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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 30 June 2012, the related interim statement of income, the interim statement of cash flows for the six months period ended on 30 June 2012 and the attached condensed notes 1 to 4 which form an integral part of these interim condensed financial statements. These interim condensed financial statements are the responsibility of the Company's management and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

We conducted our 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



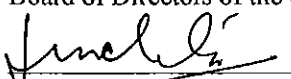
Al Khobar, 7 July 2012
Corresponding to: 17 Shabaan 1433H

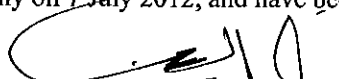
METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)


INTERIM BALANCE SHEET (UNAUDITED)
AS AT 30 JUNE 2012
(Expressed in Saudi Arabian Riyals)

	<u>Note</u>	<u>At 30 June 2012</u>	<u>At 30 June 2011</u>
ASSETS			
Current Assets:			
Cash and cash equivalents		162,780,450	90,652,336
Margin deposits with bank		500,000	500,000
Accounts receivable and prepayments		324,179,640	243,677,220
Inventories		106,289,437	99,055,771
Total Current Assets		593,749,527	433,885,327
Non Current Assets:			
Intangible assets		14,175,000	14,962,500
Deferred charges		3,245,860	6,218,724
Long term prepaid expenses		33,239,699	39,851,468
Property, plant and equipment		2,409,223,384	2,528,646,719
Total Non Current Assets		2,459,883,943	2,589,679,411
Total Assets		3,053,633,470	3,023,564,738
LIABILITIES AND EQUITY			
Current Liabilities:			
Accounts payable and accruals		92,972,384	87,750,263
Short term loans		50,000,000	35,000,000
Current portion of term loans	3	165,020,000	93,430,000
Current portion of long term obligations		5,250,000	5,250,000
Zakat provision		5,001,401	2,996,440
Total Current Liabilities		318,243,785	224,426,703
Non Current Liabilities:			
Term loans	3	1,173,550,000	1,338,570,000
Long term obligations		462,500	5,712,500
Employees' end of service benefits		27,682,493	20,601,943
Total Non Current Liabilities		1,201,694,993	1,364,884,443
Total Liabilities		1,519,938,778	1,589,311,146
Equity:			
Share capital		1,206,000,000	1,206,000,000
Share premium		72,850,071	72,850,071
Statutory reserve		29,651,977	19,547,788
Retained earnings		225,192,644	135,855,733
Total equity		1,533,694,692	1,434,253,592
Total Liabilities and Equity		3,053,633,470	3,023,564,738

The Interim Financial Statements appearing on pages 1 to 8 were approved by the management on behalf of Board of Directors of the Company on 7 July 2012, and have been signed on their behalf by:


Jitendra Mehta
Financial Controller


عبدالله بن خالد الرابح
Chief Executive Officer


Khalid Al Rabiah
Chief Executive Officer

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

METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM STATEMENT OF INCOME (UNAUDITED)
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2012
(Expressed in Saudi Arabian Riyals)

	Period from 1 April to 30 June		Period from 1 January to 30 June	
	2012	2011	2012	2011
Sales	237,931,363	197,402,812	473,354,771	389,829,992
Cost of Sales	(175,129,144)	(154,911,377)	(348,616,702)	(306,019,668)
Gross Profit	62,802,219	42,491,435	124,738,069	83,810,324
Expenses:				
Selling and distribution	(17,912,976)	(15,923,192)	(36,298,675)	(31,541,086)
General and administration	(6,555,162)	(4,330,785)	(12,408,894)	(8,808,336)
Amortization of deferred charges	(738,816)	(738,816)	(1,477,632)	(1,477,633)
	(25,206,954)	(20,992,793)	(50,185,201)	(41,827,055)
Income from operations	37,595,265	21,498,642	74,552,868	41,983,269
Other income, net	463,384	1,147,227	819,026	1,838,458
Financial charges	(9,729,513)	(11,046,817)	(19,290,258)	(21,570,016)
Income before Zakat	28,329,136	11,599,052	56,081,636	22,251,711
Zakat	(2,500,000)	(1,000,000)	(5,000,000)	(2,000,000)
Net income for the period	25,829,136	10,599,052	51,081,636	20,251,711
Earnings per share	0.21	0.09	0.42	0.17

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

METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2012
(Expressed in Saudi Arabian Riyals)

	Period from 1 January 2012 to 30 June 2012	Period from 1 January 2011 to 30 June 2011
Cash flow operating activities:		
Net income for the period	51,081,636	20,251,711
<i>Adjustment to reconcile net income to net cash provided by operating activities:</i>		
Depreciation	76,712,639	75,986,579
Amortisation	1,888,982	2,265,132
Employees' end of service benefits, net	3,576,215	(672,262)
Zakat charge	5,000,000	2,000,000
Profit on disposal of plant and equipment	(235,520)	(385,933)
	<u>138,023,952</u>	<u>99,445,227</u>
Changes in operating assets and liabilities:		
Accounts receivable and prepayments	(57,251,155)	(25,020,065)
Inventories	11,170,858	(15,813,289)
Accounts payable and accruals	9,986,948	(19,061,181)
Net movement in long term obligation	(2,625,000)	(2,187,500)
Zakat paid	(3,995,039)	(3,583,418)
Net cash provided by operating activities	<u>95,310,564</u>	<u>33,779,774</u>
Cash flow from investing activities:		
Purchase of property, plant and equipment	(20,818,149)	(5,860,958)
Proceeds on sale of property, plant and equipment	262,266	495,976
Net movement in amounts due to project contractors	-	(53,131,069)
Net movement in long term prepaid expenses	3,305,885	(7,976,476)
Net cash used in investing activities	<u>(17,249,998)</u>	<u>(66,472,527)</u>
Cash flow from financing activities:		
Net movement in short term loans	10,000,000	(6,606,587)
Net movement in long term loans	(47,395,000)	(6,217,834)
Net cash used in financing activities	<u>(37,395,000)</u>	<u>(12,824,421)</u>
Net decrease in cash and cash equivalents	<u>40,665,566</u>	<u>(45,517,174)</u>
Cash and cash equivalents at the beginning of the period	<u>122,114,884</u>	<u>136,169,510</u>
Cash and cash equivalent at the end of the period	<u>162,780,450</u>	<u>90,652,336</u>

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

METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
AS AT 30 JUNE 2012

(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 arithereol, 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.

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.

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. |



METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
AS AT 30 JUNE 2012

(Expressed in Saudi Arabian Riyals)

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

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.

Employees' terminal benefits:

Employees' end of service benefits, calculated in accordance with Saudi Arabian labor 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.



5 

METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
AS AT 30 JUNE 2012
(Expressed in Saudi Arabian Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

Share premium:

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

Sales:

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

Foreign currencies:

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

Expenses:

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

Zakat:

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

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

Earnings per share:

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

METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
AS AT 30 JUNE 2012
(Expressed in Saudi Arabian Riyals)

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.

Adjustments related to the period:

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

3. 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.

METHANOL CHEMICALS COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
AS AT 30 JUNE 2012

(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 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>30 June 2012</u>	<u>30 June 2011</u>
Project Murabaha Facility	603,570,000	682,000,000
Working Capital Murabaha Facility	150,000,000	150,000,000
SIDF loan	585,000,000	600,000,000
Total	<u>1,338,570,000</u>	<u>1,432,000,000</u>

Presented in the balance sheet as follows:

Current portion of term loans	165,020,000	93,430,000
Long term loans	1,173,550,000	1,338,570,000
Total	<u>1,338,570,000</u>	<u>1,432,000,000</u>

4. SEGMENTAL REPORTING:

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

Because the management views the whole activities of the Company as one segment, reporting is provided by geographical segment only. Approximately 67% or SR 158.96 million of the sales of the Company for the period from 1 January 2012 to 30 June 2012 are through export (2011: 68% or SR 134.23 million).