

**METHANOL CHEMICALS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**INTERIM CONDENSED FINANCIAL STATEMENTS**

**(UNAUDITED)**  
**31 MARCH 2015**



**KPMG Al Fozan & Al Sadhan**  
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License No. 46/11/323 issued 11/3/1992

## **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 31 March 2015, the related interim statement of income, the interim statement of cash flows, the interim statement of changes in equity for three months period ended 31 March 2015 and the attached condensed notes 1 to 6 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 review in accordance with the auditing standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A 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 and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express such an opinion.

### ***Conclusion:***

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

**For KPMG Al Fozan & Al Sadhan**

**Tareq Abdulrahman Al Sadhan**  
License No: 352



Al Khobar, 19 April 2015G  
Corresponding to: 30 Jumada Al Thani, 1436H

**METHANOL CHEMICALS COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**INTERIM BALANCE SHEET (UNAUDITED)**  
**AS AT 31 MARCH 2015**  
(Expressed in Saudi Arabian Riyals)

	Note	At 31 March 2015	At 31 March 2014
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and cash equivalents		116,127,851	132,855,958
Accounts receivable		194,241,003	229,446,682
Inventories		179,644,006	122,123,526
Prepayments and other current assets		36,803,477	27,328,397
<b>Total Current Assets</b>		<b>526,816,337</b>	<b>511,754,563</b>
<b>Non Current Assets:</b>			
Intangible assets		12,009,375	12,796,875
Property, plant and equipment		2,152,905,280	2,242,127,188
<b>Total Non Current Assets</b>		<b>2,164,914,655</b>	<b>2,254,924,063</b>
<b>Total Assets</b>		<b>2,691,730,992</b>	<b>2,766,678,626</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities:</b>			
Accounts payable		57,149,777	43,034,303
Short term loans		275,300,000	60,000,000
Current portion of term loans	3	222,976,504	218,658,504
Current portion of long term obligations		1,337,500	1,337,500
Accrued expenses and other current liabilities		39,098,773	33,619,302
Zakat provision		-	6,250,000
<b>Total Current Liabilities</b>		<b>595,862,554</b>	<b>362,899,609</b>
<b>Non Current Liabilities:</b>			
Term loans	3	540,564,132	763,540,637
Employees' end of service benefits		29,483,864	33,246,982
<b>Total Non Current Liabilities</b>		<b>570,047,996</b>	<b>796,787,619</b>
<b>Total Liabilities</b>		<b>1,165,910,550</b>	<b>1,159,687,228</b>
<b>Equity:</b>			
Share capital		1,206,000,000	1,206,000,000
Share premium		72,850,071	72,850,071
Statutory reserve		44,118,693	43,319,593
Retained earnings		202,851,678	284,821,734
<b>Total equity</b>		<b>1,525,820,442</b>	<b>1,606,991,398</b>
<b>Total Liabilities and Equity</b>		<b>2,691,730,992</b>	<b>2,766,678,626</b>

The Interim Financial statements appearing on pages 1 to 10 were approved by the management on behalf of Board of Directors of the Company on 19 April 2015, and have been signed on their behalf by:

  
Zeyad A. Al-Barrak  
Chief Financial Officer

  
Khalid Al Rabiah  
Chief Executive Officer

  
Sami Mohammed  
Board Member

The accompanying notes 1 through 6 form an integral part of these financial statements.

**METHANOL CHEMICALS COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**INTERIM STATEMENT OF INCOME (UNAUDITED)**  
**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2015**  
Expressed in Saudi Arabian Riyals

	Period from 1 January to 31 March	
	2015	2014
Sales	196,440,746	231,553,068
Cost of sales	(172,544,848)	(167,937,532)
Gross profit	23,895,898	63,615,536
Expenses:		
Selling and distribution	(16,795,313)	(17,979,344)
General and administration	(13,363,936)	(10,678,049)
	(30,159,249)	(28,657,393)
(Loss)/Income from operations	(6,263,351)	34,958,143
Other expenses, net	(684,362)	(100,296)
Financial charges	(7,304,244)	(9,397,681)
(Loss)/Income before Zakat	(14,251,957)	25,460,166
Zakat	(750,000)	(1,250,000)
Net (loss)/Income for the period	(15,001,957)	24,210,166
(Loss)/earnings per share	(0.12)	0.20

The accompanying notes 1 through 6 form an integral part of these financial statements.

**METHANOL CHEMICALS COMPANY**  
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**INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)**  
**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2015**  
(Expressed in Saudi Arabian Riyals)

	Period from 1 January to 31 March	
	2015	2014
<b>Cash flow operating activities:</b>		
Net (Loss)/income for the period	(15,001,957)	24,210,166
<i>Adjustment to reconcile net income to net cash provided by operating activities:</i>		
Depreciation	42,571,974	39,836,888
Amortisation	1,562,249	1,562,249
Employees' end of service benefits charge	1,905,160	2,056,680
Zakat charge	750,000	1,250,000
Gain from disposal of property, plant and equipment	(1,499)	-
	<u>31,785,927</u>	<u>68,915,983</u>
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable and prepayments and other current assets	18,102,876	15,229,511
Inventories	(16,918,045)	5,812,589
Accounts payable and accrued expenses and other current liabilities	(13,871,173)	(19,118,121)
Employees' end of service benefits paid	(262,383)	(240,509)
<b>Net cash provided by operating activities</b>	<u>18,837,202</u>	<u>70,599,453</u>
<b>Cash flow from investing activities:</b>		
Additions to property, plant and equipment	(21,083,552)	(16,789,286)
Proceeds from disposal of property, plant and equipment	1,499	-
<b>Net cash used in investing activities</b>	<u>(21,082,053)</u>	<u>(16,789,286)</u>
<b>Cash flow from financing activities:</b>		
Net movement in short term loans	68,058,862	-
<b>Net cash provided by financing activities</b>	<u>68,058,862</u>	<u>-</u>
<b>Net increase in cash and cash equivalents</b>	<u>65,814,011</u>	<u>53,810,167</u>
Cash and cash equivalents at the beginning of the period	<u>50,313,840</u>	<u>78,545,791</u>
<b>Cash and cash equivalent at the end of the period</b>	<u><u>116,127,851</u></u>	<u><u>132,355,958</u></u>

The accompanying notes 1 through 6 form an integral part of these financial statements.

**METHANOL CHEMICALS COMPANY**  
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**INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**  
**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2015**  
(Expressed in Saudi Arabian Riyals)

	Share capital	Share premium	Statutory reserve	Retained earnings	Total
Balance at 1 January 2014	1,206,000,000	72,850,071	40,898,576	263,482,585	1,583,231,232
Net income for the period	-	-	-	24,210,166	24,210,166
Directors' remuneration	-	-	-	(450,000)	(450,000)
Transfer to statutory reserve	-	-	2,421,017	(2,421,017)	-
Balance at 31 March 2014	1,206,000,000	72,850,071	43,319,593	284,821,734	1,606,991,398
Balance at 1 January 2015	1,206,000,000	72,850,071	44,118,693	218,303,635	1,541,272,399
Net loss for the period	-	-	-	(15,001,957)	(15,001,957)
Directors' remuneration	-	-	-	(450,000)	(450,000)
Balance at 31 March 2015	1,206,000,000	72,850,071	44,118,693	202,851,678	1,525,820,442



The accompanying notes 1 through 6 form an integral part of these financial statements.

**METHANOL CHEMICALS COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2015**  
(Expressed in Saudi Arabian Riyals)

**1. ACTIVITIES:**

Methanol Chemicals Company ("The Company" or "Chemanol") 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 28 June 2010, the testing phase of the new expansion projects (Methanol, Di-methylamine, and Penta plant) were completed and the commercial operations declared on the same date.

One of the company's plant caught fire during the quarter ended 30 September 2014. All the assets damaged due to fire incident with a net book value of SR 0.71 million were written off in the same quarter. The restoration work at the plant was completed in the quarter ended 31 March 2015. The Company has initiated the trial run of the plant to prepare for full scale commercial production to resume from April 2015. The company has filed a claim with the insurer for the damage cost due to fire. The insurer is in the process of evaluating the claim.

**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:**

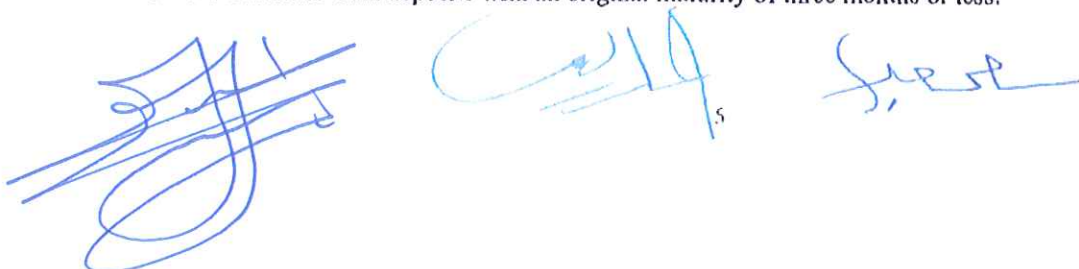
The interim financial statements are prepared under the historical cost convention.

**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.

**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.



**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2015**

(Expressed in Saudi Arabian Riyals)

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued):**

**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 attributable             | - Cost of direct materials and labour plus 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.

Saudi Industrial Development Fund ("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 statement of income. Improvements that increase the value or materially extend the life of the related assets are capitalized.

**Impairment of assets**

Financial assets, property, plant and equipment and other non-current assets are reviewed at each reporting date to determine whether there is any indication of impairment. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2015**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (continued):**

**Employees' terminal 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.

**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/(loss) per share:**

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

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2015**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (continued):**

**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.

**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.

**Comparative reclassification:**

Certain comparative figures have been reclassified to comply with the current year presentation of the financial statements.

**3. TERM LOANS:**

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 availment 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 years 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 i) the outstanding balance under the Project Murabaha Facility & the 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.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2015**

(Expressed in Saudi Arabian Riyals)

**3. TERM LOANS (Continued):**

As per the new Murabah 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 year from the balance sheet date are shown as current liabilities.

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 will be payable in 15 installments. The first installment was paid in January 2012 and the last installment is due on October 2018.

The term loans consist of the following:

	<u>31 March 2015</u>	<u>31 March 2014</u>
Project Murabaha Facility	322,245,000	431,365,000
Working Capital Murabaha Facility	75,000,000	105,000,000
SIDF loan	385,000,000	470,000,000
Less: Unamortized deferred charges	(18,704,364)	(24,165,859)
<b>Total</b>	<u>763,540,636</u>	<u>982,199,141</u>

Presented in the balance sheet as follows:

Current portion of term loans	222,976,504	218,658,504
Long term loans	540,564,132	763,540,637
<b>Total</b>	<u>763,540,636</u>	<u>982,199,141</u>

**4. ZAKAT:**

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

	<u>31 March 2015</u>	<u>31 March 2014</u>
For three months period	(750,000)	(1,250,000)
	<u>(750,000)</u>	<u>(1,250,000)</u>

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(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2015**

(Expressed in Saudi Arabian Riyals)

**4. ZAKAT (Continued):**

c) Provision for Zakat

The movement in provision for zakat during the three months period ended December 31 is as follows:

	<u>31 March 2015</u>	<u>31 March 2014</u>
Balance at the beginning of the period	(2,800,000)	5,000,000
Charge for the period, net	<u>750,000</u>	<u>1,250,000</u>
(Receivable)/Payable at end of the period	<u>(2,050,000)</u>	<u>6,250,000</u>

**5. CONTINGENCIES:**

The Company has received a notification from Power & Utility Company for Jubail and Yanbu ("Marafiq", Water utility provider to the Company) to pay additional charges for the unutilized capacity as per the Utility Supply Agreement for the years 2012, 2013 and 2014. The Company is disputing Marafiq's claim and is in dialogue with Marafiq to resolve this matter.

**6. 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 65% or SR 127 million of the sales of the Company for the period from 1 January to 31 March 2015 are through export (2014: 63% or SR 147 million).