

METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)
30 SEPTEMBER 2010



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License No. 46/11/223 issued 11/23/1982

**LIMITED REVIEW REPORT ON THE INTERIM
CONDENSED FINANCIAL STATEMENTS**

The Shareholders
Methanol Chemicals Company
(A Saudi Joint Stock Company)
Al-Jubail, Kingdom of Saudi Arabia

Scope of review:

We have reviewed the accompanying interim balance sheet of Methanol Chemicals Company ("the Company") as at 30 September 2010, the related interim statement of income for the three-months and nine-months periods ended on 30 September 2010, the interim statements of cash flows for the nine months period ended on 30 September 2010 and the attached condensed notes (1) to (4) which form an integral part of these interim condensed financial statements. These interim condensed financial statements are the responsibility of the Company's management and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

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

Conclusion:

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

For KPMG Al Fozan & Al Sadhan



Abdullah Hamad Al Fozan
License No: 348

Al Khobar, 13 October, 2010
Corresponding to: 5 Dul Qada, 1431H



METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM BALANCE SHEET (UNAUDITED)
AS AT 30 SEPTEMBER 2010
Expressed in Saudi Arabian Riyals

	Note	At 30 September 2010	At 30 September 2009
ASSETS			
Current Assets:			
Cash and cash equivalents	3	136,469,252	68,496,775
Margin deposits with bank		500,000	2,834,977
Accounts receivable and prepayments		253,221,004	143,184,243
Inventories		54,838,619	47,181,102
Total Current Assets		445,028,875	261,697,097
Non Current Assets:			
Property, plant and equipment		2,627,761,341	2,433,114,097
Deferred charges		8,435,172	2,523,654
Long term prepaid expenses		33,125,000	38,125,000
Total Non Current Assets		2,669,321,513	2,473,762,751
Total Assets		3,114,350,388	2,735,459,848
LIABILITY AND EQUITY			
Current Liabilities:			
Accounts payable and accruals		187,997,668	182,486,473
Short term loans		54,924,398	13,000,000
Current portion of term loans		123,283,766	43,737,608
Zakat provision		1,731,610	1,633,837
Total Current Liabilities		367,937,442	240,857,918
Non Current Liabilities			
Term loans		1,314,934,068	1,070,801,284
Employees' terminal benefits		20,410,258	18,482,253
Total Non Current Liabilities		1,335,344,326	1,089,283,537
Total Liabilities		1,703,281,768	1,330,141,455
EQUITY			
Share capital		1,206,000,000	1,206,000,000
Share premium		72,850,071	72,850,071
Statutory reserve		17,122,391	16,347,364
Retained earnings		115,096,158	110,120,958
Total Equity		1,411,068,620	1,405,318,393
Total Liabilities And Equity		3,114,350,388	2,735,459,848

The accompanying notes 1 through 4 form an integral part of these interim financial statements.

Khalid AL Rabiah

CEO


Khalid Afarhami
CFO



METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM STATEMENT OF INCOME (UNAUDITED)
FOR THE THREE AND NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2010
Expressed in Saudi Arabian Riyals

	Period from 1 July to 30 September		Period from 1 January to 30 September	
	2010	2009	2010	2009
Sales	174,917,070	97,552,487	399,937,399	303,792,974
Cost of Sales	(154,952,790)	(74,324,695)	(319,112,422)	(231,344,888)
Gross Profit	19,964,280	23,227,792	80,824,977	74,448,086
Expenses:				
Selling and distribution	(16,057,610)	(10,774,942)	(41,258,873)	(35,254,739)
General and administration	(4,381,154)	(4,754,413)	(14,914,470)	(15,610,700)
Amortisation of deferred charges	(738,816)	(353,304)	(1,445,424)	(1,059,912)
	(21,177,580)	(15,882,659)	(57,618,767)	(51,925,351)
Income from operations:	(1,213,300)	7,345,133	23,206,210	22,522,735
Other (expenses)/ income, net	(229,306)	560,853	(376,282)	1,006,853
Financial charges	(12,988,502)	(1,900,261)	(17,591,208)	(6,186,149)
Income before Zakat	(14,431,108)	6,005,725	5,238,720	17,343,439
Zakat	(1,200,000)	(300,000)	(3,200,000)	(1,000,000)
Net (loss)/income for the period	(15,631,108)	5,705,725	2,038,720	16,343,439
(Loss)/earnings per share	(0.13)	0.05	0.02	0.14




The accompanying notes 1 through 4 form an integral part of these interim financial statements.

METHANOL CHEMICALS COMPANY
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INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2010

Expressed in Saudi Arabian Riyals

Note	Period from 1 January 2010 to 30 September 2010	Period from 1 January 2009 to 30 September 2009
Cash flow from operating Activities:		
	5,238,720	17,343,439
<i>Net income before Zakat</i>		
<i>Adjustment to reconcile net income to net cash (used by) provided by operating activities:</i>		
Depreciation	49,111,954	19,516,220
Amortisation	1,445,424	1,059,912
Employees' terminal benefits, net	2,152,357	2,503,670
Financial charges	17,591,208	6,186,149
Loss on disposal of plant and equipment	(3,269)	(253,616)
	<u>75,536,394</u>	<u>46,355,774</u>
Changes in operating assets and liabilities:		
Receivables	(94,723,210)	33,870,445
Inventories	2,184,506	8,575,026
Payables	44,795,697	(18,068)
Financial charges paid	(17,591,208)	(6,186,149)
Zakat paid	(4,384,775)	(266,163)
Net cash provided by operating activities	<u>5,817,404</u>	<u>82,330,865</u>
Cash flow from investing Activities:		
Purchase of plant and equipment	(169,685,484)	(470,458,751)
Deferred charges	(7,710,247)	-
Proceeds from disposal of plant and equipment	36,000	317,180
Movement in margin deposits with bank	-	1,884,425
Net movement in amount due to project contractors	(11,717,096)	96,905,136
Net movement in long term prepaid expenses	3,750,000	3,750,000
Net cash (used in) investing activities	<u>(185,326,827)</u>	<u>(367,602,010)</u>
Cash flow from financing Activities:		
Net movement in short term loans	(3,075,602)	(17,000,000)
Net movement in term loans	48,613,621	(3,928,255)
Net cash provided by/(used in) financing activities	<u>45,538,019</u>	<u>(20,928,255)</u>
Net (decrease) in cash and cash equivalents	<u>(133,971,404)</u>	<u>(306,199,400)</u>
Cash and cash equivalents at the beginning of the period	<u>270,440,656</u>	<u>374,696,175</u>
Cash and cash equivalent at the end of the period	<u>136,469,252</u>	<u>68,496,775</u>

The accompanying notes 1 through 4 form an integral part of these financial statements.




METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
AS AT 30 SEPTEMBER 2010

1. Activities

The company is a Saudi Joint Stock Company registered in Saudi Arabia under Commercial Registration number 2055001870 dated 28 Dhu al-Hijjah 1409H corresponding to 31 July 1989. It is licensed to engage in the production of formaldehyde liquid and urea formaldehyde liquid or their mixture with different concentrations, paraformaldehyde, liquid and powder formaldehyde resins, hexane methylene tetramine, phenol formaldehyde resins, concrete improvers, methanol, carbon monoxide, di-methylamine, mono-methylamine, tri-mon-methylamine, di-methyl formamide, di-methyl carbon, penta aritheretol, sodium formate and acetaldehyde, as per ministerial resolution number (616/Saud) dated 12 Safar 1429H, corresponding to 19 February 2008.

The company was converted into a joint stock company in accordance with Ministerial Resolution No. 286 dated 4 Dhul al-Qa'dah 1428H, corresponding 14 November 2007.

On 13 Rajab 1429H, corresponding to 16 July 2008, the shareholders resolved to increase the capital to 120,600,000 shares of SR 10 each, from 60,300,000 shares of SR 10 each. The legal formalities relating to increase in capital have been completed.

During the period from 10 Sha'ban 1429H to 19 Sha'ban 1429H, corresponding to 11 August 2008 to 20 August 2008, 60,300,000 shares of SR 10 each were offered to the public at a premium of SR 2 per share, which were fully subscribed and are now publicly traded on the Saudi Stock Exchange (Tadawul).

2. Significant Accounting Policies:

The interim financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted are as follows:

Accounting convention:

The interim financial statements are prepared under the historical cost convention, except for measurement for fair value of derivatives.

Use of estimates:

The preparation of financial statements in conformity with generally accepted principles requires the use of estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of the revenues and expenses during the reported period.

METHANOL CHEMICALS COMPANY
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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
AS AT 30 SEPTEMBER 2010

2. Significant Accounting Policies (continued):

Cash and cash equivalents:

For the purpose of the statement of cash flows, cash and cash equivalents consists of cash in hand, bank balances and short-term deposits with an original maturity of three months or less.

Inventories:

Inventories are stated at the lower of cost and market value. Cost is determined as follows:

Raw materials, spare parts and supplies	-	Purchase cost on a weighted average basis.
Finished goods	-	Cost of direct materials and labour plus attributable overheads based on a normal level of activity.

Deferred charges, long term prepaid expenses/amortisation:

Costs relating to software licence fees and implementation thereof are treated as deferred charges and amortised over the estimated period of benefit.

SIDF loan appraisal fees are treated as long term prepaid expenses and amortised over the period of the loan. Amortisation is capitalized up to the date the plant is ready for its intended use.

Property, plant and equipment/depreciation:

All property, plant and equipment are initially recorded at cost. Cost is depreciated on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the shorter of the useful life of the assets or the term of the lease.

Capital work in progress is recognised at the cost of materials and services needed to fabricate the plant and equipment, plus salaries and other costs that can be specifically identified as necessary costs to have the plant and equipment ready for its intended use and other overheads allocated on a systematic basis. Upon completion of the capital work in progress, the commercial operation is declared and the asset is then transferred to the respective class of property, plant and equipment.

Expenditure for repair and maintenance are charged to the interim Statement of Income. Improvements that increase the value or materially extend the life of the related assets are capitalized.

Employees' terminal benefits:

Provision is made for amounts payable in accordance with the employees' contract of employment applicable to their accumulated periods of services at the balance sheet date.

METHANOL CHEMICALS COMPANY
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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
AS AT 30 SEPTEMBER 2010

2. Significant Accounting Policies (continued):

Share premium:

Share premium represents the excess amount collected over the face value of shares issued and is shown net of expenses incurred in relation to issue of shares.

Sales:

Sales represents the invoiced and accrued value of goods supplied by the Company during the period, net of trade and quantity discounts and are recognised when the significant risk and rewards of ownership of goods have passed to the buyer and the amount of sales can be measured reliably, which is normally on delivery to the customer.

Foreign Currencies:

Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the interim statement of income.

Expenses:

Selling and distribution expenses are those that specifically relate to salesmen, warehousing and delivery vehicles as well as provision for doubtful debts. Except for financial charges and amortisation of deferred charges, all other expenses are classified as general and administration expenses.

Zakat:

Zakat is provided for in accordance with Saudi Arabia fiscal regulations. The provision is charged to the interim income statement.

The provision for the interim period is calculated based on the estimated zakat provision for the whole year.

The difference between the provision made during the interim period and the actual provision for the period based on detailed zakat calculations for the year is accounted for at year end.

Earnings per share:

Earnings per share from net income are calculated by dividing the net income for the period by the weighted average number of shares outstanding during the period.

Segmental reporting:

A segment is a distinguishable component of the company that is engaged in providing products, services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments. Because the management views the whole activities of the company as one operating segment, reporting is provided by geographical segment only.

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
AS AT 30 SEPTEMBER 2010

2. Significant Accounting Policies (continued):

Fair values:

The fair value of commission-bearing items is estimated based on discounted cash flows using commission rates for items with similar terms and risk characteristics.

Derivative financial instruments:

The company uses derivative financial instruments such as commission rate swaps, to hedge its exposure to commission rate risks arising from borrowings. These do not qualify for hedge accounting and are accordingly treated as trading instruments.

Adjustments related to the period:

The company has made all necessary adjustments which are important in order to present fairly in all material respects the interim financial position and results of operations.

3. Cash and Cash equivalents:

	At 30 September 2010 SR	At 30 September 2009 SR
Bank balances and cash	136,469,252	39,671,975
Short term bank deposits	--	28,824,800
	<u>136,469,252</u>	<u>68,496,775</u>

4. Segmental reporting:

The management of the company views the whole business activities of the company as one operating segment for performance assessment and resources allocation.

Because the management views the whole activities of the company as one segment, reporting is provided by geographical segment only. Approximately 67% of the sales of the company for the period from 1 July 2010 to 30 September 2010 are through export (2009: 71%)