

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)

CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2018
AND REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)
CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2018

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Report on review of interim financial information

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

Introduction

We have reviewed the accompanying condensed interim statement of financial position of Methanol Chemicals Company (the "Company") as of 30 September 2018 and the related condensed statement of profit or loss and other comprehensive income for the three-month and nine-month periods then ended and the condensed statements of changes in equity and cash flows for the nine-month period ended 30 September 2018 and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with International Accounting Standard 34 - "Interim Financial Reporting" ("IAS 34"), as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity", as endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, as endorsed in the Kingdom of Saudi Arabia, 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 an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with IAS 34, as endorsed in the Kingdom of Saudi Arabia.

PricewaterhouseCoopers



Ali A. Alotaibi
License Number 379

25 October 2018



METHANOL CHEMICALS COMPANY

(A Saudi Joint Stock Company)

Condensed interim statement of profit or loss and other comprehensive income (Unaudited)

(All amounts in Saudi Riyals unless otherwise stated)

		For the three-month period ended 30 September		For the nine-month period ended 30 September	
	Note	2018	2017	2018	2017
Revenue	1	187,221,430	167,789,853	540,101,032	523,012,798
Cost of sales		(127,084,727)	(134,559,992)	(385,611,751)	(417,886,541)
Gross profit		60,136,703	33,229,861	154,489,281	105,126,257
Selling and distribution expenses		(15,336,760)	(22,135,824)	(45,163,278)	(73,310,915)
General and administrative expenses		(9,145,299)	(7,928,513)	(30,016,507)	(25,852,160)
Other operating income (expenses) - net		258,772	(1,281,176)	(880,047)	17,452,564
Operating profit		35,913,416	1,884,348	78,429,449	23,415,746
Financial costs		(10,687,066)	(11,124,202)	(30,963,892)	(33,349,566)
Financial income		577,253	585,222	2,108,597	785,282
Financial costs - net		(10,109,813)	(10,538,980)	(28,855,295)	(32,564,284)
Profit (loss) before zakat		25,803,603	(8,654,632)	49,574,154	(9,148,538)
Zakat expense		(3,350,000)	(1,250,000)	(5,750,000)	(3,750,000)
Profit (loss) for the period		22,453,603	(9,904,632)	43,824,154	(12,898,538)
Other comprehensive income for the period		-	-	-	-
Total comprehensive income (loss) for the period		22,453,603	(9,904,632)	43,824,154	(12,898,538)
Earnings (loss) per share (Saudi Riyals):					
Basic and diluted	7	0.19	(0.08)	0.36	(0.11)

The accompanying notes are an integral part of this condensed interim financial information.

The condensed interim financial information including notes and other explanatory information were approved and authorized for issue by the Board of Directors on 25 October 2018 and were signed on their behalf by:


Khalid Sulaiman Al Obeid
Finance Director



Saud Abdullah Al Sanea
Chief Executive Officer


Abdullah Al Sanea
Chairman

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)
Condensed interim statement of financial position
(All amounts in Saudi Riyals unless otherwise stated)

	Note	As at 30 September 2018 (Unaudited)	As at 31 December 2017 (Audited)
Assets			
Non-current assets			
Property, plant and equipment		1,667,791,235	1,715,158,354
Intangible assets		12,162,828	16,514,176
Total non-current assets		1,679,954,063	1,731,672,530
Current assets			
Inventories		113,771,654	113,968,088
Trade and other receivables		201,099,637	170,325,659
Cash and cash equivalents		172,471,042	241,101,643
Total current assets		487,342,333	525,395,390
Total assets		2,167,296,396	2,257,067,920
Equity and liabilities			
Equity			
Share capital		1,206,000,000	1,206,000,000
Share premium		72,850,071	72,850,071
Statutory reserve		44,118,693	44,118,693
Accumulated deficit		(183,727,235)	(227,551,389)
Total equity		1,139,241,529	1,095,417,375
Liabilities			
Non-current liabilities			
Long-term borrowings	5	766,370,448	840,842,224
Employee benefit obligations		39,956,975	39,477,475
Total non-current liabilities		806,327,423	880,319,699
Current liabilities			
Trade and other payables		87,843,752	89,242,890
Current portion of long-term borrowings	5	129,301,485	183,763,588
Zakat payable		4,582,207	8,324,368
Total current liabilities		221,727,444	281,330,846
Total liabilities		1,028,054,867	1,161,650,545
Total equity and liabilities		2,167,296,396	2,257,067,920

The accompanying notes are an integral part of this condensed interim financial information.


Khalid Sulaiman Al Obeid
Finance Director


Saud Abdullah Al Sanea
Chief Executive Officer


Abdullah Al Sanea
Chairman

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)
Condensed interim statement of changes in equity
(All amounts in Saudi Riyals unless otherwise stated)

	Share capital	Share premium	Statutory reserve	Accumulated deficit	Total
At 1 January 2017 (Audited)	1,206,000,000	72,850,071	44,118,693	(201,281,029)	1,121,687,735
Loss for the period	-	-	-	(12,898,538)	(12,898,538)
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	(12,898,538)	(12,898,538)
At 30 September 2017 (Unaudited)	1,206,000,000	72,850,071	44,118,693	(214,179,567)	1,108,789,197
At 1 January 2018 (Audited)	1,206,000,000	72,850,071	44,118,693	(227,551,389)	1,095,417,375
Profit for the period	-	-	-	43,824,154	43,824,154
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	-	43,824,154	43,824,154
At 30 September 2018 (Unaudited)	1,206,000,000	72,850,071	44,118,693	(183,727,235)	1,139,241,529

The accompanying notes are an integral part of this condensed interim financial information.


Khalid Sulaiman Al Obeld
Finance Director


Saud Abdullah Al Sanea
Chief Executive Officer


Abdullah Al Sanea
Chairman

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)
Condensed interim statement of cash flows
 (All amounts in Saudi Riyals unless otherwise stated)

	For the nine-month period ended 30 September	
	2018 (Unaudited)	2017 (Unaudited)
Cash flows from operating activities		
Profit (loss) before zakat	49,574,154	(9,148,538)
<u>Adjustments for</u>		
Depreciation and amortization	97,078,785	91,957,793
(Gain) loss on disposal of property and equipment	(109,347)	497,167
Financial costs - net	26,042,251	29,632,605
Provision for employee benefit obligations	479,500	4,481,403
<u>Changes in operating assets and liabilities:</u>		
Decrease in inventories	196,432	9,640,538
Increase in trade and other receivables	(30,773,976)	(9,176,385)
Decrease in trade and other payables	(7,487,460)	(30,391,019)
Cash generated from operations	135,000,339	87,493,564
Financial costs paid on borrowings	(32,128,719)	(45,442,550)
Financial income received on short-term deposits	2,108,597	785,282
Zakat paid	(9,492,161)	(320,196)
Net cash inflow from operating activities	95,488,056	42,516,100
Cash flows from investing activities		
Payments for purchase of property, plant and equipment	(36,529,877)	(29,969,812)
Proceeds from disposal of property, plant and equipment	180,270	3,771
Net cash outflow from investing activities	(36,349,607)	(29,966,041)
Cash flows from financing activity		
Repayments of long-term borrowings	(127,769,050)	-
Net change in cash and cash equivalents	(68,630,601)	12,550,059
Cash and cash equivalents at beginning of period	241,101,643	221,847,020
Cash and cash equivalents at end of period	172,471,042	234,397,079

The accompanying notes are an integral part of this condensed interim financial information.


 Khalid Sulaiman Al Obeid
 Finance Director


 Saud Abdullah Al Sanea
 Chief Executive Officer


 Abdullah Al Sanea
 Chairman

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)
Notes to the condensed interim financial information (Unaudited)
For the three-month and nine-month periods ended 30 September 2018
(All amounts in Saudi Riyals unless otherwise stated)

1 General information

Methanol Chemicals Company (the "Company" or "Chemanol") is engaged 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.

The Company is a joint stock company registered in the Kingdom of Saudi Arabia and operating under Commercial Registration (CR) No. 2050057828 issued in Dammam on 30 Dhu al-Hijjah 1428 H (9 January 2008). The accompanying condensed interim financial information include the accounts of the Company and its branch registered in Jubail under CR No. 2055001870 dated 28 Dhu al-Hijjah 1409 H (1 August 1989). The registered address of the Company is P.O. Box 2101, Jubail 31951, Kingdom of Saudi Arabia.

During the nine-month period ended 30 September 2018, the Company shut down certain of its plants for scheduled periodic maintenance for a period of twenty one days. The Company incurred turnaround and related costs of Saudi Riyals 33.0 million related to such maintenance which were capitalized under property, plant and equipment in 2018 in the accompanying condensed interim financial information.

2 Accounting policies

The principal accounting policies applied in the preparation of condensed interim financial information of the Company are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

2.1 Basis of preparation

This condensed interim financial information of the Company has been prepared in compliance with IAS 34 "Interim Financial Reporting" ("IAS 34") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

The condensed interim financial information does not include all the information and disclosures required in the annual financial statements. Accordingly, this condensed interim financial information is to be read in conjunction with the annual financial statements for the year ended 31 December 2017.

2.2 Standards issued but not yet effective

IFRS 16, 'Leases' was issued in January 2016. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The standard is mandatory for the Company's accounting periods beginning on and subsequent to 1 January 2019, and has not been early adopted by the Company. The Company intends to apply the simplified transition approach and will not restate the comparative amounts for the year prior to first adoption. The Company is yet to evaluate the impact of the standard.

There are no other relevant International Financial Reporting Standards ("IFRS") or IFRS Interpretations Committee interpretations that are not yet effective that would be expected to have a material impact on the Company's condensed interim financial information.

2.3 New and amended standards adopted by the Company

A number of new or amended standards became applicable for the current reporting period and the Company had to change its accounting policies as a result of adopting the following standards:

- a) IFRS 9 'Financial Instruments' ("IFRS 9"); and
- b) IFRS 15 'Revenue from Contracts with Customers' ("IFRS 15").

The impact of the adoption of these standards and the new accounting policies was not material and hence did not require retrospective adjustments.

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 (All amounts in Saudi Riyals unless otherwise stated)

2.4 Changes in accounting policies

2.4.1 IFRS 9

(i) Classification

From 1 January 2018, the Company's financial assets are classified and measured at amortised cost as such assets are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest.

(ii) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Subsequent measurement of Company's financial assets are at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss. Impairment losses are presented under "General and administrative expenses" in the statement of profit or loss and other comprehensive income.

(iii) Impairment

From 1 January 2018, the Company assesses on a forward looking basis the expected credit losses associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Company's financial assets and financial liabilities as at 1 January 2018:

	New classification under IFRS 9 1 January 2018	Original classification under IAS 39 31 December 2017
Financial assets		
Trade and other receivables	Amortised cost	Amortised cost
Cash and cash equivalents	Amortised cost	Amortised cost
Financial liabilities		
Long-term borrowings	Amortised cost	Amortised cost
Trade and other payables	Amortised cost	Amortised cost

2.4.2 IFRS 15

Revenue from sale of goods is measured at the fair value of the consideration received or receivable in the ordinary course of the Company's activities. The Company recognizes revenue when control of the goods has transferred, being when the products are delivered to the customer, the customer has full discretion over the use or sale of such goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location as per the terms of the contract, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

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(All amounts in Saudi Riyals unless otherwise stated)

3 Fair value of financial assets and financial liabilities

As at 30 September 2018 and 31 December 2017, the fair values of the Company's financial instruments are estimated to approximate their carrying values since the financial instruments are short term in nature, carry interest rates which are based on prevailing market interest rates and are expected to be realized at their current carrying values within twelve months from the date of statement of financial position. The fair values of the non-current financial liabilities are estimated to approximate their carrying values as these carry interest rates which are based on prevailing market interest rates.

4 Critical accounting estimates and judgements

The preparation of condensed interim financial information in conformity with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, requires the use of certain critical estimates and judgments 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 judgements 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 judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. There are no significant changes in critical accounting estimates and judgements used by management in the preparation of the condensed interim financial information from those that were applied and disclosed in the annual financial statements for the year ended 31 December 2017.

5 Long-term borrowings

	30 September 2018	31 December 2017
Saudi Industrial Development Fund ("SIDF")	340,000,000	385,000,000
Murabaha Facilities-Syndicate loans	285,085,950	327,685,000
Murabaha Facilities-Bilateral loans	268,830,000	309,000,000
	<u>893,915,950</u>	<u>1,021,685,000</u>
Accrued financial costs	10,640,979	14,618,848
	<u>904,556,929</u>	<u>1,036,303,848</u>
Less unamortized transaction costs related to:		
SIDF	(1,683,247)	(2,679,913)
Murabaha Facilities-Syndicate loans	(3,919,394)	(4,919,256)
Murabaha Facilities-Bilateral loans	(3,282,355)	(4,098,867)
	<u>(8,884,996)</u>	<u>(11,698,036)</u>
	<u>895,671,933</u>	<u>1,024,605,812</u>

Long-term borrowings are presented as follows:

Long-term borrowings	766,370,448	840,842,224
Current maturity shown under current liabilities	129,301,485	183,763,588
	<u>895,671,933</u>	<u>1,024,605,812</u>

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(All amounts in Saudi Riyals unless otherwise stated)

Movements in unamortized transaction costs are as follows:

	30 September 2018	31 December 2017
Balance at beginning of period / year	11,698,036	15,634,478
Less: amortization	(2,813,040)	(3,936,442)
Balance at end of period / year	8,884,996	11,698,036
Related to:		
Shown under long-term borrowings	5,711,251	8,073,726
Current maturity shown under current liabilities	3,173,745	3,624,310
	8,884,996	11,698,036

5.1 SIDF loan

The loan agreement 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 borrowing facility 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. As at 30 September 2018, the Company was in compliance with these covenants. The loan is secured by mortgage of the property, plant and equipment of the Company at 30 September 2018 having carrying value of Saudi Riyals 1.7 billion. The carrying values of the SIDF loan are denominated in Saudi Riyals.

During the year ended 31 December 2016, the Company restructured the SIDF loan and finalized the restructuring agreement with SIDF. The maturity of the loan, based on the revised repayment schedule, was spread in 2017 through 2020. The restructuring did not result in substantial modification of the terms of the loan agreement.

During the year ended 31 December 2017, the Company further restructured the SIDF loan and finalized the restructuring agreement with SIDF. The aggregate maturity of the loan, based on the revised repayment schedule, is now spread in 2018 through 2021. The restructuring did not result in substantial modification of the terms of the loan agreement.

During the nine-month period ended 30 September 2018, the Company repaid Saudi Riyals 45.0 million of the principal amount against the outstanding balance.

5.2 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 and Syndicate and Bilateral loans for financing of expansion projects. These loans bear financial charges based on prevailing market rates which are based on Saudi inter-bank offer rates.

The covenants of the 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. As at 30 September 2018, the Company was in compliance with these covenants. The carrying values of such 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. The restructuring did not result in substantial modification of the terms of the loan agreements.

During the nine-month period ended 30 September 2018, the Company repaid Saudi Riyals 82.8 million of the principal amount against the outstanding balance.

METHANOL CHEMICALS COMPANY
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(All amounts in Saudi Riyals unless otherwise stated)

6 Related party transactions

Related parties comprise the shareholders, directors, associated companies and key management personnel. Related parties also include business entities in which certain directors or senior management have an interest ("other related parties").

(a) Following are the significant transactions entered into by the Company:

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2018	2017	2018	2017
Purchases from other related parties	16,875	1,494,661	1,221,834	2,151,593
Costs and expenses charged by other related parties	44,306	207,618	321,376	661,834

(b) Key management personnel compensation:

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2018	2017	2018	2017
Salaries and other short-term employee benefits	1,470,931	1,422,021	5,122,250	4,757,101
Employee benefit obligations	118,999	44,631	210,765	153,994

7 Basic and diluted earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing the profit (loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period. As the Company does not have any dilutive potential shares, the diluted earnings (loss) per share is the same as the basic earnings (loss) per share.

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2018	2017	2018	2017
Profit (loss) for the period	22,453,603	(9,904,632)	43,824,154	(12,898,538)
Weighted average number of ordinary shares for basic and diluted earnings (loss) per share	120,600,000	120,600,000	120,600,000	120,600,000
Earnings (loss) per share	0.19	(0.08)	0.36	(0.11)

8 Contingencies and commitments

- (i) At 30 September 2018, the Company was contingently liable for bank guarantees and letters of credit issued in the normal course of business amounting to Saudi Riyals 57.2 million and Saudi Riyals 0.9 million, respectively (31 December 2017: Saudi Riyals 61.2 million and Saudi Riyals 1.0 million).
- (ii) The capital expenditure contracted by the Company but not incurred till 30 September 2018 was approximately Saudi Riyals 17.8 million (31 December 2017: Saudi Riyals 28.7 million).