

METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

**INTERIM FINANCIAL STATEMENTS AND
AUDITOR'S REPORT (LIMITED REVIEW) FOR
THE THREE MONTHS PERIOD ENDED 31
MARCH 2016**

METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM FINANCIAL STATEMENTS AND AUDITOR'S REPORT (LIMITED REVIEW)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2016

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AUDITOR'S REPORT (LIMITED REVIEW) ON INTERIM 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 March 31, 2016 and the related interim statements of income, cash flows and changes in shareholders equity for the three months period ended and attached notes from 1 to 9 which form an integral part of these interim financial statements. These interim financial statements are the responsibility of the Company's management and have been prepared by them and presented to us with all the necessary information and explanations which we required.

We conducted our limited review in accordance with the standard of auditing applicable to Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants. A limited review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries from 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 a whole. Accordingly, we do not express such an opinion.

REVIEW RESULT

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

For Dr. Mohamed Al-Amri & Co.

M. Al-Amri

Dr. Mohamed A. Al-Amri
Certified Public Accountant
Registration No. 60




April 14, 2016-G
Rajab 7, 1437 (H)


METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM BALANCE SHEET (UNAUDITED)
AS AT 31 MARCH 2016
(Expressed in Saudi Arabian Riyals)

	<u>Notes</u>	<u>31 March 2016</u>	<u>31 March 2015</u> (Restated)
ASSETS			
Current Assets:			
Cash and cash equivalents		153,258,389	116,127,851
Accounts receivable		174,605,710	194,241,004
Inventories		125,894,392	151,928,833
Prepayments and other current assets		30,065,206	36,803,477
Total Current Assets		483,823,697	499,101,165
Non Current Assets:			
Intangible assets		19,004,447	20,926,089
Property, plant and equipment		2,035,098,771	2,169,705,244
Total Non Current Assets		2,054,103,218	2,190,631,333
TOTAL ASSETS		2,537,926,915	2,689,732,498
LIABILITIES AND EQUITY			
Current Liabilities:			
Accounts payable		65,949,058	57,149,777
Short term borrowings	3	309,300,000	275,300,000
Current portion of term loans	4	19,538,505	222,976,504
Accrued expenses and other current liabilities		64,754,505	40,436,273
Total Current Liabilities		459,542,068	595,862,554
Non Current Liabilities:			
Term loans	4	679,903,627	540,564,132
Employees' end of service benefits		30,266,571	29,483,865
Total Non Current Liabilities		710,170,198	570,047,997
Total Liabilities		1,169,712,266	1,165,910,551
Shareholders' Equity:			
Share capital		1,206,000,000	1,206,000,000
Statutory reserves		116,968,764	116,968,764
Retained earnings		45,245,885	200,853,183
Total shareholders' equity		1,368,214,649	1,523,821,947
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,537,926,915	2,689,732,498

The Interim financial statements appearing on pages 1 to 14 were approved by the management on behalf of Board of Directors of the Company on 14 April, 2016 and have been signed on their behalf by:


Ovais A. Mohamed
Chief Financial Officer


Khalid Al Rabiah
Chief Executive Officer


Abdullah Ali Al Sanea
Chairman

The accompanying notes 1 to 9 form an integral part of these financial statements.

METHANOL CHEMICALS COMPANY
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INTERIM STATEMENT OF INCOME (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2016
(Expressed in Saudi Arabian Riyals)

	2016	2015 (Restated)
Sales	158,499,656	196,440,746
Cost of Sales	(153,143,623)	(172,979,820)
Gross profit	5,356,033	23,460,926
Expenses:		
Selling and distribution	(17,255,731)	(16,497,621)
General and administration	(10,065,576)	(13,363,936)
	(27,321,307)	(29,861,557)
Loss from operations	(21,965,274)	(6,400,631)
Other charges, net	(57,865)	(684,361)
Financial charges	(8,513,712)	(7,304,245)
Loss before Zakat	(30,536,851)	(14,389,237)
Zakat charge	5 (750,000)	(750,000)
Net loss for the period	(31,286,851)	(15,139,237)
Loss per share (SR) (note 6)	(0.26)	(0.13)
Attributable to loss from continuing main operations	(0.26)	(0.12)
Attributable to loss from other operations	(0.0005)	(0.006)
Weighted average number of shares	120,600,000	120,600,000

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INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2016
(Expressed in Saudi Arabian Riyals)

	31 March 2016	31 March 2015
Cash flow operating activities:		(Restated)
Loss before zakat for the period, net	(30,536,851)	(14,389,237)
<i>Adjustment to reconcile loss before zakat for the period, net to net cash provided by operating activities:</i>		
Depreciation	44,121,209	42,709,254
Amortisation	2,245,310	1,562,249
Employees' end of service benefit charge/(credit), net	305,958	1,905,160
Gain on disposal of property, plant and equipment	(1,000)	(1,499)
	16,134,626	31,785,927
Changes in operating assets and liabilities:		
Accounts receivable and prepayments and other current assets	1,126,412	18,102,876
Inventories	4,531,551	(16,918,046)
Accounts payable, accrued expenses and other current liabilities	(786,233)	(13,871,173)
Employees' end of service benefit payment	(987,109)	(262,382)
Net cash provided by operating activities	20,019,247	18,837,202
Cash flow from investing activities:		
Purchase of property, plant and equipment	(10,856,688)	(21,083,552)
Proceeds from the disposal	1,139	1,499
Net cash used in investing activities	(10,855,549)	(21,082,053)
Cash flow from financing activities:		
Receipt of short term loan	371,950,000	228,975,000
Repayment of short term loan	(391,950,000)	(160,916,138)
Net cash (used in) provided by financing activities	(20,000,000)	68,058,862
Net (decrease) /increase in cash and cash equivalents	(10,836,302)	65,814,011
Cash and cash equivalents at the beginning of the period	164,094,691	50,313,840
Cash and cash equivalent at the end of the period	153,258,389	116,127,851

The accompanying notes 1 to 9 form an integral part of these financial statements.

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INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2016
(Expressed in Saudi Arabian Riyals)

	Share capital	Statutory reserve	Retained earnings	Total
Balance at January 1, 2015 previously reported	1,206,000,000	116,968,764	218,303,635	1,541,272,399
Effect in prior years after change in accounting policy (Note 2.1)			(1,861,215)	(1,861,215)
Net loss for the period	-	-	(15,139,237)	(15,139,237)
Directors' remuneration	-	-	(450,000)	(450,000)
Balance at March 31, 2015 (Restated)	1,206,000,000	116,968,764	200,853,183	1,523,821,947
Balance at January 1, 2016 previously reported	1,206,000,000	116,968,764	78,943,069	1,401,911,833
Effect in prior years after change in accounting policy (Note 2.1)	-	-	(2,410,333)	(2,410,333)
Balance at January 1, 2016 (Restated)	1,206,000,000	116,968,764	76,532,736	1,399,501,500
Net loss for the period			(31,286,851)	(31,286,851)
Balance at March 31, 2016	1,206,000,000	116,968,764	45,245,885	1,368,214,649



The accompanying notes 1 to 9 form an integral part of these financial statements.

METHANOL CHEMICALS COMPANY
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NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2016
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1. ACTIVITIES:

Methanol Chemicals Company ("The Company" or "Chemanol") is a Saudi Joint Stock Company registered in Dammam Kingdom of Saudi Arabia under Commercial Registration number 2050057828 registered in 28 Dhu al-Hijjah 1428-H corresponding to 09/01/2008. The Company has its manufacturing unit in Jubail having Commercial Registration number 2055001870 dated 28 Dhu al-Hijjah 1409-H 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 arithetol, sodium formate and acetaldehyde, as per ministerial resolution number (616/Sadd) dated 12 Safar 1429-H, 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 1428-H, corresponding to 14 November 2007. On 28 September 2010, the testing phase of the new expansion projects (Methanol, Di-methylamine, and Penta plant) was completed and the commercial operations declared on the same date.

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 in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia under the historical cost convention.

Use of estimates:

The preparation of interim financial statements in accordance with generally accepted accounting standards requires the use of estimates and judgments which might affect the valuation of recorded assets, liabilities and the disclosure of contingencies in the notes to the interim financial statements at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the best information and events available to management at the date of issuing the interim financial statements, the actual end results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.



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NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2016
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The significant areas of estimation uncertainty and critical adjustments in applying accounting policies that have the most significant effect on the amounts recognized in the interim financial statements are as follows:

- estimated useful economic lives and residual values of property, plant and equipment
- provisions for doubtful debts
- provisions for slow moving and defective inventories
- accruals

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 measured at lower of cost and net realisable value. The cost of inventories is principally based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, or production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production and overheads based on normal operating capacity.

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

Accounts Receivable

Accounts receivable is stated net of provisions. Provision is made for accounts receivable where recovery is considered doubtful by the management.

Intangible assets:

Estimated value of the right to use pipelines owned by the other parties for transporting raw materials and finished goods are treated as intangible assets and are amortized over the estimated period of future economic benefits.

Property, plant and equipment/depreciation:

Property, plant and equipment are stated at cost less accumulated depreciation. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight-line method. Leasehold improvements are amortized over the shorter of the estimated useful life or the remaining term of the lease.

The estimated useful lives of the principal classes of assets are as follows:

	<u>Periods</u>
Buildings	33-33
Improvements on leasehold land	5
Plant equipment and capital spares	10 - 20
Vehicles	4
Furniture, fixtures and office equipment	7 - 10
Computer and software	4 - 8

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Cost of assets disposed of and the related accumulated depreciation are derecognised from the financial statements and the resulting gain or loss is taken to the interim statement of income, at the time of disposal of assets.

Impairment of assets

At each balance sheet date, management assess whether any indication of impairment exists. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the receive the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment loss is recognized as an expense in the interim statement of income immediately.

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 does not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the asset or cash-generating unit in prior periods. A reversal of an impairment loss is recognized as income immediately in the interim statement of income.

Up front facility fees

Up front facility fees represent SIDF facility appraisal fees. Murahaba facility appraisal and restructuring fees are amortized over the facility period and are presented net of the liability due at the period end.

Employees' end of service benefits:

Employees' end of service benefits, calculated in accordance with Saudi Arabian labour regulations, are accrued and charged to the interim Statement of Income. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should his services be terminated at the balance sheet date.

Statutory Reserves / Share premium:

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's Articles of Association, the Company is required to transfer 10% of net income for the period to a statutory reserve until such reserve equals 50% of its paid up share capital. The General Assembly of the Company has the right to discontinue this transfer once it reaches the required limit. This reserve is not available for distribution to the shareholders.

Share premium of SR 72,850,071 representing excess amount collected over the face value of shares issued, net of issue expenses, is added to the statutory reserve.

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Projects in progress:

Projects in progress include the cost of materials, labor and all related overheads in connection with the construction and purchase of machines and equipment for the expansion of the Company's factory. The cost is transferred to property, plant and equipment and depreciated from the commencement of the commercial operations of that project using the straight line method over the shorter of the estimated period of the economic benefits. Project costs that do not lead to future economic benefits are written-off to the interim statement of income as incurred.

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 statement of income.

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

(Loss)/earnings per share:

(Loss)/earnings per share from net income are calculated by dividing the net (loss)/ income for the period by the weighted average number of shares outstanding during the period.

Earnings (loss) per share from the continuing main operations are computed by dividing income /(loss) from operations after finance charges and zakat for the period with the weighted average number of shares outstanding during the period.

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Earnings per share from other operations are computed by dividing by the other (loss) /income net, with 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. As the management view the whole activities of the Company as one operating segment, reporting is provided by geographical segment only.

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.

2.1- Change in Accounting Policy

During the current period the Company has changed its accounting policy in respect of capital spares and catalysts. Previously capital spares and catalyst were included in inventory and were transferred to property, plant and equipment on issuance. From the current period capital spares and catalyst are classified as part of property, plant and equipment on initial recognition and capital spares are depreciated over the useful life of the assets to which they relate and catalyst is depreciated when they are issued for the consumption over a period of 12 to 18 months. This change in accounting policy has been applied retrospectively by restating the opening retained earnings, property, plant and equipment, inventory and loss for the prior period by SR 1.86 million, SR 25.72 million, SR (27.72) million, and SR 0.137 million respectively. Accordingly, opening retained earnings, property, plant and equipment and inventory for the current period have been restated by SR 2.41 million, SR 22.81 million and SR (25.22 million) respectively. Had there been no change in the accounting policy the property, plant and equipment would have been higher by SR .151 million and profit and loss would have been higher by the same amount.

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2016
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3. SHORT TERM BORROWINGS:

The Company has obtained short term working capital facilities with local banks. Commission is charged at commercial rates. The short-term loans are secured by the promissory notes.

4. TERM LOANS:

The term loans consist of the following:

		31 March 2016	31 March 2015
Project Murabaha Facility	(I)	252,685,000	322,245,000
Working Capital Murabaha Facility	(I)	75,000,000	75,000,000
SIDF loan	(II)	385,000,000	385,000,000
Less: Unamortized deferred charges		<u>(13,242,868)</u>	<u>(18,704,364)</u>
Total		<u>699,442,132</u>	<u>763,540,636</u>

Presented in the balance sheet as follows:

Current portion of term loans	19,538,505	222,976,504
Long term loans	<u>679,903,627</u>	<u>540,564,132</u>
Total	<u>699,442,132</u>	<u>763,540,636</u>

- I. In December 2007, the Company entered into a Murabaha Facility Agreement with a syndicate of banks, namely; Arab Banking Corporation (B.S.C), Riyadh Bank, Samba Financial Group, Saudi Hollandi Bank, National Commercial Bank and SABB (collectively called as "Murabaha Facility Participants") to provide Project Murabaha Facility of SR 940 million, refinance Murabaha Facility of SR 37.5 million, and Working Capital Murabaha Facility and Standby Murabaha Sub-Facility of SR 150 million. Project Murabaha Facility loan amounting to SR 525 million has been repaid on avilment of the SIDF loan.
- In October 2009, the Company entered into a Project Cost Overrun Murabaha Facility Agreement with syndicate of banks, namely; Arab Banking Corporation (B.S.C), Riyadh Bank, Samba Financial Group, Saudi Hollandi Bank, National Commercial Bank and SABB (collectively called as "The Project Cost Overrun Murabaha Facility Participants") to provide Project Cost Overrun Murabaha Facility of SR 326 million to finance ongoing expansion projects. As per the agreement, the amounts drawn under this facility are repayable in two periods from drawdown note i.e. 18 November 2011.

On 5 June 2011, the Company entered into a refinancing agreement with a syndicate of banks, namely; SABB, Riyadh Bank and Samba Financial Group (collectively called as "The Murabaha Facility Participants") to refinance both the outstanding balance under the Project Murabaha Facility & the

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Working Capital Facility Agreement of SAR 506 million dated 26 December 2007, ii) the Cost Overrun Facility Agreement of SAR 326 million dated October 27, 2009.

As per the new Murabaha Facility Agreement dated 5 June 2011, the Project Murabaha Facility amounting to SR 682 million will be payable in 14 semi-annual installments starting from July 2011 to December 2017. The Working Capital Murabaha Facility amounting to SR 150 million will be payable in 10 semi-annual installments starting from January 2013 to December 2017. The Company has entered into an interest rate swap on the Project Murabaha facility. The facilities are secured by promissory notes. The Company is required to comply with certain covenants under all of above facilities. The installments due within one period from the balance sheet date are shown as current liabilities.

In 2015 Company applied to restructure its loan with the syndicated banks amounting to SR 327.685 million. The Company received rescheduling confirmation from the syndicated banks in the current period to reschedule installments amounting to SR 137.756 million which were due in 2015 and 2016. The rescheduled repayments will start now from 28 June, 2018 and last installment is payable in December 2022.

- II. On 15 May 2011, the Company reached an agreement with the SIDF to restructure the existing outstanding debt balance. As per the agreement, the restructured debt amounting to SR 600,000,000 was payable in 15 installments. The first installment was paid in January 2012 and the last installment was due on October 2018. In 2015 the Company applied to SIDF for rescheduling of its loans amounting to SR 385 million, on 4th Feb 2016, the Company received confirmation from SIDF to reschedule installments amounting to SR 180 million which was due in 2015 and 2016. The rescheduled payments will start from 13 January, 2017 and the last instalment is payable in 2020.

5. ZAKAT:

- a) In 2014, the Company received final assessment for the periods ended December 31, 2009 and December 31, 2010 from DZIT. As per the assessment order a refund of SR 4.8 million in respect of zakat paid for the periods 2009 and 2010 is due to the Company.
- b) The Zakat charge for the period ended 31 March comprises of the following:

	31 March 2016	31 March 2015
For the current period	(750,000)	(750,000)
Net provision for the period	(750,000)	(750,000)

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
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c) Provision for Zakat

The movement in provision for zakat during the period ended 31 March is as follows:

	<u>31 March 2016</u>	<u>31 March 2015</u>
Balance at the beginning of the period	(4,480,625)	(2,800,000)
Net provision provided for the period	750,000	750,000
Payments during the period	-	-
Receivable at end of the period	<u>(3,730,625)</u>	<u>(2,050,000)</u>

6. LOSS PER SHARE:

The loss per share is calculated by dividing net (loss)/income for the period by the weighted average number of outstanding shares.

The loss per share from continuing main operations is calculated by dividing the operating (loss)/income less zakat and finance charges for the period by the weighted average number of outstanding shares.

The loss per share from other operations is calculated by dividing other income less other charges for the period by the weighted average number of outstanding shares.

7. 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 64 % or SR 105 million of the sales of the Company for the period from 1 January 2016 to 31 March 2016 are through export (2015: 63% or SR 147 million).

8. INTERIM PERIOD RESULTS

The Company has made all necessary adjustments which are important to present fairly in all material respects the interim financial position and interim results of operations. The interim financial results may not be considered an indicative of the actual results for the whole period.

9. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's presentation.