435,962)	1,400,000
Employee termination benefits		415,273	2,323,163
Net cash generated from operating activities		27,725,647	16,102,676
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment		(2,957,595)	(2,342,769)
Proceeds from disposal of property and equipment		275,968	105,877
Net cash utilized in investing activities		(2,681,627)	(2,236,892)
Net change in cash and cash equivalents		25,044,020	13,865,784
Cash and cash equivalents at beginning of period		178,392,356	202,130,800
Cash and cash equivalents at end of period		203,436,376	215,996,584
<b>Supplemental cash flow information:</b>			
<b>Non-cash financing activity</b>			
Income taxes charged to non-controlling interests		(1,089,582)	-

The notes on pages from 6 to 11 form an integral part of these interim consolidated financial statements.

  
**Saieh Al-Yami**  
 Chief Executive Officer

  
**Khalid Al-Moammer**  
 Authorized Board Member

  
**Ossama Farouk**  
 Chief Financial Officer



**BASIC CHEMICAL INDUSTRIES COMPANY AND SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**  
**Notes to the interim consolidated financial statements**  
**For the three-month period ended March 31, 2014**  
(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 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.

During 2013, the Company has signed a memorandum of understanding with CP Kelco, an American company to jointly build and operate a xanthan gum facility in Jubail. CP Kelco is a leading producer of specialty hydrocolloids with offices and facilities across the globe. Except for the signed memorandum, no other developments or commitments have been undertaken as at the approval date of these interim consolidated financial statements.

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

	<b>Effective ownership at</b>	
	<b>March 31,</b>	
	<b>2014</b>	<b>2013</b>
Basic Chemicals National Company ("BCNC")	<b>100%</b>	<b>100%</b>
Chemical Marketing and Distribution Company Limited ("CMDC")	<b>100%</b>	<b>100%</b>
Saudi Water Treatment Company ("SWTC")	<b>100%</b>	<b>100%</b>
Huntsman APC ("HAPC")	<b>49%</b>	<b>49%</b>
National Adhesives Company Limited ("NAL")	<b>47%</b>	<b>47%</b>

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 commercial registration 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.

The accompanying interim consolidated financial statements include all adjustments comprising mainly of normal recurring accruals considered necessary by the Group's management to present a fair statement of the financial position, results of operations and cash flows. The interim results of the operations for the three-month period ended March 31, 2014 may not represent a proper indication for the annual results of operations. These interim consolidated financial statements and notes should be read in conjunction with the annual audited consolidated financial statements and the related notes for the year ended December 31, 2013.

The accompanying interim consolidated financial statements were approved by the Company's management on April 17, 2014.

**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. Significant accounting policies adopted by the Group for preparing such interim consolidated financial statements are consistent with the accounting policies described in the 2013 annual audited consolidated financial statements of the Group.

**BASIC CHEMICAL INDUSTRIES COMPANY AND SUBSIDIARIES**  
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**Notes to the interim consolidated financial statements**  
**For the three-month period ended March 31, 2014**  
(All amounts in Saudi riyals unless otherwise stated)

**2.2 Critical accounting estimates and judgments**

The preparation of interim consolidated financial statements in conformity with generally accepted accounting principles 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. Although these 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. Management makes estimates and assumptions concerning the future which 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 period-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 periods ended March 31, 2014 and 2013.

**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 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.

**2.6 Inventories**

Inventories are stated 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.

**2.7 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.



## **BASIC CHEMICAL INDUSTRIES COMPANY AND SUBSIDIARIES**

**(A Saudi Joint Stock Company)**

**Notes to the interim consolidated financial statements**

**For the three-month period ended March 31, 2014**

(All amounts in Saudi riyals unless otherwise stated)

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.

### **2.8 Property, plant and equipment**

Property, plant and equipment are carried 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:

	<b>Number of years</b>
• Buildings and leasehold improvements	25
• Plant and machinery	15
• Furniture, fixtures and office equipment	3 - 5
• Vehicles	4 - 7

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

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

### **2.9 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.

## **BASIC CHEMICAL INDUSTRIES COMPANY AND SUBSIDIARIES**

**(A Saudi Joint Stock Company)**

**Notes to the interim consolidated financial statements**

**For the three-month period ended March 31, 2014**

**(All amounts in Saudi riyals unless otherwise stated)**

### **2.10 Accounts payable and accruals**

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

### **2.11 Zakat and tax**

The Company is subject to zakat in accordance with the regulations of the Department of Zakat and Income Taxes (the "DZIT"). Foreign shareholders in the consolidated subsidiaries are subject to income taxes. 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 Saudi Arabian 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.

### **2.12 Employee termination benefits**

Employee termination benefits required by the Saudi Labor and Workman Law are accrued by the Group and charged to the income statement. The liability is calculated as the current value of the vested benefits to which the employee is entitled should the employee leave at the 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.

### **2.13 Revenues**

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

### **2.14 Selling, distribution and general and administrative expenses**

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

### **2.15 Dividends**

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

### **2.16 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.

### **2.17 Earnings per share**

Earnings per share for the three-month periods ended March 31, 2014 and 2013 has been computed by dividing the operating income and net income for each period by weighted average number of shares outstanding during such periods.

## BASIC CHEMICAL INDUSTRIES COMPANY AND SUBSIDIARIES

(A Saudi Joint Stock Company)

Notes to the interim consolidated financial statements

For the three-month period ended March 31, 2014

(All amounts in Saudi riyals unless otherwise stated)

### 2.18 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.

### 2.19 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.

### 2.20 Reclassification

Certain amounts in the comparative 2013 interim consolidated financial statements have been reclassified to conform to 2014 presentation.

## 3 Segment information

The Group operates principally in the following major business segments:

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

Selected financial information as of March 31, 2014 and 2013 and for three-month the periods ended March 31, 2014 and 2013, summarized by the above business segments, was as follows:

	Chemicals	Adhesive and other materials	Total
<b>2014 (Unaudited)</b>			
Sales	90,157,298	72,738,334	162,895,632
Net income	4,087,641	4,666,972	8,754,613
Depreciation	4,530,168	1,241,377	5,771,545
Property, plant and equipment	138,378,820	37,855,301	176,234,121
Total assets	435,982,676	223,413,440	659,396,116
	Chemicals	Adhesive and other materials	Total
<b>2013 (Unaudited)</b>			
Sales	99,776,537	76,475,382	176,251,919
Net income	8,830,561	7,408,551	16,239,112
Depreciation	4,430,560	1,091,102	5,521,662
Property, plant and equipment	146,548,871	37,975,711	184,524,582
Total assets	455,723,647	299,148,466	754,872,113

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

**BASIC CHEMICAL INDUSTRIES COMPANY AND SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**  
**Notes to the Interim consolidated financial statements**  
**For the three-month period ended March 31, 2014**  
**(All amounts in Saudi riyals unless otherwise stated)**

**4 Contingencies and commitments**

- (i) The Group was contingently liable as of March 31, 2014 for bank guarantees and performance bonds issued in the normal course of the business amounting Saudi Riyals 8.3 million (2013: Saudi Riyals 24.2 million); and
- (ii) The capital expenditure contracted by the Group but not yet incurred till March 31, 2014 was approximately Saudi Riyals 51.5 million (2013: Saudi Riyals 52.0 million).