

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)

CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2019
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 PERIOD ENDED 31 MARCH 2019

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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 31 March 2019 and the related condensed statements of comprehensive income, changes in equity and cash flows for the three-month period then ended 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

8 May 2019



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

	For the three-month period ended 31 March	
	2019	2018
	(Unaudited)	(Unaudited)
Revenue	154,858,271	157,174,412
Cost of sales	(117,569,482)	(132,359,941)
Gross profit	37,288,789	24,814,471
Selling and distribution expenses	(13,738,116)	(14,251,469)
General and administrative expenses	(9,852,514)	(10,050,057)
Other operating costs - net	(2,805,493)	(567,993)
Operating profit (loss)	10,892,666	(55,048)
Financial costs	(11,053,371)	(10,527,158)
Financial income	949,416	1,074,066
Financial costs - net	(10,103,955)	(9,453,092)
Profit (loss) before zakat	788,711	(9,508,140)
Zakat expense	(1,100,000)	(750,000)
Loss for the period	(311,289)	(10,258,140)
Other comprehensive loss		
<i>Items that will not be reclassified to profit or loss</i>		
Remeasurements of employee benefit obligations	(266,561)	-
Other comprehensive loss for the period	(266,561)	-
Total comprehensive loss for the period	(577,850)	(10,258,140)
Loss per share (Saudi Riyals)		
Basic and diluted	8 (0.00)	(0.09)

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

The condensed interim financial information including notes and other explanatory information was approved and authorized for issue by the Board of Directors on 8 May 2019 and was signed on their behalf by:


Khalid Sulaiman Al Obied
Chief Financial Officer



Saud Abdullah Al Sanea
Chief Executive Officer

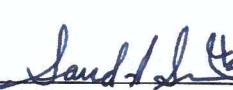

Abdullah Al Sanea
Chairman

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 31 March 2019 (Unaudited)	As at 31 December 2018 (Audited)
Assets			
Non-current assets			
Property, plant and equipment		1,623,381,084	1,646,052,549
Right-of-use assets		30,712,008	-
Intangible assets		10,343,204	10,828,167
Total non-current assets		1,664,436,296	1,656,880,716
Current assets			
Inventories		106,841,111	118,231,188
Trade and other receivables		162,619,515	162,792,119
Short-term murabaha deposits		25,000,000	63,000,000
Cash and cash equivalents		136,174,821	119,823,733
Total current assets		430,635,447	463,847,040
Total assets		2,095,071,743	2,120,727,756
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		(182,499,046)	(181,921,196)
Net equity		1,140,469,718	1,141,047,568
Liabilities			
Non-current liabilities			
Long-term borrowings	6	685,705,951	685,359,324
Lease liabilities		27,903,971	-
Employee benefit obligations		42,523,688	41,085,887
Total non-current liabilities		756,133,610	726,445,211
Current liabilities			
Trade and other payables		79,784,102	87,643,360
Current portion of long-term borrowings	6	109,207,390	157,613,395
Lease liabilities		398,701	-
Zakat payable		9,078,222	7,978,222
Total current liabilities		198,468,415	253,234,977
Total liabilities		954,602,025	979,680,188
Total equity and liabilities		2,095,071,743	2,120,727,756

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


Khalid Sulaiman Al Obeld
Chief Financial Officer



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 2018 (Audited)	1,206,000,000	72,850,071	44,118,693	(227,551,389)	1,095,417,375
Loss for the period	-	-	-	(10,258,140)	(10,258,140)
Other comprehensive loss for the period	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	(10,258,140)	(10,258,140)
At 31 March 2018 (Unaudited)	1,206,000,000	72,850,071	44,118,693	(237,809,529)	1,085,159,235
At 1 January 2019 (Audited)	1,206,000,000	72,850,071	44,118,693	(181,921,196)	1,141,047,568
Loss for the period	-	-	-	(311,289)	(311,289)
Other comprehensive loss for the period	-	-	-	(266,561)	(266,561)
Total comprehensive loss for the period	-	-	-	(577,850)	(577,850)
At 31 March 2019 (Unaudited)	1,206,000,000	72,850,071	44,118,693	(182,499,046)	1,140,469,718

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


Khalid Sulaiman Al Obeid
Chief Financial Officer



Saud Abdullah Al Sanea
Chief Executive Officer



Abdullah Al Sanea
Chairman

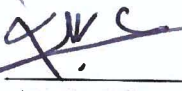
METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)
Condensed interim statement of cash flows
(All amounts in Saudi Riyals unless otherwise stated)

Note	For the three-month period ended 31 March	
	2019 (Unaudited)	2018 (Unaudited)
Cash flows from operating activities		
Profit (loss) before zakat	788,711	(9,508,140)
<u>Adjustments for:</u>		
Depreciation and amortization	30,289,097	29,994,206
(Loss) gain on disposal of property and equipment	52,483	(69,914)
Financial costs - net	10,103,955	9,453,092
Provision for employee benefit obligations	1,171,240	(1,291,248)
<u>Changes in operating assets and liabilities:</u>		
Decrease in inventories	11,390,077	16,330,949
Increase in trade and other receivables	(1,571,701)	(2,775,772)
(Decrease) increase in trade and other payables	(7,859,255)	21,470,959
Cash generated from operations	44,364,607	63,604,132
Financial costs paid on borrowings	(425,459)	(19,224,272)
Financial income received on short-term deposits	981,048	978,379
Net cash inflow from operating activities	44,920,196	45,358,239
Cash flows from investing activities		
Payments for purchase of property, plant and equipment	(6,749,672)	(36,703,744)
Proceeds from disposal of property, plant and equipment	-	69,916
Redemption of short-term deposits	38,000,000	-
Net cash inflow (outflow) from investing activities	31,250,328	(36,633,828)
Cash flows from financing activities		
Repayments of long-term borrowings	(58,668,500)	(76,269,050)
Repayments of lease liabilities	(1,150,936)	-
Cash outflow from financing activities	(59,819,436)	(76,269,050)
Net change in cash and cash equivalents	16,351,088	(67,544,639)
Cash and cash equivalents at beginning of period	119,823,733	241,101,643
Cash and cash equivalents at end of period	136,174,821	173,557,004
Non-cash operating, investing and financing activities:		
Right-of-use assets recorded against lease liabilities	3 31,147,486	-
Prepaid lease rentals adjusted against lease liabilities	1,712,667	-

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


Khalid Sulaiman Al Obeid
Chief Financial Officer


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 period ended 31 March 2019
(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.

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 IFRS 16 'Leases' ("IFRS 16").

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 2018.

2.2 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 IFRS 16. The impact of adoption of IFRS 16 is disclosed in Note 3 below. The other standards or amendments did not have any impact on the Company's accounting policies and did not require retrospective adjustments.

3 Transition to IFRS 16

a) Transition approach and impact

The Company has adopted IFRS 16 from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in IFRS 16. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the statement of financial position on 1 January 2019.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6.5%.

The change in accounting policy resulted in right-of-use assets and lease liabilities amounting to Saudi Riyals 31.1 million being recognized in the statement of financial position on 1 January 2019.

b) Change in accounting policy

Until 2018, all leases of the Company were assessed to be operating leases and payments made under such leases were charged to profit or loss on a straight-line basis over the period of the lease.

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Starting 1 January 2019, leases are recognized as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed lease payments. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- i. the amount of initial measurement of lease liability;
- ii. any lease payments made at or before the commencement date less any lease incentives received;
- iii. any initial direct costs; and
- iv. any restoration costs.

Right-of-use assets are subsequently measured at cost less accumulated depreciation.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise office equipment and certain storage tanks.

c) Reconciliation of operating lease commitments disclosed as at 31 December 2018 and lease liability recognized as at 1 January 2019 is as follows:

	Saudi Riyals
Operating lease commitments disclosed as at 31 December 2018	16,423,810
Add: adjustments as a result of a different treatment of extension options	41,833,695
Discounted using the Company's incremental borrowing rate at the date of initial application	<u>(27,110,019)</u>
Lease liability recognized as at 1 January 2019	<u>31,147,486</u>
Of which are:	
Current lease liabilities	2,032,207
Non-current lease liabilities	<u>29,115,279</u>
	<u>31,147,486</u>

d) Right-of-use assets

The recognized right-of-use assets relate to lease arrangements related to parcels of land, warehouse facilities and certain storage tanks. The associated right-of-use assets for all leases were measured at the amount equal to the lease liability after adjusting for prepaid or accrued lease payments relating to such leases recognized in the statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The right-of-use assets relate to the following type of assets:

	Saudi Riyals
Land	29,483,659
Warehouses and storage tanks	<u>1,663,827</u>
	<u>31,147,486</u>

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Lease terms for such right-of-use assets are negotiated on an individual basis and contain a wide range of different terms and conditions.

e) Practical expedients

At transition to IFRS 16, the Company has used the following practical expedients as allowed under IFRS 16:

- i. the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- ii. reliance on previous assessments on whether leases are onerous;
- iii. the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- iv. the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- v. The Company has also elected not to reassess whether a contract is, or contains a lease at the date of transition to IFRS 16. Instead, for contracts entered into before the transition date the Company relied on its assessments made under the previously applicable accounting standards.

f) Lease term

Rental contracts are typically made for fixed periods but may have extension options. Extension options are used to maximize operational flexibility in terms of managing contracts. The majority of extension options held are exercisable only by mutual agreement of the Company and the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

4 Fair value of assets and liabilities

As at 31 March 2019 and 31 December 2018, 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.

5 Critical accounting estimates and judgements

The preparation of condensed interim financial information in conformity with International Financial Reporting Standards ("IFRS"), that are 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 2018.

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)
Notes to the condensed interim financial information (Unaudited)
For the three-month period ended 31 March 2019
(All amounts in Saudi Riyals unless otherwise stated)

6 Long-term borrowings

	31 March 2019	31 December 2018
Saudi Industrial Development Fund ("SIDF")	295,000,000	295,000,000
Murabaha Facilities-Syndicate loans	252,317,450	285,085,950
Murabaha Facilities-Bilateral loans	242,930,000	268,830,000
	790,247,450	848,915,950
Accrued financial costs	12,403,847	2,141,352
	802,651,297	851,057,302
Less unamortized transaction costs related to:		
SIDF	(1,224,552)	(1,473,071)
Murabaha Facilities-Syndicate loans	(3,535,409)	(3,594,432)
Murabaha Facilities-Bilateral loans	(2,977,995)	(3,017,080)
	(7,737,956)	(8,084,583)
	794,913,341	842,972,719

Long-term borrowings are presented as follows:

Long-term borrowings	685,705,951	685,359,324
Current maturity shown under current liabilities	109,207,390	157,613,395
	794,913,341	842,972,719

Movements in unamortized transaction costs are as follows:

	31 March 2019	31 December 2018
Balance at beginning of period / year	8,084,583	11,698,036
Less: amortization	(346,627)	(3,613,453)
Balance at end of period / year	7,737,956	8,084,583

Related to:

Long-term borrowings	4,541,499	4,888,126
Current maturity shown under current liabilities	3,196,457	3,196,457
	7,737,956	8,084,583

METHANOL CHEMICALS COMPANY
(A Saudi Joint Stock Company)
Notes to the condensed interim financial information (Unaudited)
For the three-month period ended 31 March 2019
(All amounts in Saudi Riyals unless otherwise stated)

6.1 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 31 March 2019, the Company was in compliance with these covenants. The loan is secured by mortgage of the property, plant and equipment of the Company at 31 March 2019 having carrying value of Saudi Riyals 1.6 billion. The loan is denominated in Saudi Riyals.

The maturity of the principal amount outstanding is spread in 2019 through 2021.

6.2 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 31 March 2019, the Company was in compliance with these covenants. The loans are denominated in Saudi Riyals.

The aggregate maturities of the principal amounts outstanding are spread in 2019 through 2022.

During the three-month period ended 31 March 2019, the Company repaid Saudi Riyals 58.7 million of the principal amount against the outstanding balance.

7 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 with its related parties:

Nature of transactions and relationships	For the three-month period ended 31 March	
	2019	2018
Purchases from other related parties	-	953,320
Costs and expenses charged by other related parties	-	159,306

(b) Key management personnel compensation:

	For the three-month period ended 31 March	
	2019	2018
Salaries and other short-term employee benefits	1,462,871	1,571,271
Employee benefit obligations	76,869	50,314

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Notes to the condensed interim financial information (Unaudited)
For the three-month period ended 31 March 2019
(All amounts in Saudi Riyals unless otherwise stated)

8 Basic and diluted loss per share

Basic loss per share is calculated by dividing the 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 loss per share is the same as the basic loss per share.

	For the three-month period ended 31 March	
	2019	2018
Loss for the period	(311,289)	(10,258,140)
Weighted average number of ordinary shares for basic and diluted loss per share	120,600,000	120,600,000
Loss per share	(0.00)	(0.09)

9 Contingencies and commitments

- (i) At 31 March 2019, the Company was contingently liable for bank guarantees and letters of credit issued in the normal course of business amounting to Saudi Riyals 56.7 million and Saudi Riyals 5.3 million, respectively (31 December 2018: Saudi Riyals 57.2 million and Nil, respectively).
- (ii) The capital expenditure contracted by the Company but not incurred till 31 March 2019 was approximately Saudi Riyals 28.4 million (31 December 2018: Saudi Riyals 17.4 million).