

BASIC CHEMICAL INDUSTRIES COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017
AND INDEPENDENT AUDITOR'S REPORT

BASIC CHEMICAL INDUSTRIES COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Page
Independent auditor's report	2 - 6
Consolidated statement of profit or loss and other comprehensive income	7
Consolidated statement of financial position	8
Consolidated statement of changes in equity	9
Consolidated statement of cash flows	10
Notes to the consolidated financial statements	11 - 42



Independent auditor's report to the shareholders of Basic Chemical Industries Company

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Basic Chemical Industries Company (the "Company") and its subsidiaries (together the "Group") as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2017;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

Key audit matter

First time adoption of IFRS that are endorsed in the Kingdom of Saudi Arabia



Independent auditor's report to the shareholders of Basic Chemical Industries Company (continued)

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
<i>First time adoption of IFRS that are endorsed in the Kingdom of Saudi Arabia</i>	
<p>For all periods up to and including the year ended December 31, 2016, the Group prepared its consolidated financial statements in accordance with generally accepted accounting standards as issued by SOCPA ("previous GAAP").</p> <p>The Group prepared its first annual consolidated financial statements for the year ended December 31, 2017 in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by SOCPA. In preparing the consolidated financial statements, the Group's opening consolidated statement of financial position was prepared as of January 1, 2016, which is the Group's date of transition to IFRS that are endorsed in the Kingdom of Saudi Arabia.</p> <p>We considered the transition from previous GAAP to IFRS that are endorsed in the Kingdom of Saudi Arabia, as a key audit matter due to its pervasive impact on the consolidated financial statements from recognition, measurement and disclosures perspective. The management made estimates and exercised judgment during the transition process.</p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none">• Obtained an understanding of the transition differences identified by the management between the previous GAAP and IFRS that are endorsed in the Kingdom of Saudi Arabia, and assessed its completeness and appropriateness;• Evaluated the key decisions made by the Group with respect to accounting policies, estimates and judgments in relation to transition to IFRS that are endorsed in the Kingdom of Saudi Arabia, and assessed their appropriateness based on our understanding of the Group's business and its operations;• Compared the accounting policies under previous GAAP with the policies adopted under IFRS that are endorsed in the Kingdom of Saudi Arabia for all financial statement line items for any potential gap omissions;• Tested the adjustments made as part of the transition process based on the differences identified; and



Independent auditor's report to the shareholders of Basic Chemical Industries Company (continued)

Key audit matter	How our audit addressed the Key audit matter
Refer to Note 2 to the consolidated financial statements for basis of preparation, adoption of IFRS that are endorsed in the Kingdom of Saudi Arabia and accounting policies adopted by the Group and Note 6 to the consolidated financial statements for the transition adjustments and other details in connection with the transition from previous GAAP to IFRS that are endorsed in the Kingdom of Saudi Arabia.	<ul style="list-style-type: none">Evaluated the adequacy and appropriateness of disclosures made in the consolidated financial statements in relation to transition to IFRS, that are endorsed in the Kingdom of Saudi Arabia.

Other information

The directors are responsible for the other information. The other information comprises the Board of Directors' report, but does not include the consolidated financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by SOCPA, and the applicable requirements of the Regulations for Companies and the Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.



Independent auditor's report to the shareholders of Basic Chemical Industries Company (continued)

Auditor's responsibilities for the audit of the consolidated financial statements

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

As part of an audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Independent auditor's report to the shareholders of Basic Chemical Industries Company (continued)

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

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

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read "Ali H. Al Basri", with a horizontal line underneath.

Ali H. Al Basri
License Number 409

March 25, 2018

BASIC CHEMICAL INDUSTRIES COMPANY
(A Saudi Joint Stock Company)
Consolidated statement of profit or loss and other comprehensive income
(All amounts in Saudi Riyals unless otherwise stated)

		Year ended 31 December	
	Note	2017	2016
Revenue		595,540,443	557,826,076
Cost of sales	12,19	(444,746,752)	(410,015,205)
Gross profit		150,793,691	147,810,871
Selling and distribution expenses	12,20	(46,232,915)	(47,551,891)
General and administrative expenses	12,21	(27,401,707)	(24,977,966)
Other operating income – net		9,391,340	5,048,004
Operating profit		86,550,409	80,329,018
Share in net (loss) profit of an associate accounted for using the equity method	8	(108,264)	151,368
Impairment loss on investment in an associate accounted for using the equity method	8	(415,735)	-
Financial income	10	1,332,097	2,497,479
Profit before zakat and income tax		87,358,507	82,977,865
Zakat expense	16	(8,529,256)	(8,847,997)
Income tax expense	16	(7,075,316)	(5,376,657)
Profit for the year		71,753,935	68,753,211
Other comprehensive (loss) income for the year <i>Item that will not be reclassified to profit or loss</i>			
Remeasurements of employee benefit obligations	15	(2,097,539)	-
Total comprehensive income for the year		69,656,396	68,753,211
Profit for the year is attributable to:			
Shareholders of Basic Chemical Industries Company		43,768,506	46,186,472
Non-controlling interests		27,985,429	22,566,739
		71,753,935	68,753,211
Total comprehensive income for the year is attributable to:			
Shareholders of Basic Chemical Industries Company		41,780,086	46,186,472
Non-controlling interests		27,876,310	22,566,739
		69,656,396	68,753,211

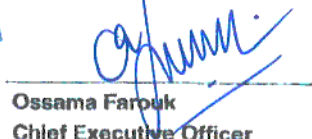
Earnings per share (Saudi Riyals)

Basic and diluted	23	1.59	1.68
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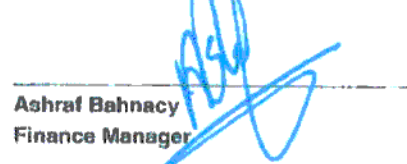
The accompanying notes are an integral part of these consolidated financial statements.



Khalid Al-Moammar
Designated member



Ossama Farouk
Chief Executive Officer



Ashraf Bahnacy
Finance Manager

BASIC CHEMICAL INDUSTRIES COMPANY
(A Saudi Joint Stock Company)
Consolidated statement of financial position
(All amounts in Saudi Riyals unless otherwise stated)

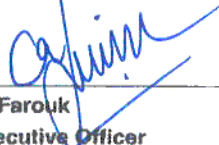
	Note	As at 31 December 2017	As at 31 December 2016	As at 1 January 2016
Assets				
Non-current assets				
Property, plant and equipment	7	194,652,830	172,123,978	188,080,852
Investment in an associate accounted for using the equity method	8	-	523,999	372,631
Total non-current assets		194,652,830	172,647,977	188,453,483
Current assets				
Inventories	11	101,959,279	84,905,499	119,629,182
Trade and other receivables	13	161,611,093	145,502,991	169,915,575
Short-term deposits	10	50,000,000	30,000,000	40,000,000
Cash and cash equivalents	9	172,878,753	227,856,353	153,859,221
Total current assets		486,449,125	488,264,843	483,403,978
Total assets		681,101,955	660,912,820	671,857,461
Equity and liabilities				
Equity				
Share capital	17	275,000,000	275,000,000	275,000,000
Statutory reserve	18	53,070,778	48,693,927	45,357,187
Retained earnings		160,618,821	150,715,586	135,365,854
Equity attributable to shareholders of Basic Chemical Industries Company		488,689,599	474,409,513	455,723,041
Non-controlling interests		78,779,615	78,223,305	99,081,566
Total equity		567,469,214	552,632,818	554,804,607
Liabilities				
Non-current liabilities				
Employee benefit obligations	15	24,008,227	22,025,963	21,605,664
Current liabilities				
Trade and other payables	14	76,517,812	74,856,716	85,042,609
Zakat and income tax payable	16	13,106,702	11,397,323	10,404,581
Total current liabilities		89,624,514	86,254,039	95,447,190
Total liabilities		113,632,741	108,280,002	117,052,854
Total equity and liabilities		681,101,955	660,912,820	671,857,461

The accompanying notes are an integral part of these consolidated financial statements.

The consolidated financial statements including notes and other explanatory information were approved and authorised for issue by the Board of Directors on 25 March 2018 and was signed on their behalf by:



Khalid Al-Moammar
Designated member



Ossama Farouk
Chief Executive Officer



Ashraf Bahnacy
Finance Manager

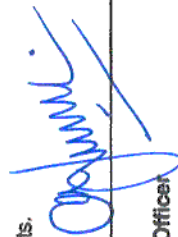
BASIC CHEMICAL INDUSTRIES COMPANY
(A Saudi Joint Stock Company)
Consolidated statement of changes in equity
(All amounts in Saudi Riyals unless otherwise stated)

Note	Attributable to the shareholders of Basic Chemical Industries Company				
	Share capital	Statutory reserve	Retained earnings	Total	Non-controlling interests
At 1 January 2016	275,000,000	45,357,187	135,365,854	455,723,041	99,081,566
Profit for the year	-	-	46,186,472	46,186,472	22,566,739
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	-	-	46,186,472	46,186,472	22,566,739
At 31 December 2016	275,000,000	48,693,927	150,715,586	474,409,513	78,223,305
Transfer to statutory reserve	-	3,336,740	(3,336,740)	-	-
Dividends	-	-	(27,500,000)	(27,500,000)	(43,425,000)
At 31 December 2017	275,000,000	48,693,927	150,715,586	474,409,513	78,223,305
Profit for the year	-	-	43,768,506	43,768,506	27,985,429
Other comprehensive loss for the year	-	-	(1,988,420)	(1,988,420)	(109,119)
Total comprehensive income for the year	-	-	41,780,086	41,780,086	27,876,310
Transfer to statutory reserve	-	4,376,851	(4,376,851)	-	-
Dividends	-	-	(27,500,000)	(27,500,000)	(27,320,000)
At 31 December 2017	275,000,000	53,070,778	160,618,821	488,689,599	78,779,615
					567,469,214

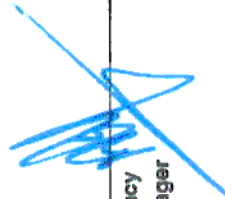
The accompanying notes are an integral part of these consolidated financial statements.



Khalid Al-Moammar
Designated member



Ossama Farouk
Chief Executive Officer



Ashraf Bahnacy
Finance Manager

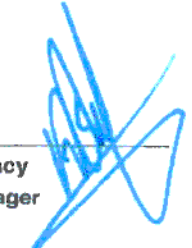
BASIC CHEMICAL INDUSTRIES COMPANY
(A Saudi Joint Stock Company)
Consolidated statement of cash flows
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Year ended 31 December	
		2017	2016
Cash flows from operating activities			
Profit before zakat and income tax		87,358,507	82,977,865
<u>Adjustments for:</u>			
Depreciation	7	28,101,601	26,906,700
Write-off of property, plant and equipment		-	2,980,221
Provision for doubtful debts	13	(110,549)	(822,374)
Provision for inventory obsolescence	11	902,235	(2,469,477)
Gain on disposal of property and equipment		(151,936)	(459,917)
Share in net loss (profit) of an associate accounted for using the equity method	8	108,264	(151,368)
Impairment loss on investment in an associate accounted for using the equity method	8	415,735	-
Financial income	10	(1,332,097)	(2,497,479)
Provision for employee benefit obligations		3,145,121	2,828,949
<u>Changes in operating assets and liabilities:</u>			
(Increase) decrease in inventories		(17,956,015)	34,174,982
(Increase) decrease in trade and other receivables		(15,997,553)	25,234,958
Increase (decrease) in trade and other payables		1,661,086	(10,185,893)
Cash generated from operations		86,144,409	158,517,167
Finance income received on short-term deposits		1,332,097	2,497,479
Zakat and income tax paid	16	(13,895,193)	(13,231,912)
Employee benefit obligations paid	15	(3,260,396)	(2,408,650)
Net cash inflow from operating activities		70,320,917	145,374,084
Cash flows from investing activities			
Short-term deposits		(20,000,000)	10,000,000
Payments for property, plant and equipment		(50,636,602)	(11,128,830)
Proceeds from disposal of property and equipment		158,085	676,878
Net cash outflow from investing activities		(70,478,517)	(451,952)
Cash flows from financing activities			
Dividends paid to Company's shareholders	24	(27,500,000)	(27,500,000)
Dividends paid to non-controlling interests in subsidiaries	24	(27,320,000)	(43,425,000)
Net cash outflow from financing activities		(54,820,000)	(70,925,000)
Net change in cash and cash equivalents		(54,977,600)	73,997,132
Cash and cash equivalents at beginning of the year		227,856,353	153,859,221
Cash and cash equivalents at end of the year		172,878,753	227,856,353
Non-cash investing activities:			
Capital spares capitalized	7, 11	-	3,018,178

The accompanying notes are an integral part of these consolidated financial statements.


Khalid Al-Moammar
Designated member


Ossama Farouk
Chief Executive Officer


Ashraf Bahnacy
Finance Manager

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2017****(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 Saudi Arabian subsidiaries as described in Note 8. 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.

The Company is a joint stock company registered in the Kingdom of Saudi Arabia under Commercial Registration ("CR") number 2050002795 issued in Dammam on 28 Dhul Al Hijjah 1392 H (2 February 1973). The registered address of the Company is P.O. Box 1053, Dammam 31431, Kingdom of Saudi Arabia.

The Company is in the process of setting-up a project in Jubail for producing chlorine and its derivatives with an estimated production capacity of 70,000 tons. During 2017, the Company has entered into an agreement with a European company for procurement of machinery and equipment for chlorine and caustic soda and engineering services. The project is expected to be completed by 2020 with a total estimated cost of Saudi Riyals 520.0 million.

The accompanying consolidated financial statements include the accounts of the Company, its branches and its various Saudi Arabian subsidiaries, operating under individual commercial registrations. Also see Note 8.

2. Summary of significant accounting policies

The principal accounting policies applied for the preparation of consolidated financial statements of the Group are set out below.

2.1 Basis of preparation**a) Statement of compliance**

These consolidated financial statements of the Group have been prepared in compliance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by Saudi Organization for Certified Public Accountants ("SOCPA").

(b) First time adoption of IFRS

For all periods up to and including the year ended 31 December 2016, the Group prepared its consolidated financial statements in accordance with local generally accepted accounting principles as issued by SOCPA ("previous GAAP"). These consolidated financial statements for the year ended 31 December 2017 are the first general purpose consolidated financial statements the Group has prepared in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA.

In preparing the consolidated financial statements, the Group's opening consolidated statement of financial position was prepared as at 1 January 2016 which is the Group's date of transition to IFRS. Explanations of how the transition to IFRS has affected the reported amounts of consolidated statement of financial position, statements of profit or loss and other comprehensive income, changes in equity and cash flows of the Group are provided in Note 6. The Group has not availed any voluntary exemptions given in IFRS 1. Mandatory exemptions given in IFRS 1 were not applicable.

c) Historical cost convention

The consolidated financial statements are prepared under the historical cost convention, except for the employee benefit obligations as explained in the relevant accounting policy.

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2017****(All amounts in Saudi Riyals unless otherwise stated)****d) New and amended standards not adopted by the Group**

Certain new standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning after 1 January 2018 or later periods, but have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

Title of standard	<i>IFRS 9 Financial instruments ("IFRS 9")</i>
Nature of change	IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.
Impact	<p>The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:</p> <p><u>Classification and measurement:</u> Group's financial assets that are currently measured at amortised cost would continue to be measured as such and there will be no change to the accounting for these assets. Currently, the Group does not have any financial asset carried at fair value.</p> <p>There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.</p> <p><u>Impairment:</u> The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. The Group is currently in the process of finalising its evaluation of impact of IFRS 9 on impairment of its financial assets. As per the initial assessment of the Group, the impact is not expected to be material.</p> <p><u>Disclosures:</u> The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.</p>
Date of adoption by Group	Mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2017****(All amounts in Saudi Riyals unless otherwise stated)**

Title of standard	<i>IFRS 15 Revenue from Contracts with Customers ("IFRS 15")</i>
Nature of change	The IASB has issued a new standard for the recognition of revenue. IFRS 15 will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.
Impact	The Group is currently in the process of completing its evaluation of impact of IFRS 15 on its revenue recognition policy. As per initial assessment of the Group, the impact of this change is not expected to be material.
Date of adoption by Group	Mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.
Title of standard	<i>IFRS 16 Leases ("IFRS 16")</i>
Nature of change	IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.
Impact	The Group is yet to evaluate the impact of IFRS 16.
Date of adoption by Group	Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other relevant IFRS or IFRS Interpretations Committee interpretations that are not yet effective that would be expected to have a material impact on the Group's consolidated financial statements.

2.2 Foreign currencies**(a) Functional and presentation currency**

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates the ("functional currency"). The consolidated financial statements are presented in "Saudi Riyals", which is the Group's presentation as well as functional currency of all entities.

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the 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 other than Saudi Riyals are recognized in profit or loss.

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

BASIC CHEMICAL INDUSTRIES COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2017

(All amounts in Saudi Riyals unless otherwise stated)

2.3 Basis of consolidation

(a) Subsidiaries

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss

Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

(b) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

BASIC CHEMICAL INDUSTRIES COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2017

(All amounts in Saudi Riyals unless otherwise stated)

(c) Investments in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Investments in associates are accounted for using the equity method (equity accounted investees) and are recognised initially at cost. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

2.4 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, except capital work-in-progress which are carried at cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Land is not depreciated as it is deemed to have an indefinite life.

Depreciation is calculated on property, plant and equipment so as to allocate its cost, less estimated residual value, on a straight line basis over the estimated useful lives of the assets. Depreciation is charged to profit or loss.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each annual reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Assets in the course of construction or development are capitalised in the capital work-in-progress account. The asset under construction or development is transferred to the appropriate category in property, plant and equipment, once the asset is in a location and / or condition necessary for it to be capable of operating in the manner intended by management. The cost of an item of capital work-in-progress comprises its purchase price, construction / development costs and any other directly attributable costs to the construction or acquisition of an item of capital work-in-progress intended by management. Capital work-in-progress is not depreciated.

2.5 Financial Instruments

2.5.1 Financial assets

(i) Classification

The Group has classified its financial assets as loans and receivables.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2017****(All amounts in Saudi Riyals unless otherwise stated)****(iii) Measurement**

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.5.2 Financial liabilities

All financial liabilities are recognised at the time when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are recognized initially at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these are measured at amortized cost using the effective interest method.

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

2.5.3 Offsetting financial assets and liabilities

Financial assets and liabilities are offset and net amounts are reported in the consolidated financial statements, when the Group has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the assets and liabilities simultaneously.

2.6 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded entities or other available fair value indicators.

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.7 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Significant difficulties of the issuer of the financial asset, probability that the issuer will enter bankruptcy or financial reorganisation and default in payments are considered indicators that the financial assets are impaired. The amount of the provision is the difference between the assets' carrying amount and the present value of estimated cash flows, discounted at the original effective interest rate. The amount of the provision is charged to profit or loss.

BASIC CHEMICAL INDUSTRIES COMPANY
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended 31 December 2017
(All amounts in Saudi Riyals unless otherwise stated)

Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

2.8 Inventories

Raw materials and spares, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.9 Trade receivables

Trade receivables are amounts due from customers for products sold and services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Subsequent recoveries of amount previously written-off are credited profit or loss against "General and administrative expenses".

2.10 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.

2.11 Cash and cash equivalents

For the purpose of consolidated statement of financial position, cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.12 Share capital

Ordinary shares are classified as equity. Transaction costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

2.13 Trade payables

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method.

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2017**

(All amounts in Saudi Riyals unless otherwise stated)

2.14 Employee benefit obligations

The Group operates single post-employment benefit scheme of defined benefit plans driven by the labor laws and workman laws of the Kingdom of Saudi Arabia.

The post-employment benefits plan is not funded. Accordingly, valuations of the obligations under the plan are carried out by an independent actuary based on the projected unit credit method. The costs relating to such plans primarily consist of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation in respect of employee service in previous years.

Current and past service costs related to post-employment benefits are recognized immediately in profit or loss while unwinding of the liability at discount rates used are recorded in profit or loss. Any changes in net liability due to actuarial valuations and changes in assumptions are taken as re-measurement in the other comprehensive income.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized directly in other comprehensive income and transferred to retained earnings in the consolidated statement of changes in equity in the period in which they occur.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs. End of service payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the labor law of Kingdom of Saudi Arabia.

2.15 Revenue

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities net of discounts. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved.

Sale of goods

Revenue is recognized upon delivery of goods. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Performance of services

Revenues from performance of services is recognised in the accounting period in which the services are rendered.

2.16 Financial income

Finance income is measured using the effective interest rate, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset or a shorter period, where appropriate, to the net carrying amount of the financial asset.

2.17 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

2.18 Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

BASIC CHEMICAL INDUSTRIES COMPANY
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended 31 December 2017
(All amounts in Saudi Riyals unless otherwise stated)

2.19 Zakat and income tax

The Group is subject to zakat and income tax in accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT"). Zakat, for the Company and its subsidiaries, is calculated based on higher of approximate zakat base and adjusted profit and charged to profit or loss. Income tax on the share of the adjusted profit related to the foreign shareholders in the subsidiaries, is charged to profit or loss. Additional amounts, if any, are accounted for when determined to be required for payment.

Income tax based on the applicable income tax rate is adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.20 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Chief Operating Decision Maker to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Group's Chief Executive Officer who is the Chief Operating Decision Maker, include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties is measured in the same way as in the statement of profit or loss. Segment assets and liabilities are measured in the same way as in the consolidated financial statements. These assets and liabilities are allocated based on the operations of the segment and the physical location of the asset.

2.21 Earnings per share

Basic and diluted earnings per share is calculated by dividing the profit attributable to shareholders of the Group, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial period.

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2017****(All amounts in Saudi Riyals unless otherwise stated)****3 Fair value of assets and liabilities**

As at 31 December 2017 and 2016, the fair values of the Group's financial instruments are estimated to approximate their carrying values since the financial instruments are short term in nature, bear no interest, except for short-term deposits which are at prevailing market rates and are expected to be realized at their current carrying values within twelve months from the date of consolidated statement of financial position.

4 Critical accounting estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical estimates and judgments 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 judgments concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Useful lives of property, plant and equipment

The management determines the estimated useful lives of property, plant and equipment for computing depreciation. This estimate is determined after considering expected usage of the assets or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charges are adjusted where management believes the useful lives differ from previous estimates.

Impairment of property, plant and equipment

The management tests annually whether property, plant and equipment has suffered any impairment, in accordance with the accounting policy stated in Note 2.6. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates in relation to the future cash flows and use of an appropriate discount rate applicable to the circumstances of the Group.

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2017****(All amounts in Saudi Riyals unless otherwise stated)****5 Segment information**

The Group's operations are principally in the following business segments:

- **Chemicals:** this part of the business manufactures and sells industrial chemicals such as hydrochloric acid, caustic soda, chlorine gas, sodium hypochlorite, polyurethane chemicals etc. used in multiple industries.
- **Adhesives and other materials:** this part of the business manufactures and sells ferric chloride, hot and cold melt adhesives, sulfuric acid etc. used in multiple industries.

Selected financial information as of 31 December 2017 and 2016 and for the years then ended, summarized by the above operating segments, is as follows:

2017	Chemicals	Adhesives and other materials	Total
Revenue	350,173,757	245,366,686	595,540,443
Cost of sales	(262,418,109)	(182,328,643)	(444,746,752)
Gross profit	87,755,648	63,038,043	150,793,691
Selling and distribution expenses	(27,071,221)	(19,161,694)	(46,232,915)
General and administrative expenses	(25,413,264)	(1,988,443)	(27,401,707)
Other operating income - net	6,904,100	2,487,240	9,391,340
Operating profit	42,175,263	44,375,146	86,550,409
Financial income	1,332,097	-	1,332,097
Profit before zakat and income tax	43,507,360	44,375,146	87,882,506
Zakat expense	(7,141,011)	(1,388,245)	(8,529,256)
Income tax expense	(2,853,504)	(4,221,812)	(7,075,316)
Profit for the year	33,512,845	38,765,089	72,277,934
Property, plant and equipment	154,932,903	39,719,927	194,652,830
Additions to property, plant and equipment	47,971,206	2,665,396	50,636,602
Total assets	527,682,036	153,419,919	681,101,955
Total liabilities	84,766,616	28,866,125	113,632,741
2016	Chemicals	Adhesives and other materials	Total
Revenue	322,885,790	234,940,286	557,826,076
Cost of sales	(246,267,027)	(163,748,178)	(410,015,205)
Gross profit	76,618,763	71,192,108	147,810,871
Selling and distribution expenses	(28,559,962)	(18,991,929)	(47,551,891)
General and administrative expenses	(23,740,298)	(1,237,668)	(24,977,966)
Other operating income - net	6,865,707	(1,817,703)	5,048,004
Operating profit	31,184,210	49,144,808	80,329,018
Financial income	2,497,479	-	2,497,479
Profit before zakat and income tax	33,681,689	49,144,808	82,826,497
Zakat expense	(7,328,476)	(1,519,521)	(8,847,997)
Income tax expense	(1,211,442)	(4,165,215)	(5,376,657)
Profit for the year	25,141,771	43,460,072	68,601,843
Property, plant and equipment	128,874,139	43,249,839	172,123,978
Additions to property, plant and equipment	12,513,084	1,633,924	14,147,008
Total assets	488,455,251	172,457,569	660,912,820
Total liabilities	71,940,637	36,339,365	108,280,002

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2017****(All amounts in Saudi Riyals unless otherwise stated)**

Chemicals: Revenues of approximately Saudi Riyals 108.5 million (2016: Saudi Riyals 96.3 million) are derived from 6 external customers (2016: 6 external customers).

Adhesives and other materials: Revenues of approximately Saudi Riyals 61.6 million (2016: Saudi Riyals 90.1 million) are derived from 2 external customers (2016: 4 external customers).

Reconciliation of segment results with profit before zakat and income tax

	For the year ended 31 December	
	2017	2016
Total segment results	87,882,506	82,826,497
Share in net (loss) profit of an associate accounted for using the equity method	(108,264)	151,368
Impairment loss on investment in an associate accounted for using the equity method	(415,735)	-
Profit before zakat and income tax	87,358,507	82,977,865

Reconciliation of segment assets with total assets

	For the year ended 31 December	
	2017	2016
Total segment assets	681,101,955	660,388,821
Investment in an associate accounted for using the equity method	-	523,999
Total assets	681,101,955	660,912,820

BASIC CHEMICAL INDUSTRIES COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2017

(All amounts in Saudi Riyals unless otherwise stated)

6 Impact of transition to IFRS**6.1 Impact of IFRS transition on the consolidated statement of financial position as at 1 January 2016 (date of transition)**

	Note	Balances as per previous GAAP as at 1 January 2016	Impact of transition to IFRS	Balances as per IFRS as at 1 January 2016
Assets				
Non-current assets				
Property, plant and equipment	6.5.1	202,165,346	(14,084,494)	188,080,852
Investment in an associate accounted for using the equity method		372,631	-	372,631
Total non-current assets		202,537,977	(14,084,494)	188,453,483
Current assets				
Inventories		119,629,182	-	119,629,182
Trade and other receivables		169,915,575	-	169,915,575
Short-term deposits		40,000,000	-	40,000,000
Cash and cash equivalents		153,859,221	-	153,859,221
Total current assets		483,403,978	-	483,403,978
Total assets		685,941,955	(14,084,494)	671,857,461
Equity and liabilities				
Equity				
Share capital		275,000,000	-	275,000,000
Statutory reserve		45,357,187	-	45,357,187
Retained earnings		147,928,916	(12,563,062)	135,365,854
Equity attributable to shareholders of Basic Chemical Industries Company		468,286,103	(12,563,062)	455,723,041
Non-controlling interests		99,081,566	-	99,081,566
Total equity		567,367,669	(12,563,062)	554,804,607
Liabilities				
Non-current liabilities				
Employee benefit obligations	6.5.2	23,127,096	(1,521,432)	21,605,664
Current liabilities				
Trade and other payables		85,042,609	-	85,042,609
Zakat and income tax payable		10,404,581	-	10,404,581
Total current liabilities		95,447,190	-	95,447,190
Total liabilities		118,574,286	(1,521,432)	117,052,854
Total equity and liabilities		685,941,955	(14,084,494)	671,857,461

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2017****(All amounts in Saudi Riyals unless otherwise stated)****6.2 Impact of IFRS transition on the consolidated statement of financial position as at 31 December 2016**

	Note	Balances as per previous GAAP as at 31 December 2016	Impact of transition to IFRS	Balances as per IFRS as at 31 December 2016
Assets				
Non-current assets				
Property, plant and equipment	6.5.1	184,420,397	(12,296,419)	172,123,978
Investment in an associate accounted for using the equity method		523,999	-	523,999
Total non-current assets		184,944,396	(12,296,419)	172,647,977
Current assets				
Inventories		84,905,499	-	84,905,499
Trade and other receivables		145,502,991	-	145,502,991
Short-term deposits		30,000,000	-	30,000,000
Cash and cash equivalents		227,856,353	-	227,856,353
Total current assets		488,264,843	-	488,264,843
Total assets		673,209,239	(12,296,419)	660,912,820
Equity and liabilities				
Equity				
Share capital		275,000,000	-	275,000,000
Statutory reserve		48,693,927	-	48,693,927
Retained earnings		160,574,266	(9,858,680)	150,715,586
Equity attributable to shareholders of Basic Chemical Industries Company		484,268,193	(9,858,680)	474,409,513
Non-controlling interests		78,223,305	-	78,223,305
Total equity		562,491,498	(9,858,680)	552,632,818
Liabilities				
Non-current liabilities				
Employee benefit obligations	6.5.2	24,463,702	(2,437,739)	22,025,963
Current liabilities				
Trade and other payables		74,856,716	-	74,856,716
Zakat and income tax payable		11,397,323	-	11,397,323
Total current liabilities		86,254,039	-	86,254,039
Total liabilities		110,717,741	(2,437,739)	108,280,002
Total equity and liabilities		673,209,239	(12,296,419)	660,912,820

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2017****(All amounts in Saudi Riyals unless otherwise stated)****6.3 Impact of IFRS transition on the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016**

	Note	Amounts as per previous GAAP for the year ended 31 December 2016	Impact of transition to IFRS	Amounts as per IFRS for the year ended 31 December 2016
Revenue		557,826,076	-	557,826,076
Cost of sales	6.5.1, 6.5.2	(412,719,587)	2,704,382	(410,015,205)
Gross profit		145,106,489	2,704,382	147,810,871
Selling and distribution expenses		(47,551,891)	-	(47,551,891)
General and administrative expenses		(24,977,966)	-	(24,977,966)
Other operating income - net		5,048,004	-	5,048,004
Operating profit		77,624,636	2,704,382	80,329,018
Share in net profit of an associate accounted for using the equity method		151,368	-	151,368
Financial income		2,497,479	-	2,497,479
Profit before zakat and income tax		80,273,483	2,704,382	82,977,865
Zakat expense	6.5.3	(8,847,997)	-	(8,847,997)
Income tax expense		-	(5,376,657)	(5,376,657)
Profit for the year		71,425,486	(2,672,275)	68,753,211
Other comprehensive income		-	-	-
Total comprehensive income for the year		71,425,486	(2,672,275)	68,753,211
Total comprehensive income for the year is attributable to:				
Shareholders of Basic Chemical Industries Company		43,482,090	2,704,382	46,186,472
Non-controlling interest		27,943,396	(5,376,657)	22,566,739
		71,425,486	(2,672,275)	68,753,211

6.4 Impact of IFRS transition on the consolidated statement of cash flows for the year ended 31 December 2016

The transition from previous GAAP to IFRS has not had a material impact on the consolidated statement of cash flows.

BASIC CHEMICAL INDUSTRIES COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2017

(All amounts in Saudi Riyals unless otherwise stated)

6.5 Explanations of IFRS adjustments

6.5.1 Property, plant and equipment

6.5.1.1 Component depreciation

Disaggregation or componentisation is the separation of an asset into its significant components. Each part of an item of property, plant and equipment that has a cost that is significant in relation to the total cost of the item is depreciated separately. If an item of property, plant and equipment comprises two or more significant components, with substantially different useful lives, then each component is treated separately for depreciation purposes and depreciated over its individual useful life. This resulted in recognition of accelerated depreciation of Saudi Riyals 7.4 million for components having a shorter useful life than the asset to which they belong.

As at 1 January 2016, the above mentioned adjustment has resulted in a decrease in property, plant and equipment and retained earnings by Saudi Riyals 7.4 million.

As at 31 December 2016, the above mentioned adjustment has resulted in a decrease in property, plant and equipment and retained earnings by Saudi Riyals 6.2 million.

6.5.1.2 Impairment indicators assessment and impairment testing

In accordance with the previous GAAP, the Group was required to calculate the value in use of a non-current asset using discounted cash flows only if the value of undiscounted cash flows were less than the asset's carrying amount. Since the value of certain items of property, plant and equipment using undiscounted cash flows exceeded their carrying amounts, cash flows were not discounted and accordingly, no impairment loss was recorded. On transition to IFRS, the Group remeasured the value in use of such assets using discounted cash flows (as required by IAS 36 - "Impairment of Assets") resulting in an impairment loss. The key assumptions used by the Group's management for the impairment calculation were as follows:

- Projected cash flows for the period of five years using approved budgets and forecasts;
- The forecasted figures reflect the ongoing and future contracts signed by the Group;
- The growth rate considered to project the cash flows beyond the period covered by management approved budgets and forecasts; and
- The discount rate used was approximately 13% based on the weighted average cost of capital in the cash flow projections.

As at 1 January 2016, the above mentioned adjustment has resulted in a decrease in property, plant and equipment and retained earnings by Saudi Riyals 6.7 million.

As at 31 December 2016, the above mentioned adjustment has resulted in a decrease in property, plant and equipment and retained earnings by Saudi Riyals 6.1 million.

6.5.2 Employee benefit obligations

In accordance with the previous GAAP, the Group recognized costs related to its employee benefit obligations as current value of vested benefits to which the employee is entitled. However, as at the date of transition to IFRS, the Group has re-measured the defined benefit liability in accordance with the projected unit credit method, as required by IAS -19 "Employee benefits".

As at 1 January 2016, the above mentioned adjustment has resulted in decrease of employee benefit obligations (liability) by Saudi Riyals 1.5 million and corresponding increase in retained earnings.

As at 31 December 2016, the above mentioned adjustment has resulted in a decrease of employee benefit obligations (liability) by Saudi Riyals 2.4 million and corresponding increase in retained earnings.

6.5.3 Income tax attributable to non-controlling interests

Before the transition date, income tax attributable to non-controlling interests were charged to the consolidated statement of changes in equity in conformity with the previous GAAP. However, as at the date of transition to IFRS, the Group has charged such income tax in the consolidated statement of profit or loss and other comprehensive income, as required by IAS -1 "Presentation of financial statements".

For the year ended 31 December 2016, the above mentioned adjustment has resulted in decrease in total comprehensive income for the year by Saudi Riyals 5.4 million.

BASIC CHEMICAL INDUSTRIES COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2017

(All amounts in Saudi Riyals unless otherwise stated)

7 Property, plant and equipment

<u>2017</u>	Land	Buildings and leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Vehicles	Capital work- in-progress	Total
Cost							
1 January	2,824,561	97,540,578	412,592,543	25,338,889	31,485,698	10,160,032	579,942,301
Additions	-	1,440,106	2,275,365	671,347	1,135,421	45,114,363	50,636,602
Disposals	-	-	-	-	(1,100,821)	-	(1,100,821)
Transfers	-	570,500	-	-	-	(570,500)	-
31 December	2,824,561	99,551,184	414,867,908	26,010,236	31,520,298	54,703,895	629,478,082
Accumulated depreciation and impairment							
1 January	-	(62,496,475)	(295,471,432)	(23,192,255)	(26,658,161)	-	(407,818,323)
Additions	-	(3,120,436)	(21,675,346)	(1,108,706)	(2,197,113)	-	(28,101,601)
Disposals	-	-	-	-	1,094,672	-	1,094,672
31 December	-	(65,616,911)	(317,146,778)	(24,300,961)	(27,760,602)	-	(434,825,252)
Net book value as at 31 December 2017	2,824,561	33,934,273	97,721,130	1,709,275	3,759,696	54,703,895	194,652,830

BASIC CHEMICAL INDUSTRIES COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2017

(All amounts in Saudi Riyals unless otherwise stated)

2016	Land	Buildings and leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Vehicles	Capital work-in- progress	Total
Cost							
1 January	2,824,561	97,155,103	403,831,088	25,337,561	31,425,404	10,302,353	570,876,070
Additions	-	385,475	6,306,051	282,041	1,667,150	5,506,291	14,147,008
Disposals	-	-	(3,193,208)	(280,713)	(1,606,856)	-	(5,080,777)
Transfers	-	-	5,648,612	-	-	(5,648,612)	-
31 December	2,824,561	97,540,578	412,592,543	25,338,889	31,485,698	10,160,032	579,942,301
Accumulated depreciation and impairment							
1 January	-	(59,706,944)	(275,562,187)	(21,944,596)	(25,581,491)	-	(382,795,218)
Additions	-	(2,789,531)	(20,122,232)	(1,526,427)	(2,468,510)	-	(26,906,700)
Disposals	-	-	212,987	278,768	1,391,840	-	1,883,595
31 December	-	(62,496,475)	(295,471,432)	(23,192,255)	(26,658,161)	-	(407,818,323)
Net book value as at 31 December 2016	2,824,561	35,044,103	117,121,111	2,146,634	4,827,537	10,160,032	172,123,978
Net book value as at 1 January 2016	2,824,561	37,448,159	128,268,901	3,392,965	5,843,913	10,302,353	188,080,852

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2017****(All amounts in Saudi Riyals unless otherwise stated)**

Depreciation is calculated on a straight line basis over the following estimated useful lives of the assets:

	Number of years
• Buildings and leasehold improvements	25
• Plant and machinery	15 - 20
• Furniture, fixtures and office equipment	3 - 5
• Vehicles	4 - 7

Capital work-in-progress at 31 December 2017 principally represents costs incurred on construction of administrative block at Dammam head office and a plant for chlorine-base project in Jubail which are expected to be completed by 2019 and 2020 respectively with total estimated cost of approximately Saudi Riyals 19.4 million (2016: Saudi Riyals 19.4 million) and Saudi Riyals 520.0 million (2016: Saudi Riyals: Nil) respectively. Also see Note 1 and 25.

Buildings and plant facilities of Basic Chemicals National Company ("BCNC") are constructed on plots of land leased under a renewable operating lease agreement at annual rent from the Royal Commission for Jubail and Yanbu for 25 Hijra years beginning from 17 Shaban 1422 H (November 3, 2001).

7.1 Impairment losses

At the date of transition to IFRS, as a result of the changes in methodology in determining the impairment loss between previous GAAP and IFRS, the Group determined that the recoverable amounts of property, plant and equipment of BCNC, a cash generating unit ("CGU"), were lower than their carrying values. Also see Note 6.5.1.2.

The carrying values, recoverable amounts and resultant impairment provisions retrospectively re-assessed by the Group and recognized against the opening balance of retained earnings on the date of transition to IFRS (January 1, 2016), are as follows:

CGU and class of asset	Carrying value	Recoverable amount	Impairment
As at 1 January 2016			
BCNC			
Buildings and leasehold improvements	6,347,280	4,102,305	(2,244,975)
Plant and machinery	12,528,805	8,097,481	(4,431,324)
Furniture, fixture and office equipment	15,163	15,163	-
Vehicles	377,781	377,781	-
	19,269,029	12,592,730	(6,676,299)

BASIC CHEMICAL INDUSTRIES COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2017

(All amounts in Saudi Riyals unless otherwise stated)

8 Interests in other entities
(a) Investment in subsidiaries

	Country of incorporation	Effective ownership percentage at			Principal activities
		31 December 2017	31 December 2016	1 January 2016	
Basic Chemicals National Company Limited ("BCNC")	Saudi Arabia	100%	100%	100%	Manufacture and sale of chemicals
Chemical Marketing and Distribution Company Limited ("CMDC")	Saudi Arabia	100%	100%	100%	Wholesale and retail of chemicals
Saudi Water Treatment Company ("SWTC")	Saudi Arabia	100%	100%	100%	Manufacture and sale of chemicals
Huntsman APC ("HAPC")	Saudi Arabia	49%	49%	49%	Manufacture and sale of chemicals
National Adhesives Company Limited ("NAL")	Saudi Arabia	47%	47%	47%	Manufacture and sale of chemicals

The Company has consolidated the accounts of HAPC and NAL in the accompanying consolidated financial statements as a parent company by virtue of respective shareholders' agreements. Pursuant to such agreements;

- BCI appoints its representative as Chief Executive Officer for both HAPC and NAL for managing day to day operations.
- BCI's representative(s) on the Board of Directors have the power to direct all key relevant business activities as a result of the voting arrangements under the terms of these agreements.

Accordingly, the Company has the right to exercise control through its ability to affect the amount of returns generated from these companies, its power over these companies and its exposure and right to the variable returns.

Summarised financial information for subsidiaries that have non-controlling interest is as follows:

	HAPC			NAL		
	31 December 2017	31 December 2016	1 January 2016	31 December 2017	31 December 2016	1 January 2016
Current assets	104,613,331	75,649,684	92,563,377	101,358,382	113,090,631	138,008,645
Current liabilities	29,233,670	12,496,118	23,804,350	22,271,062	29,365,063	24,769,814
Current net assets	75,379,661	63,153,566	68,759,027	79,087,320	83,725,568	113,238,831
Non-current assets	3,254,250	3,424,409	3,123,795	11,471,380	12,642,546	14,237,424
Non-current liabilities	466,893	435,989	366,181	2,676,063	2,287,071	2,074,213
Non-current net assets	2,787,357	2,988,420	2,757,614	8,795,317	10,355,475	12,163,211
Net assets	78,167,018	66,141,986	71,516,641	87,882,637	94,081,043	125,402,042
Accumulated NCI	38,156,832	32,912,747	65,314,113	40,622,783	45,310,558	33,767,453

Summarised statement of profit or loss and other comprehensive income for the years ended 31 December were for subsidiaries that have non-controlling interest is as follows:

	HAPC		NAL	
	2017	2016	2017	2016
Revenue	147,759,584	111,330,776	218,185,705	206,752,647
Profit for the year	32,684,078	9,625,345	39,598,573	36,179,001
Other comprehensive loss	(3,561)	-	(202,458)	-
Total comprehensive income	32,680,517	9,625,345	39,396,115	36,179,001
Profit allocated to NCI	11,365,901	4,739,206	16,619,528	17,827,533

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2017****(All amounts in Saudi Riyals unless otherwise stated)**

Summarised statement of cash flows for the years ended 31 December is as follows:

	HAPC		NAL	
	2017	2016	2017	2016
Cash flows from operating activities	12,591,282	19,306,986	25,795,551	52,199,639
Cash flows from investing activities	(191,908)	(688,000)	(1,732,020)	(1,302,577)
Cash flows from financing activities	(12,000,000)	(15,000,000)	(40,000,000)	(67,500,000)
Net increase/ (decrease) in cash and cash equivalents	399,374	3,618,986	(15,936,469)	(16,602,938)

(b) Investment in an associate

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 number 56892 issued on 12 Ramadan 1433 H (July 31, 2012). Mars-CMDC is engaged in marketing and distribution of various chemicals, solvents, additives, catalysts, plastics, polymers and resins.

Movement in investment in an associate accounted for using the equity method for the years ended 31 December is as follows:

	2017	2016
1 January	523,999	372,631
Share in net (loss) profit for the year	(108,264)	151,368
Impairment loss	(415,735)	-
31 December	-	523,999

During the year ended 31 December 2017, the Company has recorded an impairment loss on such investment equal to the carrying value of the investment amounting to Saudi Riyals 0.4 million.

Summarised financial information for the associate is provided below. The information disclosed reflects the amounts presented in the financial statements of the Associate and not the Company's share of those amounts.

Statement of financial position as of 31 December:

	31 December 2017	31 December 2016	1 January 2016
Current assets	1,373,499	1,907,215	2,779,214
Current liabilities	470,597	692,937	1,931,646
Current net assets	902,902	1,214,278	847,568
Non-current assets	3,383	5,638	9,704
Non-current liabilities	74,815	171,918	112,010
Non-current net liabilities	(71,432)	(166,280)	(102,306)
Net assets	831,470	1,047,998	745,262

Income statement for the year ended 31 December is as follows:

	2017	2016
Revenue	4,432,115	7,985,833
(Loss) profit for the year	(216,528)	302,736

BASIC CHEMICAL INDUSTRIES COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2017

(All amounts in Saudi Riyals unless otherwise stated)

9 Cash and cash equivalents

	31 December 2017	31 December 2016	1 January 2016
Cash at bank	172,660,446	227,640,353	153,643,221
Cash in hand	218,307	216,000	216,000
	<u>172,878,753</u>	<u>227,856,353</u>	<u>153,859,221</u>

10 Short-term deposits

Short-term deposits (conventional) are held with commercial banks and yield financial income at prevailing market rates. The annual interest rate on short-term deposit as at 31 December 2017 was 1.6% (2016: 3.6%). Total finance income on short-term deposits amounted to Saudi Riyals 1.3 million (2016: Saudi Riyals 2.5 million).

11 Inventories

	31 December 2017	31 December 2016	1 January 2016
Raw materials	48,190,317	34,134,663	44,729,005
Finished products	51,143,553	50,009,245	73,023,577
Spare parts and supplies not held for sale	16,490,591	16,826,456	23,509,936
Goods-in-transit	198,973	598,383	284,857
Other	803,684	985,377	1,087,146
	<u>116,827,118</u>	<u>102,554,124</u>	<u>142,634,521</u>
Less: provision for inventory obsolescence	<u>(14,867,839)</u>	<u>(17,648,625)</u>	<u>(23,005,339)</u>
	<u>101,959,279</u>	<u>84,905,499</u>	<u>119,629,182</u>

Movement in provision for inventory obsolescence is as follows:

	2017	2016
1 January	17,648,625	23,005,339
Additions (reversals)	902,235	(2,469,477)
Write-offs	<u>(3,683,021)</u>	<u>(2,887,237)</u>
31 December	<u>14,867,839</u>	<u>17,648,625</u>

12 Related party transactions and balances

Related parties comprise the shareholders, directors, associated companies and key management personnel. Related parties also include business entities in which certain Directors or senior management have an interest ("other related parties").

(a) Following are the significant transactions with the associated entities entered into by the Group:

Nature of transactions	Relationship	For the year ended 31 December	
		2017	2016
Sales of goods to related parties	Associated companies	30,812,759	34,787,439
Purchases from other related parties	Associated companies	75,936,568	39,082,209
Royalty charged by a related party	Associated companies	6,626,495	7,009,817
Expenses charged by a related party	Other related parties	2,550,883	2,814,248
Payments for engineering and consulting services	Other related parties	8,400,000	-

BASIC CHEMICAL INDUSTRIES COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2017

(All amounts in Saudi Riyals unless otherwise stated)

(b) Key management personnel compensation:

	For the year ended 31 December	
	2017	2016
Salaries and other short-term employee benefits	6,344,888	7,120,873
Employee benefit obligations	469,194	501,953
	6,814,082	7,622,826

(c) Amounts due from related parties represent the following:

	31 December 2017	31 December 2016	1 January 2016
Henkel Adhesives Limited and its affiliates	11,423,221	8,856,498	9,048,496
Mars-CMDC	7,764	380,172	1,716,124
	11,430,985	9,236,670	10,764,620

(d) Amounts due to related parties represent the following:

	31 December 2017	31 December 2016	1 January 2016
Huntsman (Saudi Investments) B.V. Netherlands	18,867,825	4,363,390	15,076,408
Henkel Adhesives Limited and its affiliates	5,345,816	4,984,967	5,505,588
Globe Marine Services Company	-	17,977	122,572
	24,213,641	9,366,334	20,704,568

The related party status of outstanding balances as at 31 December 2017 and 2016 is included in trade and other receivables and trade and other payables balances respectively. These outstanding balances are unsecured and are settled in the ordinary course of business and bear no financial charges.

13 Trade and other receivables

	Note	31 December 2017	31 December 2016	1 January 2016
Trade receivables		150,235,419	138,248,936	163,098,581
Less: provision for doubtful debts		(13,538,615)	(15,075,990)	(16,083,932)
		136,696,804	123,172,946	147,014,649
Related parties	12(c)	11,430,985	9,236,670	10,764,620
Advances to suppliers		8,598,536	5,642,527	5,261,485
Prepaid expenses		2,875,582	4,617,709	4,456,029
Others		2,009,186	2,833,139	2,418,792
		161,611,093	145,502,991	169,915,575

As at 31 December 2017, trade debts of Saudi Riyals 20.6 million (2016: Saudi Riyals 28.9 million) were past due but not impaired. These relate to a number of individual customers for whom there is no recent history of default. The age analysis of these trade debts is as follows:

	31 December 2017	31 December 2016	1 January 2016
Up to 3 months	2,019,925	1,860,683	4,107,607
3 to 6 months	14,213,341	19,495,114	27,247,645
6 months to 1 year	4,001,418	7,216,430	6,395,291
More than 1 year	401,139	352,195	375,939
	20,635,823	28,924,422	38,126,482

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2017****(All amounts in Saudi Riyals unless otherwise stated)**

The movement in provision for doubtful debts is as follows:

	2017	2016
1 January	15,075,990	16,083,932
Reversals	(110,549)	(822,374)
Write-offs	(1,426,826)	(185,568)
31 December	13,538,615	15,075,990

The other classes within trade and other receivables do not contain impaired assets. The maximum exposure to credit risk at reporting date is the carrying amount of each receivable.

The Group does not hold any collateral as security.

14 Trade and other payables

	Note	31 December 2017	31 December 2016	1 January 2016
Trade payables		27,412,844	28,668,214	23,002,245
Related parties	12(d)	24,213,641	9,366,334	20,704,568
Accrued expenses		19,264,182	31,798,662	33,368,423
Advances from customers		612,438	1,850,614	5,143,289
Others		5,014,707	3,172,892	2,824,084
		76,517,812	74,856,716	85,042,609

15 Employee benefit obligations**15.1 General description of the plan**

The Group operates a defined benefit plan in line with the Labour Law requirement in the Kingdom of Saudi Arabia. The end of service benefit payments under the plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of their termination of employment, as defined by the conditions stated in the Labour Laws of the Kingdom of Saudi Arabia. Employees' end of service benefit plan is an unfunded plan and the benefit payment obligations are met when they fall due upon termination of or resignation from employment. The latest valuation of employee benefit obligations under the projected unit credit method was carried out by an independent actuary as of December 31, 2017.

15.2 Movement in net liability recognized in the statement of financial position

	2017	2016
1 January	22,025,963	21,605,664
Current service cost	2,320,862	2,075,629
Interest expense	824,259	753,320
Remeasurements	2,097,539	-
Benefits paid	(3,260,396)	(2,408,650)
31 December	24,008,227	22,025,963

BASIC CHEMICAL INDUSTRIES COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2017

(All amounts in Saudi Riyals unless otherwise stated)

15.3 Amounts recognized in consolidated statement on comprehensive income

	2017	2016
Current service cost	2,320,862	2,075,629
Interest expense	824,259	753,320
Total amount recognised in profit or loss	3,145,121	2,828,949
Remeasurements		
Loss from change in demographic assumptions	58,181	-
Loss from change in financial assumptions	996,290	-
Experience losses	1,043,068	-
Total amount recognised in other comprehensive loss	2,097,539	-

15.4 Key actuarial assumptions

	31 December 2017	31 December 2016	1 January 2016
Discount rate	3.0%	3.5%	3.5%
Salary growth rate	4.0%	4.0%	4.0%
Retirement age	60 years	60 years	60 years

15.5 Sensitivity analysis for actuarial assumptions

	Change in assumption		Impact on employee benefit obligations	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	0.5%	(996,289)	1,078,225
Salary growth rate	0.5%	0.5%	1,102,243	(1,028,604)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of defined benefit obligation calculated with projected unit credit method at the end of the reporting period) has been applied when calculating the employee termination.

15.6 Expected maturity analysis

The weighted average duration of the defined benefit obligation is 8.03 years (2016: 8.03 years). The expected maturity analysis of employee benefit obligations is as follows:

	Less than a year	Between 1 - 2 years	Between 2 - 5 years	Over 5 years	Total
31 December 2017	1,064,055	7,727,872	2,798,804	8,986,090	20,576,821
31 December 2016	1,271,984	7,009,816	4,485,528	8,038,556	20,805,884

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2017****(All amounts in Saudi Riyals unless otherwise stated)****16 Zakat and income tax matters****16.1 Components of zakat base**

The Company and its subsidiaries are subject to zakat and income tax. The Group files zakat and income tax declarations on an unconsolidated basis. The significant components of the zakat base of each company under zakat and income tax regulations principally comprises shareholders' equity, provisions at beginning of the year and adjusted net income, less deduction for the net book value of property, plant and equipment and certain other items.

16.2 Provision for zakat

	2017	2016
1 January	9,088,402	8,124,763
Provisions:		
For current year	8,549,269	8,818,926
Adjustments related to prior years	(20,013)	29,071
Payments	(8,798,913)	(7,884,358)
31 December	8,818,745	9,088,402

16.3 Provision for income taxes

	2017	2016
1 January	2,308,921	2,279,818
Provisions:		
For current year	7,075,316	5,405,728
Adjustments related to prior years	-	(29,071)
Payments	(5,096,280)	(5,347,554)
31 December	4,287,957	2,308,921

16.4 Numerical reconciliation of income tax expense to prima facie tax payable

	2017	2016
Profit before zakat and income taxes	87,358,507	82,977,865
Tax at Kingdom of Saudi Arabia tax rate of 20% (2016: 20%)	17,471,701	16,595,573
Less: Tax effect of amount subject to zakat	(10,459,552)	(11,006,894)
Add (less): Others	63,167	(212,022)
Income tax expense	7,075,316	5,376,657

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2017****(All amounts in Saudi Riyals unless otherwise stated)****16.5 Deferred tax**

Deferred income taxed arising out of temporary differences such as provisions for doubtful debts, slow-moving inventories, employee termination benefits and depreciation were not significant and accordingly were not recorded at 31 December 2017 and 2016.

16.6 Status of final assessments

The GAZT has finalized the zakat assessments for the Company for the years through 2002 which have been agreed by the Company.

During 2012, the GAZT issued additional assessments for the years 2003 through 2010 amounting to Saudi Riyals 10.4 million primarily due to disallowances of certain contentions related to property, plant and equipment, intercompany balances and certain other matters. The Company filed appeals against such additional assessments with the Preliminary Appeals Committee ("PAC").

During 2017, the GAZT under the directives of PAC, has issued revised additional assessments for the years 2005 to 2010, accepting BCI's positions towards treatment of property, plant and equipment for the purposes of calculating zakat base and accordingly, reduced the additional assessments for 2005 to 2010 from Saudi Riyals 9.5 million to Saudi Riyals 4.1 million. BCI further contested these revised additional assessment and subsequent to the year end, the GAZT issued another revised assessment reducing the remaining additional assessments of Saudi Riyals 4.1 million to Saudi Riyals 2.2 million accepting certain contentions of the Company in relation to related party balances. The Company has not accepted these revised assessments and has again filed appeals with the GAZT.

The Group management believes that their contentions on the remaining additional assessments will also be accepted by the GAZT and that no material liability will arise upon the ultimate resolution of these appeals and accordingly, no provision for such additional assessments has been recorded in the accompanying consolidated financial statements.

Zakat assessments for the Company for the years 2011 to 2014 are currently under review by the GAZT. The Company has obtained zakat certificates for the years through 2016.

The GAZT has issued zakat and income tax assessments related to the subsidiaries for certain years which have been agreed by the subsidiaries. Zakat and income tax assessments for certain years are currently under review by the GAZT. All subsidiaries have received the respective zakat and income tax certificates for the years through 2016.

17 Share capital

The share capital of the Company as of 31 December 2017 and 2016 comprised 27,500,000 ordinary shares stated at Saudi Riyals 10 per share.

18 Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's By-laws, the Company is required to transfer 10% of the net income for the year to a statutory reserve until such reserve equal 30% of its share capital. The statutory reserve in the accompanying consolidated financial statements is the statutory reserve of the Company. This reserve is currently not available for distribution to the shareholders of the Company.

19 Cost of sales

	2017	2016
Cost of materials	365,608,849	333,163,020
Salaries and benefits	22,169,810	21,050,866
Depreciation	23,117,535	21,379,240
Power	17,035,651	15,582,804
Repair and maintenance	10,137,317	11,100,480
Other	6,677,590	7,738,795
	444,746,752	410,015,205

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2017****(All amounts in Saudi Riyals unless otherwise stated)****20 Selling and distribution expenses**

		2017	2016
	Note		
Salaries and benefits		12,741,452	14,613,708
Transportation		12,959,582	12,211,138
Royalty	12	6,626,495	7,009,817
Depreciation		3,068,179	3,238,604
Commission		1,870,539	1,679,668
Repair and maintenance		1,656,791	1,848,072
Utilities		1,219,262	1,340,043
Rent		1,078,358	1,262,111
Traveling		720,266	790,268
Other		4,291,991	3,558,462
		<u>46,232,915</u>	<u>47,551,891</u>

21 General and administrative expenses

		2017	2016
	Note		
Salaries and benefits		14,958,463	15,196,219
Board of Directors' fees		2,880,000	1,340,000
Depreciation		1,915,887	2,288,856
Professional fees		1,777,500	1,772,175
Traveling		1,399,572	1,312,453
Utilities		760,431	617,842
Repair and maintenance		706,461	1,085,254
Insurance		461,778	508,465
Provision for doubtful debts	13	(110,549)	(822,374)
Other		2,652,164	1,679,076
		<u>27,401,707</u>	<u>24,977,966</u>

22 Financial risk management**22.1 Financial risk factors**

The Group's activities expose it to a variety of financial risks including the effects of changes in market risk (including currency risk, fair value and cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the management under policies approved by the board of directors.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board is responsible for developing and monitoring the Group's risk management policies.

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2017****(All amounts in Saudi Riyals unless otherwise stated)**

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks – currency / market exchange risk, cash flow and fair value interest risk and price risk.

(i) Market exchange risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi Riyals, United States dollars (USD) and Euros. Since Saudi Riyal is pegged to USD, management of the Group believes that the currency risk for the financial instruments related to USD is not significant.

The Group's exposure to other foreign currency i.e. Euro (EUR) at the end of the reporting period, expressed in SAR, was as follows:

	31 December 2017	31 December 2016	1 January 2016
	EUR	EUR	EUR
Trade and other receivables	8,942,090	7,330,660	1,341,660
Trade and other payables	7,080,920	6,307,990	5,523,290

At 31 December 2017 and 2016, if the EUR to Saudi Riyal exchange rate increased/ decreased by 10%, profit for the year would have been higher/ lower by 0.8 million and 0.5 million respectively.

(ii) Fair value and cash flow interest rate risk

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial positions and cash flows.

The Group is not exposed to interest rate risks. The Group's only interest bearing assets are short term deposits which are at fixed rate of interest equivalent to the prevailing market rate. Management monitors the changes in interest rates and believes that the cash flow and fair value interest rate risk to the Group is not significant.

The Group's receivables and payables carried at amortised cost are not subject to interest rate risk as defined in IFRS 7, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates. Hence, the Group is not exposed to fair value interest rate risk.

(iii) Price risk

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Company's financial assets and liabilities are not exposed to price risk.

b) Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from cash and cash equivalents as well as credit exposures to customers, including outstanding amounts from related parties and committed transactions.

With respect to exposures with banks, management considers the credit risk exposure to be minimal as the Group deals with reputed local commercial banks only. Management does not expect any losses from non-performance by these counterparties.

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2017****(All amounts in Saudi Riyals unless otherwise stated)**

The Group has established credit policies and procedures that are considered appropriate and commensurate with the nature and size of receivables.

The Group establishes an allowance for doubtful debts that represents its estimate of potential losses in respect of trade and other receivables. The main components of this loss are a specific loss component that relates to individual exposures and a collective loss component established for similar assets in respect of any potential losses that may have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry in which customers operate, has less of an influence on credit risk.

At 31 December 2017, 28% of accounts receivable were due from 5 customers (2016: 20% from 3 customers). Management believes that this concentration of credit risk is mitigated as the customers have established track record of regular and timely payments.

The Group categorizes its trade receivables as due from corporates and government related entities.

Major classification of trade receivable as at 31 December was as follows:

	31 December 2017		31 December 2016	
	Amount	%	Amount	%
Corporates	145,301,755	96.7	129,787,031	93.9
Government related entities	4,933,664	3.3	8,461,905	6.1
	150,235,419	100	138,248,936	100

Credit risk on related parties is considered minimal as management monitors and reconciles amounts due from related parties on a regular basis and recoverability is not considered to be doubtful.

The credit quality of financial assets that are neither past due nor impaired are assessed by reference to historical information about counterparty default rates.

c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group considers the maturity of both its financial investments and financial assets (e.g. trade receivables, other financial assets) and projected cash flows from operations. This excludes the potential impact of extreme circumstances that cannot be reasonably predicted, such as natural disaster.

The cash flows, funding requirements and liquidity of Group companies are monitored on a centralised basis, under the control of Group Treasury. The objective of this centralised system is to optimise the efficiency and effectiveness of the management of the Group's capital resources.