

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)

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

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Page
Independent auditors' report	2
Balance sheet	3
Income statement	4
Cash flows statement	5
Statement of changes in shareholders' equity	6
Notes to the financial statements	7 - 20



INDEPENDENT AUDITORS' REPORT

March 12, 2017

To the shareholders of Methanol Chemicals Company:
(A Saudi Joint Stock Company)

Scope of audit

We have audited the accompanying balance sheet of Methanol Chemicals Company (the "Company") as of December 31, 2016 and the statements of income, cash flows and changes in shareholders' equity for the year then ended, and the notes from 1 to 27 which form an integral part of the financial statements. These 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 Company's management. Our responsibility is to express an opinion on these 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 financial statements taken as a whole:

- Present fairly, in all material respects, the financial position of the Company 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 Company; 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 financial statements.

Emphasis of matter

We draw attention to Note 24 to the accompanying financial statements, which outlines the impact of the restatement of the comparative financial information related to certain items of property, plant and equipment which were earlier classified as inventories and recording of related depreciation of such items.

PricewaterhouseCoopers

By: _____
Ali A. Alotaibi
License Number 379

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)
Balance sheet
(All amounts in Saudi Riyals unless otherwise stated)

		As at December 31,	
	Note	2016	2015 (Restated)
Assets			
Current assets			
Cash and cash equivalents	5,11	221,847,020	163,594,691
Accounts receivable	6	151,758,012	162,075,788
Inventories	7,24	116,894,716	130,425,941
Prepayments and other receivable	8,16	18,731,297	37,947,074
		<u>509,231,045</u>	<u>494,043,494</u>
Non-current assets			
Property, plant and equipment	9,24	1,928,071,062	2,068,363,431
Intangible assets	10	22,011,648	19,884,383
		<u>1,950,082,710</u>	<u>2,088,247,814</u>
Total assets		<u>2,459,313,755</u>	<u>2,582,291,308</u>
Liabilities			
Current liabilities			
Short-term borrowings	12	-	329,300,000
Current portion of long-term borrowings	13	90,565,741	317,294,505
Accounts payable	16	44,439,750	46,148,848
Accrued and other liabilities	11	97,539,877	78,316,482
Zakat payable	15	3,644,564	-
		<u>236,189,932</u>	<u>771,059,835</u>
Non-current liabilities			
Long-term borrowings	13	909,028,589	380,782,253
Employees' termination benefits	14	29,429,295	30,947,722
		<u>938,457,884</u>	<u>411,729,975</u>
Total liabilities		<u>1,174,647,816</u>	<u>1,182,789,810</u>
Shareholders' equity			
Share capital	17	1,206,000,000	1,206,000,000
Share premium		72,850,071	72,850,071
Statutory reserve	18	44,118,693	44,118,693
(Accumulated deficit) retained earnings	24	(38,302,825)	76,532,734
Total shareholders' equity		<u>1,284,665,939</u>	<u>1,399,501,498</u>
Total liabilities and shareholders' equity		<u>2,459,313,755</u>	<u>2,582,291,308</u>

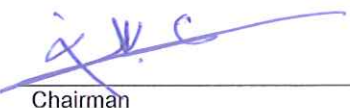
Contingencies and commitments

27

These financial statements were approved by the Company's management on March 12, 2017 and signed on its behalf by:


Finance Director


Chief Executive Officer


Chairman


The accompanying notes from 1 to 27 form an integral part of these financial statements.


METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)
Income statement
 (All amounts in Saudi Riyals unless otherwise stated)

		<u>Year ended December 31,</u>	
	Note	2016	2015
			(Restated)
Sales		594,931,303	733,319,785
Cost of sales	7, 16, 19, 24	(579,789,658)	(714,543,232)
Gross profit		15,141,645	18,776,553
Operating expenses			
Selling and distribution	20	(68,384,461)	(73,603,553)
General and administrative	21	(43,047,872)	(48,375,873)
Loss from operations	24	(96,290,688)	(103,202,873)
Other (expenses) income			
Financial charges	12, 13	(37,855,568)	(26,692,252)
Other, net	22	29,435,886	(11,695,186)
Loss before zakat		(104,710,370)	(141,590,311)
Zakat	15	(8,125,189)	1,680,625
Net loss for the year	24	(112,835,559)	(139,909,686)
Loss per share (Saudi Riyals):	24, 26		
Loss from operations		(0.80)	(0.86)
Net loss for the year		(0.94)	(1.16)

These financial statements were approved by the Company's management on March 12, 2017 and signed on its behalf by:


 Finance Director


 Chief Executive Officer


 Chairman

The accompanying notes from 1 to 27 form an integral part of these financial statements.

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)
Cash flows statement
(All amounts in Saudi Riyals unless otherwise stated)

		Year ended December 31,	
	Note	2016	2015 (Restated)
Cash flow from operating activities			
Net loss for the year		(112,835,559)	(139,909,686)
<u>Adjustments for non-cash items</u>			
Provision for doubtful debts	6	(280,890)	26,823
Provision for slow-moving inventories	7	(5,969,859)	5,139,240
Depreciation and amortization	9,10,13	171,700,642	177,176,398
Property and equipment written-off		-	6,303,212
Gain on disposal of property and equipment		(369,128)	(96,455)
<u>Changes in working capital</u>			
Accounts receivable		10,598,666	45,052,842
Inventories		19,501,084	(320,094)
Prepayments and other receivable		19,215,777	4,794,829
Accounts payable		(1,709,098)	(11,154,809)
Accrued and other liabilities		12,281,729	24,612,917
Zakat payable		3,644,564	-
Employees' termination benefits		(1,518,427)	3,106,635
Net cash generated from operating activities		114,259,501	114,731,852
Cash flow from investing activities			
Additions to property, plant and equipment	9	(27,798,200)	(54,104,912)
Additions to intangible assets	10	(1,073,150)	(353,444)
Proceeds from disposal of property and equipment		652,815	508,493
Net cash utilized in investing activities		(28,218,535)	(53,949,863)
Cash flow from financing activities			
(Repayment of) proceeds from short-term borrowings		(20,000,000)	122,058,862
Net movement in long-term borrowings		-	(69,560,000)
Borrowing related transaction costs payment		(7,588,637)	-
Board of directors' fees paid		(200,000)	-
Net cash (utilized in) generated from financing activities		(27,788,637)	52,498,862
Net increase in cash and cash equivalents		58,252,329	113,280,851
Cash and cash equivalents at beginning of year		163,594,691	50,313,840
Cash and cash equivalents at end of year		221,847,020	163,594,691
Supplemental cash flow information			
<u>Non-cash operating and financing activities:</u>			
Receivable from the GAZT		4,480,625	-
Board of directors' fee payable		1,800,000	-

These financial statements were approved by the Company's management on March 12, 2017 and signed on its behalf by:

		
Finance Director	Chief Executive Officer	Chairman

The accompanying notes from 1 to 27 form an integral part of these financial statements.

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)
Statement of changes in shareholders' equity
 (All amounts in Saudi Riyals unless otherwise stated)

	Note	Share capital	Statutory reserve	Share premium	(Accumulated deficit) / retained earnings	Total
January 1, 2016 (Restated)		1,206,000,000	44,118,693	72,850,071	76,532,734	1,399,501,498
Net loss for the year		-	-	-	(112,835,559)	(112,835,559)
Board of directors' fee		-	-	-	(2,000,000)	(2,000,000)
December 31, 2016		1,206,000,000	44,118,693	72,850,071	(38,302,825)	1,284,665,939
January 1, 2015 – (as previously reported)		1,206,000,000	44,118,693	72,850,071	218,303,635	1,541,272,399
Adjustments	24	-	-	-	(1,861,215)	(1,861,215)
January 1, 2015 (Restated)		1,206,000,000	44,118,693	72,850,071	216,442,420	1,539,411,184
Net loss for the year (Restated)	24	-	-	-	(139,909,686)	(139,909,686)
December 31, 2015 (Restated)		1,206,000,000	44,118,693	72,850,071	76,532,734	1,399,501,498

These financial statements were approved by the Company's management on March 12, 2017 and signed on its behalf by:

 Finance Director	 Chief Executive Officer	 Chairman
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The accompanying notes from 1 to 27 form an integral part of these financial statements.

METHANOL CHEMICALS COMPANY

(A Saudi Joint Stock Company)

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

(All amounts in Saudi Riyals unless otherwise stated)

1 General information

Methanol Chemicals Company (the "Company" or "Chemanol") was established to produce, purchase and sell petrochemicals products and related by-products.

The Company is a joint stock company registered in Kingdom of Saudi Arabia and operating under Commercial Registration (CR) number 2055001870 dated 28 Dhu al-Hijjah 1409-H (August 1, 1989). The accompanying financial statements include the accounts of the Company and its branch registered in Dammam under CR number 2050057828 issued in Dammam on 30 Dhu al-Hijjah 1428-H (January 9, 2008). The registered address of the Company is P.O. Box 2101, Jubail 31951, Kingdom of Saudi Arabia.

The accompanying financial statements were authorized for issue by the Company's Board of Directors on March 12, 2017.

2 Summary of significant accounting policies

Effective January 1, 2017, the Company's 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 Company 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 financial statements under IFRS, the Company 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 prepared under accounting standards issued by SOCPA.

The principal accounting policies applied in the preparation of the accompanying financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of preparation

The accompanying financial statements have been prepared under the historical cost convention on the accrual basis of accounting, and in compliance with accounting standards promulgated by SOCPA.

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 Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The area involving a degree of judgment or complexity, or area where assumptions and estimates are significant to the financial statements is impairment of non-financial assets. Management assesses the impairment of non-financial assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors which could trigger an impairment review include evidence from internal and external sources related to the changes in technological, market, economic or legal environment in which the Company operates, changes in market interest rates and economic performance of the assets. The recoverable amounts of cash generating units are determined based on value-in-use calculations which require the use of estimates.

2.3 Foreign currency transactions and balances

(a) Reporting currency

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

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals at 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 of monetary assets and liabilities denominated in foreign currencies at period end exchange rates are recognized in the income statement. Net amount of such foreign exchange gains and losses for the years ended December 31, 2016 and 2015 were not significant.

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

2.4 Cash and cash equivalents

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

2.5 Accounts receivable

Accounts receivable are carried at original invoice amount less provision for doubtful debts. A provision against doubtful debts is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the income statement and reported under "General and administrative expenses". When 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 income statement.

2.6 Inventories

Inventories are stated at the lower of cost or net realizable value and net of provision for slow moving and obsolete items. Cost is determined using weighted average method. The cost of finished products include the cost of raw materials, direct 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.

Provision for slow-moving and obsolete inventory is made considering various factors including age of the inventory items, historic usage, expected utilization in future and evaluation from the internal technical teams.

2.7 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any, except for construction-in-progress which is carried at cost. Depreciation is charged to the 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:

	Number of years
• Buildings and leasehold improvements	5 - 33
• Plant, machinery and equipment	10 - 20
• Furniture, fixtures and office equipment	7 - 10
• Planned turnaround costs	3
• Vehicles	4

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

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

Planned turnaround costs are deferred and depreciated over the period until the date of the next planned turnaround. Should an unexpected turnaround occur prior to the previously envisaged date of planned turnaround, then the previously undepreciated deferred costs are immediately expensed and the new turnaround costs are depreciated over the period likely to benefit from such costs.

Spare parts are categorized as capital spares when these are considered essential to ensure continuous plant operations, are not readily available in the market or unavailable, and their manufacturing requires an extended time to complete. Capital spares are classified under property, plant and equipment, and are depreciated using the straight-line method using depreciation rates relevant to the corresponding plant and equipment.

Catalyst are treated as capital spares and are depreciated as and when put into use.

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

2.8 Intangible assets

Intangible assets represent costs related to the purchase of computer software and payment to acquire contractual rights to use a pipeline owned by third party for the supply of raw material. Such assets are amortized over the useful lives as follows:

	Number of years
• Computer software	4 - 8
• Payment to acquire contractual rights to use a pipeline	20

2.9 Impairment of non-financial assets

Non-financial 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-generating units). Non-financial 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 income statement.

2.10 Borrowings

Borrowings are recognized at the proceeds received, net of transaction cost incurred. Borrowings are subsequently carried at amortized cost. Any differences between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period using effective interest method. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets until such time as the assets are ready for their intended use. Other borrowing costs are charged to the income statement.

2.11 Accounts payable and accruals

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

2.12 Zakat and taxes

The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT"). Provision for zakat for the Company is charged to the income statement. Additional amounts payable, if any, at the finalization of assessments are accounted for when such amounts are determined.

The Company withholds tax on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under the Saudi Arabian Income Tax Law.

2.13 Employee termination benefits

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Company and are charged to the income statement. The liability is calculated at 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 laws of Saudi Arabia.

2.14 Revenues

Revenues are recorded at the time of delivery of the products in accordance with the contractual terms. Certain products are also sold to two marketers under marketing arrangements. Upon delivery of the products to the marketers, sales are recorded at provisional selling prices and are adjusted based on actual selling prices used by the marketers for sales to third parties, after deducting certain expenses as per the terms of the respective marketing agreements. Such adjustments are recorded as they become known to the Company.

METHANOL CHEMICALS COMPANY**(A Saudi Joint Stock Company)****Notes to the financial statements for the year ended December 31, 2016**

(All amounts in Saudi Riyals unless otherwise stated)

2.15 Selling, distribution and general and administrative expenses

Selling, distribution and general and administrative expenses include direct and indirect costs not specifically part of production costs as required under generally accepted accounting principles. Allocations between selling, distribution, general and administrative expenses and production costs, when required, are made on a consistent basis. Selling expenses are primarily for freight and storage of the Company's products.

2.16 Dividends

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

2.17 Operating leases

Rental expense under operating leases is charged to the income statement over the period of the respective lease.

2.18 Insurance recoveries

Insurance recoveries are recognized as an asset when it is virtually certain that an inflow of economic benefits will arise to the Company, with the corresponding impact to the income statement of the period in which the recoveries become virtually certain.

3 Financial instruments and risk management

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

Financial assets and liabilities are offset and net amounts are reported in the financial statements, when the Company 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. Risk management is carried out by senior management.

3.1 Currency risk

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

3.2 Fair value and cash flow interest rate risk

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial positions and cash flows. The Company's interest rate risks arise mainly from its borrowings which are at floating rate of interest and are subject to repricing on a regular basis. Management monitors the changes in interest rates on a continuous basis and believes that fair value and cash flow interest rate risks to the Company are not significant.

3.3 Price risk

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

3.4 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. The Company 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 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 Company's obligations as they become due.

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

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 Company's 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 Company's financial assets and liabilities are not materially different from their carrying values.

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.

The Company is primarily engaged in manufacturing of petrochemicals and related products which is viewed by management as one business segment.

(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.

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

5 Cash and cash equivalents

	2016	2015
Cash in hand	5,108	5,281
Cash at bank	221,841,912	163,589,410
	<u>221,847,020</u>	<u>163,594,691</u>

Also see Note 11.

6 Accounts receivable

	2016	2015
Trade	152,487,221	163,085,887
Less: provision for doubtful debts	<u>(729,209)</u>	<u>(1,010,099)</u>
	<u>151,758,012</u>	<u>162,075,788</u>

The movement in provision for doubtful debts is as follows:

	2016	2015
January 1	1,010,099	983,277
(Reversals) / additions	<u>(280,890)</u>	<u>26,822</u>
December 31	<u>729,209</u>	<u>1,010,099</u>

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

7 Inventories

	2016	2015 (Restated)
Raw and packing materials	20,409,669	30,827,786
Spare parts and supplies, held not for sale	66,670,550	71,279,964
Finished products	40,953,281	45,426,834
	128,033,500	147,534,584
Provision for slow-moving inventories	(11,138,784)	(17,108,643)
	116,894,716	130,425,941

Finished products at December 31, 2016 have been written-down by Saudi Riyals 4.8 million (2015: Saudi Riyals 4.5 million) to bring them to their net realizable values and charged to "Cost of sales" in the accompanying income statement.

The movement in provision for slow-moving inventories is as follows:

	2016	2015
January 1	17,108,643	11,969,403
(Reversals) / additions	(5,969,859)	5,139,240
December 31	11,138,784	17,108,643

8 Prepayments and other receivables

	Note	2016	2015
Advances to suppliers	16	5,940,470	15,233,628
Advances to employees		6,127,670	7,066,559
Prepayments		5,186,580	7,692,073
Receivable from the GAZT	15	-	4,480,625
Other		1,476,577	3,474,189
		18,731,297	37,947,074

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

9 Property, plant and equipment

	January 1, 2016	Additions	Disposals	Transfers	December 31, 2016
2016					
Cost					
Buildings and leasehold improvements	360,431,828	475,592	-	667,156	361,574,576
Plant, machinery and equipment	2,620,392,233	13,795,402	(524,400)	16,709,520	2,650,372,755
Furniture, fixtures and office equipment	112,152,214	1,210,145	(6,670,701)	186,020	106,877,678
Planned turnaround costs	40,866,659	3,134,324	-	-	44,000,983
Vehicles	10,337,773	508,000	(1,974,979)	-	8,870,794
Construction-in-progress	29,100,795	8,674,737	-	(23,646,677)	14,128,855
	<u>3,173,281,502</u>	<u>27,798,200</u>	<u>(9,170,080)</u>	<u>(6,083,981)</u>	<u>3,185,825,641</u>
Accumulated depreciation					
Buildings and leasehold improvements	(75,700,940)	(10,944,691)	-	-	(86,645,631)
Plant, machinery and equipment	(909,926,731)	(129,763,188)	302,858	-	(1,039,387,061)
Furniture, fixtures and office equipment	(77,443,963)	(11,838,738)	6,649,256	-	(82,633,445)
Planned turnaround costs	(33,262,073)	(8,210,892)	-	-	(41,472,965)
Vehicles	(8,584,364)	(965,392)	1,934,279	-	(7,615,477)
	<u>(1,104,918,071)</u>	<u>(161,722,901)</u>	<u>8,886,393</u>	<u>-</u>	<u>(1,257,754,579)</u>
	<u>2,068,363,431</u>				<u>1,928,071,062</u>
	January 1, 2015	Additions	Disposals / Write-off	Transfers	December 31, 2015
2015 (Restated)					
Cost					
Buildings and leasehold improvements	359,233,680	534,893	(196,745)	860,000	360,431,828
Plant, machinery and equipment	2,581,006,900	34,635,604	(132,084)	4,881,813	2,620,392,233
Furniture, fixtures and office equipment	100,520,086	5,927,447	(142,835)	5,847,516	112,152,214
Planned turnaround costs	40,733,709	132,950	-	-	40,866,659
Vehicles	12,350,003	-	(2,012,230)	-	10,337,773
Construction-in-progress	35,786,993	12,874,018	(6,303,212)	(13,257,004)	29,100,795
	<u>3,129,631,371</u>	<u>54,104,912</u>	<u>(8,787,106)</u>	<u>(1,667,675)</u>	<u>3,173,281,502</u>
Accumulated depreciation					
Buildings and leasehold improvements	(64,875,209)	(10,926,022)	100,291	-	(75,700,940)
Plant, machinery and equipment	(781,055,400)	(128,944,886)	73,555	-	(909,926,731)
Furniture, fixtures and office equipment	(65,484,442)	(12,101,551)	142,030	-	(77,443,963)
Planned turnaround costs	(18,656,156)	(14,605,917)	-	-	(33,262,073)
Vehicles	(9,138,674)	(1,201,670)	1,755,980	-	(8,584,364)
	<u>(939,209,881)</u>	<u>(167,780,046)</u>	<u>2,071,856</u>		<u>(1,104,918,071)</u>
	<u>2,190,421,490</u>				<u>2,068,363,431</u>

The Company production facilities are constructed on land parcels leased from the Royal Commission for Jubail and Yanbu (the "Royal Commission") at nominal annual rent for the years ranging from 10 to 30 Hijri years with an option to renew on similar terms upon expiry.

See Note 10 for transfer of construction-in-progress of Saudi Riyals 6.1 million related to computer software to intangible assets in 2016 (2015: Saudi Riyals 1.7 million).

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

10 Intangible assets

	Computer software	Payment to acquire contractual rights of pipeline	Total
<u>2016</u>			
Cost			
January 1	17,538,223	15,750,000	33,288,223
Additions	1,073,150	-	1,073,150
Transfers from construction-in-progress	6,083,981	-	6,083,981
Write-off	(37,362)	-	(37,362)
December 31	24,657,992	15,750,000	40,407,992
Accumulated amortization			
January 1	(9,072,590)	(4,331,250)	(13,403,840)
Charge	(4,242,366)	(787,500)	(5,029,866)
Write-off	37,362	-	37,362
December 31	(13,277,594)	(5,118,750)	(18,396,344)
	11,380,398	10,631,250	22,011,648
	Computer software	Payment to acquire contractual rights of pipeline	Total
<u>2015</u>			
Cost			
January 1	15,517,103	15,750,000	31,267,103
Additions	353,444	-	353,444
Transfers from construction-in-progress	1,667,676	-	1,667,676
December 31	17,538,223	15,750,000	33,288,223
Accumulated amortization			
January 1	(5,925,233)	(3,543,750)	(9,468,983)
Charge	(3,147,357)	(787,500)	(3,934,857)
December 31	(9,072,590)	(4,331,250)	(13,403,840)
	8,465,633	11,418,750	19,884,383

11 Accrued and other liabilities

	2016	2015
Accrued expenses	57,460,889	73,997,674
Advances from customers	1,100,980	2,760,484
Other	38,978,008	1,558,324
	97,539,877	78,316,482

During 2016, the Company has liquidated a performance bank guarantee, amounting to US dollars 10.0 million (Saudi Riyals 37.5 million), issued by one of its marketers due to non-compliance with its off-take and other contractual obligations under the marketing agreement. The Company has recorded the cash received under "Cash and cash equivalents" with a corresponding liability included under "Other" above at December 31, 2016 with no impact on the net loss for the year ended December 31, 2016. The Company is currently under arbitration process with the marketer to resolve the matter and believes that the arbitration process will be completed in 2017.

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

12 Short-term borrowings

At December 31, 2015, short-term borrowings represent bank loans obtained from various commercial banks and bear financial charges at prevailing market rates which are based on Saudi Inter-Bank Offer Rates ("SIBOR"). Also see Note 13.2 for restructuring of short-term borrowings in 2016.

13 Long-term borrowings

	Note	2016	2015
Saudi Industrial Development Fund ("SIDF")	13.1	385,000,000	385,000,000
Murabaha Facilities-Syndicate loans	13.2	327,685,000	297,685,000
Murabaha Facilities-Bilateral loans	13.2	309,000,000	30,000,000
		1,021,685,000	712,685,000
Less: unamortized transaction costs		(22,090,670)	(14,608,242)
		999,594,330	698,076,758

Long-term borrowings are presented as follows:

Current maturity shown under current liabilities	90,565,741	317,294,505
Long-term borrowings	909,028,589	380,782,253
	999,594,330	698,076,758

Movements in unamortized transaction costs are as follows:

	2016	2015
January 1	14,608,242	20,069,737
Additions	12,430,303	-
Less: amortization	(4,947,875)	(5,461,495)
December 31	22,090,670	14,608,242

Related to:

Current maturity shown under current liabilities	4,434,259	5,461,495
Shown under long-term borrowings	17,656,411	9,146,747
	22,090,670	14,608,242

13.1 SIDF

The loan agreements with SIDF provided for loans of Saudi Riyals 600.0 million to finance expansion and construction of the Company's production facilities, which were fully drawn by June 2010. Up-front and annual administrative fees are charged by SIDF under the loan agreements.

The covenants of the SIDF facilities require the Company to maintain certain level of financial conditions, limiting the dividends distribution and annual capital expenditure above certain limits and certain other matters. The loan is secured by mortgage on the property, plant and equipment of the Company at December 31, 2016. The carrying values of the SIDF are denominated in Saudi Riyals.

During the year ended December 31, 2016, the Company has restructured such borrowing facilities and finalized the restructuring agreements with its lender institution. The aggregate maturities of loan, based on their respective revised repayment schedules, are now spread in 2017 through 2020.

METHANOL CHEMICALS COMPANY**(A Saudi Joint Stock Company)****Notes to the financial statements for the year ended December 31, 2016**

(All amounts in Saudi Riyals unless otherwise stated)

13.2 Murabaha facilities

During 2007, the Company entered into an agreement with a syndicate of banks, namely, Arab Banking Corporation (B.S.C), Riyad Bank, Samba Financial Group, Saudi Hollandi Bank, National Commercial Bank and Saudi British Bank (collectively called as "Murabaha Facility Participants") to provide Murabaha Facilities Syndicate and Bilateral loans for financing of expansion projects. These loans bear financial charges based on prevailing market rates which are based on SIBOR.

The covenants of the above borrowing facilities require the Company to maintain certain level of financial conditions, limiting the dividends distribution and annual capital expenditure above certain limits and certain other matters. The carrying values of the long-term borrowings are denominated in Saudi Riyals.

During 2016, the Company restructured its short-term and long-term borrowings and finalized the restructuring agreements with its lender institutions. The aggregate maturities of these loans, based on their respective revised repayment schedules, are now spread in 2018 through 2022.

13.3 Maturity profile of long-term borrowings

	2016	2015
Years ending December 31:		
2016	-	322,756,000
2017	95,000,000	289,929,000
2018	172,769,050	100,000,000
2019	163,668,500	-
2020	195,502,750	-
2021	216,472,900	-
2022	178,271,800	-
	1,021,685,000	712,685,000

14 Employee termination benefits

	2016	2015
January 1	30,947,722	27,841,087
Provisions	5,442,647	4,985,765
Payments	(6,961,074)	(1,879,130)
December 31	29,429,295	30,947,722

15 Zakat**15.1 Significant components of zakat base**

Significant components of zakat base which are subject to changes under the GAZT regulations are as follows:

	2016	2015
Shareholders' equity at beginning of year	1,399,501,498	1,541,272,399
Adjusted net loss	(132,479,548)	(132,368,495)
Long-term borrowings	999,594,330	714,022,500
Property, plant and equipment, as adjusted	(2,014,173,767)	(2,159,114,700)
Other	69,066,466	40,793,768
Approximate zakat base	321,508,979	4,605,472

Zakat is payable at 2.5 percent of the approximate zakat base.

METHANOL CHEMICALS COMPANY**(A Saudi Joint Stock Company)****Notes to the financial statements for the year ended December 31, 2016**

(All amounts in Saudi Riyals unless otherwise stated)

15.2 Provision for zakat

	2016	2015
January 1	(4,480,625)	(2,800,000)
Charge (credit)	8,125,189	(1,680,625)
December 31	<u>3,644,564</u>	<u>(4,480,625)</u>

The zakat refundable as of December 31, 2015 has been included under 'Prepayments and other receivable'.

15.3 Status of zakat assessments and certificates

The Company has received the zakat assessments from the GAZT for the years through 2010. Zakat assessments for the years 2011 through 2015 are currently under review by the GAZT. The Company has obtained zakat certificates for the years through 2015.

16 Related parties matters

The Company has transactions with Yusuf Bin Ahmed Kanoo Group and Zamil Holding Group (collectively the "related parties"). Significant related party transactions included in the financial statements represent purchases and services from related parties amounting to Saudi Riyals 1.9 million for the year ended December 31, 2016 (2015: Saudi Riyals 2.4 million) and included under cost of sales and general and administrative expenses.

(i) Advances to related party

Advances to a related party at December 31, 2016 represent advances paid to BASF Services Europe GmbH for purchase of inventories amounting to Saudi Riyals 0.1 million (2015: Saudi Riyals 0.1 million) and are included in advances to suppliers under Note 8.

(ii) Due to related parties

	2016	2015
BASF Services Europe GmbH	264,417	-
Al-Zamil CoolCare	29,874	66,866
Al-Zamil For Air Conditioning and Refrig. Services	-	8,700
Yusuf Bin Ahmed Kanoo Co. Ltd.	-	122,297
	<u>294,291</u>	<u>197,863</u>

Due to related parties at December 31, 2016 and 2015 is included in accounts payable in the accompanying balance sheets.

17 Share capital

The share capital of the Company as of December 31, 2016 and 2015 comprised of 120.6 million 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 Kingdom of Saudi Arabia, prior to the new Regulations for Companies issued 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. This reserve currently is not available for distribution to the shareholders of the Company. No such transfer was made for 2016 and 2015 due to net loss for such years.

METHANOL CHEMICALS COMPANY**(A Saudi Joint Stock Company)****Notes to the financial statements for the year ended December 31, 2016**

(All amounts in Saudi Riyals unless otherwise stated)

19 Cost of sales

Cost of sales for the year ended December 31, 2016 include a reversal of excess accrual of Saudi Riyals 18.5 million as assessed by management upon reaching a final settlement with a supplier in December 2016. The Company had recorded an accrual of Saudi Riyals 20.0 million in 2015.

20 Selling and distribution expenses

	2016	2015
Salaries, wages and benefits	7,248,482	6,608,042
Freight charges	43,096,796	49,262,960
Sales commission	8,471,554	7,177,109
Storage charges	5,000,391	5,961,095
Other	4,567,238	4,594,347
	68,384,461	73,603,553

21 General and administrative expenses

	2016	2015
Salaries, wages and benefits	23,447,347	26,394,064
Depreciation	5,484,137	6,605,586
Repair and maintenance	3,127,801	2,936,895
Professional fees	5,389,315	6,168,926
Rent	587,729	654,622
Other	5,011,543	5,615,780
	43,047,872	48,375,873

22 Other, net

	2016	2015
Insurance recoveries	28,461,613	-
Property, plant and equipment written-off	-	(6,303,212)
Scrap sales	3,557,786	-
Other, net	(2,583,513)	(5,391,974)
	29,435,886	(11,695,186)

During the year ended December 31, 2016, the Company has recorded insurance recoveries of Saudi Riyals 28.5 million against a claim related to a fire incident that occurred at the Company's plant site in 2014. The Company has received the full amount of the insurance claim in cash during the year.

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

23 Reclassifications

Following 2015 comparative financial information have been reclassified to conform to 2016 presentation:

Balance sheet as of December 31, 2015

	Balance as previously reported	Reclassification	Balance after reclassification
Property, plant and equipment*	2,045,402,674	15,863,816	2,061,266,490
Inventories*	155,797,033	(15,863,816)	139,933,217

Income statement for year ended December 31, 2015

	Previously reported	Reclassification	After reclassification
Cost of sales and other*	720,351,178	(6,357,066)	713,994,112
Selling and distribution expenses	67,246,487	6,357,066	73,603,553

*See Note 24 in relation to restated amounts.

24 Restatement of comparative figures

During the year ended December 31, 2016, the Company has restated the comparative financial information for the year ended December 31, 2016 and as of that date to restate certain items of property, plant and equipment which were earlier classified as inventories and recording of related depreciation of such items. The consequential impact on the relevant accounts is summarized as follows:

Balance sheet

	Balance as of January 1, 2015 before restatement	Restatement	Balance as of January 1, 2015 after restatement
Retained earnings	218,303,635	(1,861,215)	216,442,420

	Balance as of December 31, 2015 before restatement	Restatement	Balance as of December 31, 2015 after restatement
Property, plant and equipment	2,061,266,490	7,096,941	2,068,363,431
Inventories	139,933,217	(9,507,276)	130,425,941
Retained earnings	78,943,069	(2,410,335)	76,532,734

Income statement

	Year ended December 31, 2015 before restatement	Restatement	Year ended December 31, 2015 after restatement
Cost of sales	713,994,112	549,120	714,543,232
Loss from operations	102,653,753	549,120	103,202,873
Net loss for the year	139,360,566	549,120	139,909,686

Loss per share (Saudi Riyals):

Loss from operations	0.86	-	0.86
Net loss for the year	1.16	-	1.16

METHANOL CHEMICALS COMPANY**(A Saudi Joint Stock Company)****Notes to the financial statements for the year ended December 31, 2016**

(All amounts in Saudi Riyals unless otherwise stated)

25 Operating leases

The Company has various operating lease arrangements for its land and storage tanks which generally have a lease term ranging from 10 to 30 years. Rental expense for the year ended December 31, 2016 amounted to Saudi Riyals 1.1 million (2015: Saudi Riyals 1.1 million). Future rental commitments under these operating leases at December 31 are as follows (Saudi Riyals):

	2016	2015
Years ending December 31:		
2016	-	1,096,529
2017	1,096,529	1,096,529
2018	1,096,529	1,096,529
2019	1,096,529	1,096,529
2020	1,096,529	1,096,529
2021	1,096,529	1,096,529
Thereafter	7,999,051	7,999,051
	13,481,696	14,578,225

26 Loss per share

Loss per share for the years ended December 31, 2016 and 2015 has been computed by dividing the loss from operations and net loss for such years by weighted average number of 120.6 million shares outstanding during such years.

27 Contingencies and commitments

- (i) At December 31, 2016, the Company was contingently liable for bank guarantees and letters of credit in the normal course of business amounting to Saudi Riyals 62.2 million and Saudi Riyals 4.6 million, respectively (2015: Saudi Riyals 59.7 million and Saudi Riyals 0.9 million, respectively).
- (ii) The capital expenditure contracted by the Company but not incurred till December 31, 2016 was approximately Saudi Riyals 15.4 million (2015: Saudi Riyals 10.3 million).