

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

CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
AND INDEPENDENT AUDITORS' REPORT

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

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## **INDEPENDENT AUDITORS' REPORT**

March 15, 2017

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

### **Scope of audit**

We have audited the accompanying consolidated balance sheet of Basic Chemical Industries Company (the "Company") and its subsidiaries (collectively referred to as the "Group") as of December 31, 2016 and the consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended, and the notes from 1 to 24 which form an integral part of these consolidated financial statements. These consolidated financial statements, which were prepared by the Company in accordance with the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

### **Unqualified opinion**

In our opinion, such consolidated financial statements taken as a whole:

- Present fairly, in all material respects, the financial position of the Group as of December 31, 2016 and the results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in Saudi Arabia appropriate to the circumstances of the Group; and
- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's By-laws with respect to the preparation and presentation of consolidated financial statements.

**PricewaterhouseCoopers**

By: 

Ali H. Al Basri  
License Number 409

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

|   |      | As at December 31, |                    |
|---|------|--------------------|--------------------|
|   | Note | 2016               | 2015               |
| <b>Assets</b>                                       |      |                    |                    |
| <b>Current assets</b>                               |      |                    |                    |
| Cash and cash equivalents                           | 5    | 227,856,353        | 153,859,221        |
| Short-term deposit                                  | 6    | 30,000,000         | 40,000,000         |
| Accounts receivable                                 | 7    | 132,409,616        | 157,779,269        |
| Inventories   | 8    | 84,905,499         | 119,629,182        |
| Prepayments and other receivable                    | 9    | 13,093,375         | 12,136,306         |
|   |      | <u>488,264,843</u> | <u>483,403,978</u> |
| <b>Non-current assets</b>                           |      |                    |                    |
| Investment in an associate                          | 10   | 523,999            | 372,631            |
| Property, plant and equipment                       | 11   | 184,420,397        | 202,165,346        |
|   |      | <u>184,944,396</u> | <u>202,537,977</u> |
| <b>Total assets</b>                                 |      | <u>673,209,239</u> | <u>685,941,955</u> |
| <b>Liabilities</b>                                  |      |                    |                    |
| <b>Current liabilities</b>                          |      |                    |                    |
| Accounts payable                                    | 12   | 38,034,548         | 43,706,813         |
| Accrued and other liabilities                       | 13   | 36,822,168         | 41,335,796         |
| Zakat and income taxes payable                      | 14   | 11,397,323         | 10,404,581         |
|   |      | <u>86,254,039</u>  | <u>95,447,190</u>  |
| <b>Non-current liability</b>                        |      |                    |                    |
| Employee termination benefits                       | 15   | 24,463,702         | 23,127,096         |
| <b>Total liabilities</b>                            |      | <u>110,717,741</u> | <u>118,574,286</u> |
| <b>Equity</b>                                       |      |                    |                    |
| Equity attributable to shareholders of the Company: |      |                    |                    |
| Share capital                                       | 17   | 275,000,000        | 275,000,000        |
| reserve   | 18   | 48,693,927         | 44,345,718         |
| earnings  |      | 160,574,266        | 148,940,385        |
| <b>Total shareholders' equity</b>                   |      | <u>484,268,193</u> | <u>468,286,103</u> |
| Non-controlling interests                           |      | <u>78,223,305</u>  | <u>99,081,566</u>  |
| <b>Total equity</b>                                 |      | <u>562,491,498</u> | <u>567,367,669</u> |
| <b>Total liabilities and equity</b>                 |      | <u>673,209,239</u> | <u>685,941,955</u> |

Contingencies and commitments

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The accompanying notes from 1 to 24 form an integral part of these consolidated financial statements.

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

|   | Note   | Year ended December 31, |               |
|---|--------|-------------------------|---------------|
|   |        | 2016                    | 2015          |
| Sales   | 16     | 557,826,076             | 625,131,277   |
| Cost of sales                                     | 16     | (412,719,587)           | (482,643,631) |
| Gross profit                                      |        | 145,106,489             | 142,487,646   |
| <b>Operating expenses</b>                         |        |                         |               |
| Selling and distribution                          | 16, 19 | (47,551,891)            | (48,941,528)  |
| General and administrative                        | 16, 20 | (24,977,966)            | (25,665,324)  |
| Income from operations                            |        | 72,576,632              | 67,880,794    |
| <b>Other income</b>                               |        |                         |               |
| Share in net income of an associate               | 10     | 151,368                 | 97,344        |
| Financial income                                  | 6      | 2,497,479               | 137,882       |
| Other, net  |        | 5,048,004               | 3,304,547     |
| Income before zakat and non-controlling interests |        | 80,273,483              | 71,420,567    |
| Zakat   | 14     | (8,847,997)             | (7,886,701)   |
| Income before non-controlling interests           |        | 71,425,486              | 63,533,866    |
| Non-controlling interests                         |        | (27,943,396)            | (28,997,830)  |
| <b>Net income for the year</b>                    |        | 43,482,090              | 34,536,036    |
| <b>Earnings per share:</b>                        | 22     |                         |               |
| • Income from operations                          |        | 2.64                    | 2.47          |
| • Net income for the year                         |        | 1.58                    | 1.26          |
| Weighted average number of shares outstanding     |        | 27,500,000              | 27,500,000    |

The accompanying notes from 1 to 24 form an integral part of these consolidated financial statements.







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

|  | Note | Year ended December 31, |              |
|--|------|-------------------------|--------------|
|  |      | 2016                    | 2015         |
| <b>Cash flows from operating activities</b>                                  |      |                         |              |
| Net income for the year  |      | 43,482,090              | 34,536,036   |
| <u>Adjustments for non-cash items</u>  |      |                         |              |
| Provision for doubtful debts   | 7    | (822,374)               | (1,295,832)  |
| Provision for slow-moving inventories  | 8    | (2,469,477)             | 2,748,702    |
| Share in net income of an associate  | 10   | (151,368)               | (97,344)     |
| Depreciation   | 11   | 28,694,775              | 29,317,630   |
| Write-off of property, plant and equipment                                   |      | 2,980,221               | -            |
| Gain on disposal of property, plant and equipment                            |      | (459,917)               | (94,249)     |
| Income applicable to non-controlling interests                               |      | 27,943,396              | 28,997,830   |
| <u>Changes in working capital</u>  |      |                         |              |
| Accounts receivable  |      | 26,192,027              | (6,275,429)  |
| Inventories  |      | 34,174,982              | (9,332,460)  |
| Prepayments and other receivable   |      | (957,069)               | (26,955)     |
| Accounts payable   |      | (5,672,265)             | 17,098,337   |
| Accrued and other liabilities  |      | (4,513,628)             | 1,712,953    |
| Zakat and income taxes payable   |      | (4,383,915)             | (4,790,851)  |
| Employee termination benefits  |      | 1,336,606               | 770,151      |
| Net cash generated from operating activities                                 |      | 145,374,084             | 93,268,519   |
| <b>Cash flows from investing activities</b>                                  |      |                         |              |
| Short-term deposit   | 6    | 10,000,000              | (40,000,000) |
| Purchase of property, plant and equipment, net                               | 11   | (11,128,830)            | (22,678,282) |
| Proceeds from disposal of property, plant and equipment                      |      | 676,878                 | 464,647      |
| Net cash utilized in investing activities                                    |      | (451,952)               | (62,213,635) |
| <b>Cash flows from financing activities</b>                                  |      |                         |              |
| Dividends paid   | 23   | (27,500,000)            | (27,500,000) |
| Dividends paid by subsidiaries to non-controlling interests                  |      | (43,425,000)            | (10,369,959) |
| Net cash utilized in financing activities                                    |      | (70,925,000)            | (37,869,959) |
| <b>Net change in cash and cash equivalents</b>                               |      | 73,997,132              | (6,815,075)  |
| Cash and cash equivalents at beginning of year                               |      | 153,859,221             | 160,674,296  |
| <b>Cash and cash equivalents at end of year</b>                              | 5    | 227,856,353             | 153,859,221  |
| <b>Supplemental cash flows information</b>                                   |      |                         |              |
| Income taxes related to subsidiaries charged to non-controlling interests    |      | (5,405,728)             | (5,598,371)  |
| Capital spares transferred from inventories to property, plant and equipment | 7,11 | 3,018,178               | -            |

The accompanying notes from 1 to 24 form an integral part of these consolidated financial statements.





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

|                               | Note | Share capital      | Statutory reserve | Retained earnings  | Total               |
|-------------------------------|------|--------------------|-------------------|--------------------|---------------------|
| <b>January 1, 2016</b>        |      | 275,000,000        | 44,345,718        | 148,940,385        | <b>468,286,103</b>  |
| Net income for the year       |      | -                  | -                 | 43,482,090         | <b>43,482,090</b>   |
| Transfer to statutory reserve | 18   | -                  | 4,348,209         | (4,348,209)        | -                   |
| Dividends                     | 23   | -                  | -                 | (27,500,000)       | <b>(27,500,000)</b> |
| <b>December 31, 2016</b>      |      | <b>275,000,000</b> | <b>48,693,927</b> | <b>160,574,266</b> | <b>484,268,193</b>  |
| <b>January 1, 2015</b>        |      | 275,000,000        | 40,892,114        | 145,357,953        | 461,250,067         |
| Net income for the year       |      | -                  | -                 | 34,536,036         | 34,536,036          |
| Transfer to statutory reserve | 18   | -                  | 3,453,604         | (3,453,604)        | -                   |
| Dividends                     | 23   | -                  | -                 | (27,500,000)       | <b>(27,500,000)</b> |
| <b>December 31, 2015</b>      |      | <b>275,000,000</b> | <b>44,345,718</b> | <b>148,940,385</b> | <b>468,286,103</b>  |

The accompanying notes from 1 to 24 form an integral part of these consolidated financial statements.

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

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2016

(All amounts in Saudi Riyals unless otherwise stated)

### **1 General information**

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

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

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

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

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

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

The accompanying consolidated financial statements were authorized for issue by the Company's Board of Directors on March 15, 2017.

### **2 Summary of significant accounting policies**

Effective January 1 2017, the Group's consolidated financial statements will be prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA"). Upon adoption of IFRS, the Group will be required to comply with the requirements of IFRS 1 - First-time Adoption of International Financial Reporting Standards for the reporting periods commencing January 1, 2017. In preparing the opening consolidated financial statements under IFRS, the Group will analyze impacts and incorporate certain adjustments due to the first time adoption of IFRS. Accordingly, the accompanying financial statements are the last set of financial statements under accounting standards issued by SOCPA.

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

#### **2.1 Basis of preparation**

The accompanying consolidated financial statements have been prepared under the historical cost convention on the accrual basis of accounting, and in compliance with accounting standards promulgated by Saudi Organization for Certified Public Accountants.



**BASIC CHEMICAL INDUSTRIES COMPANY AND SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**  
**Notes to the consolidated financial statements for the year ended December 31, 2016**  
(All amounts in Saudi Riyals unless otherwise stated)

**2.2 Critical accounting estimates and judgments**

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

**2.3 Investments**

**(a) Subsidiaries**

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies to obtain economic benefit generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

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

**(b) Associates**

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

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

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

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

**2.4 Segment reporting**

**(a) Business segment**

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

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

**(b) Geographical segment**

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

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

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended December 31, 2016

(All amounts in Saudi Riyals unless otherwise stated)

### **2.5 Foreign currencies translations**

#### **(a) Reporting currency**

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

#### **(b) Transactions and balances**

Foreign currency transactions are translated into Saudi Riyals using 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 are recognized in the consolidated income statement. The net amounts of foreign exchange gains and losses for the year ended December 31, 2016 and 2015 are included under "Other, net" in the accompanying consolidated income statement.

### **2.6 Cash and cash equivalents**

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

### **2.7 Short-term deposit**

Short-term deposit 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.

### **2.8 Accounts receivable**

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

### **2.9 Inventories**

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

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

### **2.10 Property, plant and equipment**

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

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

Also see Note 11 for change in useful lives of certain assets.

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

**BASIC CHEMICAL INDUSTRIES COMPANY AND SUBSIDIARIES**  
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Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the consolidated income statement.

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

**2.11 Impairment of non-current assets**

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

**2.12 Accounts payable and accruals**

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

**2.13 Zakat and taxes**

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

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

**2.14 Employee termination benefits**

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

**2.15 Revenues**

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

**2.16 Selling, distribution and general and administrative expenses**

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

**2.17 Dividends**

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

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

**2.18 Operating leases**

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

**2.19 Reclassifications**

Certain amounts in the accompanying 2015 financial statements have been reclassified to conform to 2016 presentation.

**3 Financial instruments and risk management**

Financial instruments carried on the consolidated balance sheet include cash and cash equivalents, short-term deposit, accounts and other receivable, accounts payable and accrued and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial asset and liability is 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 asset and liability simultaneously.

**3.1 Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi Riyals, United States dollars and Euros. Management believes that currency risk to the Group is not material.

**3.2 Fair value and cash flow interest rate risks**

Fair value and cash flow interest rate risks are the exposure to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial position and cash flows. The Group's interest rate risks arise mainly from its short-term deposit, which is at floating rate of interest and is subject to re-pricing on a regular basis. Management monitors the changes in interest rates and believes that fair value and cash flow interest rate risks to the Group are not significant.

**3.3 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 Group financial instruments are not exposed to price risk.

**3.4 Credit risk**

Credit risk is the risk that one party will fail to discharge an obligation and cause the other party to incur a financial loss. The Group has no significant concentration of credit risk. Cash is placed with banks with sound credit ratings. Accounts receivable are carried net of provision for doubtful debts.

**3.5 Liquidity risk**

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet the Group's obligation as they become due.

**3.6 Fair value**

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Group financial instruments are compiled under the historical cost convention, differences can arise between the book values and fair value estimates. Management believes that the fair values of the Group's financial assets and liabilities are not materially different from their carrying values.

**BASIC CHEMICAL INDUSTRIES COMPANY AND SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**  
**Notes to the consolidated financial statements for the year ended December 31, 2016**  
**(All amounts in Saudi Riyals unless otherwise stated)**

**4 Segment information**

The Group operates principally in the following business segments:

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

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

|                               | Chemicals   | Adhesive and other materials | Total       |
|-------------------------------|-------------|------------------------------|-------------|
| <b><u>2016</u></b>            |             |                              |             |
| Sales                         | 322,885,790 | 234,940,286                  | 557,826,076 |
| Net income for the year       | 18,459,590  | 25,022,500                   | 43,482,090  |
| Depreciation                  | 22,182,335  | 6,512,440                    | 28,694,775  |
| Property, plant and equipment | 135,052,457 | 49,367,940                   | 184,420,397 |
| Total assets                  | 495,289,348 | 177,919,891                  | 673,209,239 |
| <b><u>2015</u></b>            |             |                              |             |
| Sales                         | 370,801,805 | 254,329,472                  | 625,131,277 |
| Net income for the year       | 9,468,415   | 25,067,621                   | 34,536,036  |
| Depreciation                  | 22,386,147  | 6,931,483                    | 29,317,630  |
| Property, plant and equipment | 144,938,661 | 57,226,685                   | 202,165,346 |
| Total assets                  | 474,608,493 | 211,333,462                  | 685,941,955 |

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

**5 Cash and cash equivalents**

|               | 2016               | 2015               |
|---------------|--------------------|--------------------|
| Cash in hand  | 216,000            | 216,000            |
| Cash at bank  | 132,640,353        | 153,643,221        |
| Time deposits | 95,000,000         | -                  |
|               | <u>227,856,353</u> | <u>153,859,221</u> |

Time deposits are placed with commercial banks and yield financial income at prevailing market rates.

**6 Short-term deposit**

Short term deposit at December 31, 2016 and 2015 represents a time deposit, placed with commercial bank and yields financial income at prevailing market rates.

**7 Accounts receivable**

|                                    | Note | 2016               | 2015               |
|------------------------------------|------|--------------------|--------------------|
| Trade                              |      | 138,248,936        | 163,098,581        |
| Less: provision for doubtful debts |      | (15,075,990)       | (16,083,932)       |
|                                    |      | <u>123,172,946</u> | <u>147,014,649</u> |
| Related parties                    | 16   | 9,236,670          | 10,764,620         |
|                                    |      | <u>132,409,616</u> | <u>157,779,269</u> |



**BASIC CHEMICAL INDUSTRIES COMPANY AND SUBSIDIARIES****(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2016****(All amounts in Saudi Riyals unless otherwise stated)**

Movement in provision for doubtful debts is as follows:

|             | 2016              | 2015              |
|-------------|-------------------|-------------------|
| January 1   | 16,083,932        | 18,674,572        |
| Reversals   | (822,374)         | (1,295,832)       |
| Write-offs  | (185,568)         | (1,294,808)       |
| December 31 | <u>15,075,990</u> | <u>16,083,932</u> |

**8 Inventories**

|  | 2016                | 2015                |
|--|---------------------|---------------------|
| Raw materials                                  | 34,134,663          | 44,729,005          |
| Consumables and spare parts, held not for sale | 17,811,833          | 24,597,082          |
| Finished products                              | 50,009,245          | 73,023,577          |
| Goods-in-transit                               | <u>598,383</u>      | <u>284,857</u>      |
|  | 102,554,124         | 142,634,521         |
| Less: provision for slow-moving inventories    | <u>(17,648,625)</u> | <u>(23,005,339)</u> |
|  | <u>84,905,499</u>   | <u>119,629,182</u>  |

Movement in provision for slow-moving inventories is as follows:

|                         | 2016               | 2015               |
|-------------------------|--------------------|--------------------|
| January 1               | 23,005,339         | 21,667,694         |
| Adjustments / additions | (2,469,477)        | 2,748,702          |
| Write-offs              | <u>(2,887,237)</u> | <u>(1,411,057)</u> |
| December 31             | <u>17,648,625</u>  | <u>23,005,339</u>  |

**9 Prepayments and other receivable**

|                       | 2016              | 2015              |
|-----------------------|-------------------|-------------------|
| Advances to suppliers | 4,617,709         | 4,456,029         |
| Prepaid expenses      | 5,642,527         | 5,261,485         |
| Due from employees    | 2,235,287         | 2,060,606         |
| Other                 | <u>597,852</u>    | <u>368,186</u>    |
|                       | <u>13,093,375</u> | <u>12,136,306</u> |

**10 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. Mars-CMDC is engaged in marketing and distribution of various chemicals, solvents, additives, catalysts, plastics, polymers and resins.

Movement in investment in an associate for the years ended December 31 is as follows:

|                     | 2016           | 2015           |
|---------------------|----------------|----------------|
| January 1           | 372,631        | 275,287        |
| Share in net income | <u>151,368</u> | <u>97,344</u>  |
| December 31         | <u>523,999</u> | <u>372,631</u> |

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**11 Property, plant and equipment**

|   | January<br>1, 2016   | Additions           | Disposals /<br>transfers | December<br>31, 2016 |
|---|----------------------|---------------------|--------------------------|----------------------|
| <b>2016</b>                                 |                      |                     |                          |                      |
| <b>Cost</b>                                 |                      |                     |                          |                      |
| Land  | 2,824,561            | -                   | -                        | 2,824,561            |
| Buildings and leasehold<br>improvements     | 97,155,103           | 385,475             | -                        | 97,540,578           |
| Plant and machinery                         | 403,831,088          | 11,954,663          | (3,193,208)              | 412,592,543          |
| Furniture, fixtures and<br>office equipment | 25,337,561           | 282,041             | (280,713)                | 25,338,889           |
| Vehicles                                    | 31,425,404           | 1,667,150           | (1,606,856)              | 31,485,698           |
| Construction-in-progress                    | 10,302,353           | 5,506,291           | (5,648,612)              | 10,160,032           |
|   | <u>570,876,070</u>   | <u>19,795,620</u>   | <u>(10,729,389)</u>      | <u>579,942,301</u>   |
| <b>Accumulated depreciation</b>             |                      |                     |                          |                      |
| Buildings and leasehold<br>improvements     | (57,461,969)         | (2,944,882)         | -                        | (60,406,851)         |
| Plant and machinery                         | (263,722,668)        | (21,754,956)        | 212,987                  | (285,264,637)        |
| Furniture, fixtures and<br>office equipment | (21,944,596)         | (1,526,427)         | 278,768                  | (23,192,255)         |
| Vehicles                                    | (25,581,491)         | (2,468,510)         | 1,391,840                | (26,658,161)         |
|   | <u>(368,710,724)</u> | <u>(28,694,775)</u> | <u>1,883,595</u>         | <u>(395,521,904)</u> |
|   | <u>202,165,346</u>   |                     |                          | <u>184,420,397</u>   |
|   | January<br>1, 2015   | Additions           | Disposals /<br>transfers | December<br>31, 2015 |
| <b>2015</b>                                 |                      |                     |                          |                      |
| <b>Cost</b>                                 |                      |                     |                          |                      |
| Land  | 2,824,561            | -                   | -                        | 2,824,561            |
| Buildings and leasehold<br>improvements     | 97,231,232           | 84,425              | (160,554)                | 97,155,103           |
| Plant and machinery                         | 373,213,421          | 31,011,624          | (393,957)                | 403,831,088          |
| Furniture, fixtures and<br>office equipment | 24,078,626           | 1,314,241           | (55,306)                 | 25,337,561           |
| Vehicles                                    | 32,270,269           | 2,467,811           | (3,312,676)              | 31,425,404           |
| Construction-in-progress                    | 22,502,172           | 17,720,591          | (29,920,410)             | 10,302,353           |
|   | <u>552,120,281</u>   | <u>52,598,692</u>   | <u>(33,842,903)</u>      | <u>570,876,070</u>   |
| <b>Accumulated depreciation</b>             |                      |                     |                          |                      |
| Buildings and leasehold<br>improvements     | (54,564,510)         | (3,044,347)         | 146,888                  | (57,461,969)         |
| Plant and machinery                         | (242,155,942)        | (21,928,749)        | 362,023                  | (263,722,668)        |
| Furniture, fixtures and<br>office equipment | (20,362,204)         | (1,637,053)         | 54,661                   | (21,944,596)         |
| Vehicles                                    | (25,862,533)         | (2,707,481)         | 2,988,523                | (25,581,491)         |
|   | <u>(342,945,189)</u> | <u>(29,317,630)</u> | <u>3,552,095</u>         | <u>(368,710,724)</u> |
|   | <u>209,175,092</u>   |                     |                          | <u>202,165,346</u>   |

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During 2016, one of the Company's subsidiaries has re-assessed the estimated useful lives of its plant and machinery and revised it from 15 years to 20 years.

In accordance with the applicable accounting standards in Saudi Arabia, the above revision in useful lives has been adopted prospectively. As a result of this change, the depreciation charge for 2016 is lower and net income is higher by Saudi Riyals 0.9 million than it would have been using the previous useful lives.

Construction in progress at December 31, 2016 principally represents costs incurred on certain projects. The Group expects that such projects will be completed in 2017 with a total estimated cost of approximately Saudi Riyals 19.5 million.

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

**12 Accounts payable**

|                 | Note | 2016              | 2015              |
|-----------------|------|-------------------|-------------------|
| Trade           |      | 28,668,214        | 23,002,245        |
| Related parties | 16   | 9,366,334         | 20,704,568        |
|                 |      | <u>38,034,548</u> | <u>43,706,813</u> |

**13 Accrued and other liabilities**

|                         | 2016              | 2015              |
|-------------------------|-------------------|-------------------|
| Accrued expenses        | 31,798,662        | 33,368,423        |
| Advances from customers | 1,850,614         | 5,143,289         |
| Other                   | 3,172,892         | 2,824,084         |
|                         | <u>36,822,168</u> | <u>41,335,796</u> |

**14 Zakat and income taxes matters****14.1 Components of zakat base**

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 comprised of shareholders' equity, provisions at the beginning of year and adjusted net income, less deduction for the net book value of property, plant and equipment, investments and certain other items.

**14.2 Provision for zakat and income taxes**

|   | 2016              | 2015              |
|---|-------------------|-------------------|
| Zakat for BCI                           | 4,978,602         | 4,017,000         |
| Zakat and income taxes for subsidiaries | 6,418,721         | 6,387,581         |
|   | <u>11,397,323</u> | <u>10,404,581</u> |

**BASIC CHEMICAL INDUSTRIES COMPANY AND SUBSIDIARIES****(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2016****(All amounts in Saudi Riyals unless otherwise stated)****14.3 Provision for zakat charged to the consolidated income statement**

|                                       | 2016             | 2015             |
|---------------------------------------|------------------|------------------|
| Zakat for BCI                         | 4,978,602        | 4,017,375        |
| Share of BCI in zakat of subsidiaries | 3,869,395        | 3,869,326        |
|                                       | <u>8,847,997</u> | <u>7,886,701</u> |

**14.4 Provision for zakat and income taxes**

|                                    | 2016                | 2015                |
|------------------------------------|---------------------|---------------------|
| January 1                          | 10,404,581          | 9,597,061           |
| Provisions:                        |                     |                     |
| For current year                   | 14,224,654          | 13,451,688          |
| Adjustments related to prior years | -                   | 33,384              |
| Payments                           | <u>(13,231,912)</u> | <u>(12,677,552)</u> |
| December 31                        | <u>11,397,323</u>   | <u>10,404,581</u>   |

**14.5 Status of final assessments**

The Company has received additional zakat assessments from the GAZT in 2012 amounting to Saudi Riyals 10.4 million for the years 2003 through 2010. The Group has filed appeals against such additional assessments which are at various appellate levels. The management believes that no material liability will arise upon the ultimate resolution of these appeals and accordingly, no provision for such additional assessments have been recorded in the accompanying consolidated financial statements. Zakat assessments for the years 2011 to 2015 are currently under review by the GAZT. The Company has obtained zakat certificates for the years through 2015.

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 zakat and income tax certificates for the years through 2015.

**15 Employee termination benefits**

|             | 2016               | 2015               |
|-------------|--------------------|--------------------|
| January 1   | 23,127,096         | 22,356,945         |
| Provisions  | 3,745,256          | 3,873,058          |
| Payments    | <u>(2,408,650)</u> | <u>(3,102,907)</u> |
| December 31 | <u>24,463,702</u>  | <u>23,127,096</u>  |

**16 Related party matters**

The Group has transactions with non-controlling interests and their affiliates and associates (collectively the "related parties").

**16.1 Related party transactions**

Significant transactions with related parties included in the consolidated financial statements are summarized below:

|                                     | 2016       | 2015       |
|-------------------------------------|------------|------------|
| Sales                               | 34,787,439 | 34,454,570 |
| Purchases                           | 39,082,209 | 76,826,166 |
| Royalty charged by a related party  | 7,009,817  | 7,571,395  |
| Expenses charged by a related party | 2,814,248  | 904,745    |

**BASIC CHEMICAL INDUSTRIES COMPANY AND SUBSIDIARIES****(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2016****(All amounts in Saudi Riyals unless otherwise stated)****16.2 Related party balances****(i) Receivable from related parties**

|   | 2016             | 2015              |
|---|------------------|-------------------|
| Henkel Adhesives Limited and its affiliates | 8,856,498        | 9,048,496         |
| Mars-CMDC                                   | 380,172          | 1,716,124         |
|   | <u>9,236,670</u> | <u>10,764,620</u> |

**(ii) Payable to related parties**

|   | 2016             | 2015              |
|---|------------------|-------------------|
| Huntsman (Saudi Investments) B.V. Netherlands | 4,363,390        | 15,076,408        |
| Henkel Adhesives Limited and its affiliates   | 4,984,967        | 5,505,588         |
| Globe Marine Services Company                 | 17,977           | 122,572           |
|   | <u>9,366,334</u> | <u>20,704,568</u> |

**17 Share capital**

The share capital of the Company as of December 31, 2016 and 2015 comprised 27,500,000 shares stated at Saudi Riyals 10 per share.

**18 Statutory reserve**

In accordance with the Company's By-laws and the Regulations for Companies in the Kingdom of Saudi Arabia, prior to the issuance of new Regulations for Companies in 2016, the Company is required to transfer 10% of the net income for the year to a statutory reserve until it equals to 50% of its share capital. The new Regulations for Companies require the Company to transfer 10% of the net income for the year to the statutory reserve until it equals to 30% of its share capital. The Company is in the process of updating its By-laws to reflect such updates. The statutory reserve in the accompanying consolidated financial statements is the statutory reserve of the Company. This reserve currently is not available for distribution to the shareholders of the Company.

**19 Selling and distribution expenses**

|                        | Note | 2016              | 2015              |
|------------------------|------|-------------------|-------------------|
| Salaries and benefits  |      | 14,613,708        | 14,211,355        |
| Transportation         |      | 12,120,888        | 11,851,921        |
| Royalty                | 16   | 7,009,817         | 7,571,395         |
| Depreciation           |      | 3,238,604         | 3,414,390         |
| Commission             |      | 1,679,668         | 1,502,668         |
| Rent                   |      | 1,262,111         | 1,232,274         |
| Repair and maintenance |      | 1,027,906         | 1,449,544         |
| Traveling              |      | 790,268           | 1,086,497         |
| Insurance              |      | 721,390           | 618,792           |
| Advertisement          |      | 488,597           | 964,302           |
| Other                  |      | 4,598,934         | 5,038,390         |
|                        |      | <u>47,551,891</u> | <u>48,941,528</u> |



**BASIC CHEMICAL INDUSTRIES COMPANY AND SUBSIDIARIES**  
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**20 General and administrative expenses**

|                              | Note | 2016              | 2015              |
|------------------------------|------|-------------------|-------------------|
| Salaries and benefits        |      | 15,196,219        | 15,030,221        |
| Depreciation                 |      | 2,075,867         | 2,176,616         |
| Professional fees            |      | 1,772,175         | 2,330,963         |
| Board of Directors' fees     |      | 1,340,000         | 1,200,000         |
| Traveling                    |      | 1,312,453         | 1,640,063         |
| Repair and maintenance       |      | 1,085,254         | 1,023,531         |
| Utilities                    |      | 546,713           | 436,833           |
| Provision for doubtful debts | 7    | (822,374)         | (1,295,832)       |
| Other                        |      | 2,471,659         | 3,122,929         |
|                              |      | <u>24,977,966</u> | <u>25,665,324</u> |

**21 Operating leases**

The Group has various operating leases for leasehold land and certain office premises which have terms of one to twenty five years. Rental expense for the year ended December 31, 2016 amounted to Saudi Riyals 3.6 million (2015: Saudi Riyals 3.6 million). There were no significant rental commitments outstanding at December 31, 2016.

**22 Earnings per share**

Earnings per share for the years ended December 31, 2016 and 2015 has been computed by dividing the income from operations and net income for year by weighted average number of shares outstanding during such years.

**23 Dividends**

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

**24 Contingencies and commitments**

- (i) The Group was contingently liable at December 31, 2016 for bank guarantees issued in the normal course of business amounting to Saudi Riyals 16.8 million (2015: Saudi Riyals 16.6 million).
- (ii) The capital expenditure contracted by the Group but not yet incurred till December 31, 2016 was approximately Saudi Riyals 19.5 million (2015: Saudi Riyals 20.8 million).
- (iii) See Note 14 for zakat contingencies.