

**METHANOL CHEMICALS COMPANY  
(A Saudi Joint Stock Company)**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019  
AND INDEPENDENT AUDITOR'S REPORT**

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**METHANOL CHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

	<b>Page</b>
Independent auditor's report	2 - 6
Statement of comprehensive income	7
Statement of financial position	8
Statement of changes in equity	9
Statement of cash flows	10
Notes to the financial statements	11 - 37



## *Independent auditor's report to the shareholders of Methanol Chemicals Company*

### *Report on the audit of the financial statements*

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#### *Our opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Methanol Chemicals Company (the "Company") as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

#### **What we have audited**

The Company's financial statements comprise:

- the statement of comprehensive income for the year ended 31 December 2019;
- the statement of financial position as at 31 December 2019;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

#### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We are independent of the Company in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

#### *Our audit approach*

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##### **Overview**

- |                  |   |
|------------------|---|
| Key Audit Matter | • Impairment assessment of non-current assets |
|------------------|---|
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As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

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## Independent auditor's report to the shareholders of Methanol Chemicals Company (continued)

### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
<i>Impairment assessment of non-current assets</i>	
<p>As at 31 December 2019, the Company has non-current assets of Saudi Riyals 1.6 billion.</p> <p>For the purpose of the financial statements for the year ended 31 December 2019, management identified its cash-generating units and performed an assessment to conclude that there were no impairment indicators for any cash-generating units except for Dimethylformamide and Pentaerythritol (the "CGUs") which were partially impaired in prior years. Accordingly, management performed a detailed impairment assessment by calculating the recoverable amounts of the CGUs and comparing them against their carrying amounts.</p> <p>In determining the recoverable amounts, management estimated the value-in-use for the CGUs. Value-in-use was based on management's view of key internal value driver inputs as well as external market conditions such as future product prices as set out in approved business plans. It also required management to make estimates of growth rates beyond the approved business plan period and to determine the most appropriate discount rate.</p> <p>Management has concluded that the recoverable amounts of the CGUs was approximately equal to the carrying amounts resulting in no impairment loss to be recognized for the year ended 31 December 2019.</p> <p>We considered this as a key audit matter as the assessment of recoverable amounts of the CGUs requires estimation and judgement around product prices, future economic and market conditions, growth and discount rates, a significant fluctuation in which may have a material impact on the current year's financial statements.</p>	<p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> <li>• Understood and evaluated the appropriateness of management's identification of the cash-generating units.</li> <li>• Assessed management's identification of impairment indicators, including the conclusions reached. We also obtained an understanding of the design and implementation of key controls over the impairment assessment process comprising of impairment indicator identification and estimation of recoverable amounts.</li> <li>• Evaluated the reasonableness of management's assumptions and estimates used to determine the recoverable amount of the CGUs. This included:             <ul style="list-style-type: none"> <li>(i) Assessing the methodology used by management to estimate the value-in-use by checking the accuracy and appropriateness of the input data in the discounted cash flow model to supporting documentation, such as the approved business plans. We considered the reasonableness of business plans by comparing them to the historical results and the market data, particularly with respect to sales pricing, and comparing the current year's actual results with its forecast. We also obtained an understanding of the basis for the assumptions used by management in the business plans;</li> </ul> </li> </ul>



## *Independent auditor's report to the shareholders of Methanol Chemicals Company (continued)*

### **Key audit matters**

Key audit matter	How our audit addressed the Key audit matter
Refer to Note 2.12 to the accompanying financial statements for the accounting policy relating to the impairment of these non-current assets and Note 3 for the disclosure of significant accounting estimates.	<ul style="list-style-type: none"><li>(ii) Assessing the reasonableness of discount and growth rates by engaging our internal valuation experts;</li><li>(iii) Evaluating the competence, capability and objectivity of expert used by management for providing them the price forecasts used in the approved business plans. Also evaluated the appropriateness of such expert's work;</li><li>(iv) Testing management's discounted cash flow models used in the calculation of the value-in-use for mathematical accuracy and logical integrity of the underlying calculations; and</li><li>(v) Performing sensitivity analysis over key assumptions in the calculation of the value-in-use in order to assess the potential impact of a range of possible outcomes.</li></ul> <ul style="list-style-type: none"><li>• Assessed the adequacy and appropriateness of the related disclosures in the accompanying financial statements.</li></ul>

### *Other information*

The directors are responsible for the other information. The other information comprises the Board of Directors' report but does not include the financial statements and our auditor's report thereon, which is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Board of Directors' report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.



## *Independent auditor's report to the shareholders of Methanol Chemicals Company (continued)*

### *Responsibilities of the management and those charged with governance for the financial statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and the applicable requirements of the Regulations for Companies and the Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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### *Auditor's responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



## *Independent auditor's report to the shareholders of Methanol Chemicals Company (continued)*

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**PricewaterhouseCoopers**

Ali A. Alotaibi  
License Number 379

1 March 2020



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

		<b>For the year ended 31 December</b>	
	<b>Note</b>	<b>2019</b>	<b>2018</b>
Revenue	4	<b>527,239,600</b>	701,612,727
Cost of sales	5	<b>(467,780,631)</b>	(506,041,471)
<b>Gross profit</b>		<b>59,458,969</b>	195,571,256
Selling and distribution expenses	6	<b>(53,366,239)</b>	(60,921,472)
General and administrative expenses	7	<b>(43,070,308)</b>	(42,726,425)
Other operating (expenses) income - net	8	<b>(3,658,203)</b>	2,295,677
<b>Operating (loss) profit</b>		<b>(40,635,781)</b>	94,219,036
Financial costs	9	<b>(41,230,291)</b>	(41,955,569)
Financial income	15	<b>3,698,472</b>	3,036,391
Financial costs - net		<b>(37,531,819)</b>	(38,919,178)
<b>(Loss) profit before zakat</b>		<b>(78,167,600)</b>	55,299,858
Zakat expense	22	<b>(5,907,901)</b>	(9,146,015)
<b>(Loss) profit for the year</b>		<b>(84,075,501)</b>	46,153,843
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements of employee benefit obligations	19	<b>(3,159,303)</b>	243,185
Other comprehensive (loss) income for the year		<b>(3,159,303)</b>	243,185
<b>Total comprehensive (loss) income for the year</b>		<b>(87,234,804)</b>	46,397,028
<b>(Loss) earnings per share:</b>			
Basic and diluted	27	<b>(0.70)</b>	0.38

The accompanying notes are an integral part of these financial statements.

The accompanying financial statements were authorized for issue by the Company's Board of Directors on 1 March 2020 and were signed on their behalf by:



Abdullah A. Al-Hajri  
Chief Financial Officer



Ali Al Asiri  
Chief Executive Officer



Abdullah Al Sanea  
Chairman

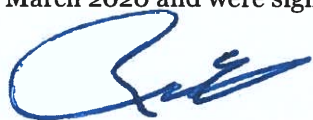


**METHANOL CHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**  
**Statement of financial position**  
(All amounts in Saudi Riyals unless otherwise stated)

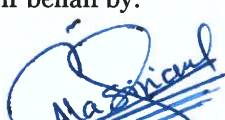
		<b>As at 31 December</b>	
		<b>2019</b>	<b>2018</b>
	<b>Note</b>		
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	<b>1,562,117,973</b>	1,646,052,549
Right-of-use assets	11	<b>27,411,033</b>	-
Intangible assets	12	<b>8,921,152</b>	10,828,167
<b>Total non-current assets</b>		<b>1,598,450,158</b>	1,656,880,716
<b>Current assets</b>			
Inventories	13	<b>123,109,714</b>	118,231,188
Trade and other receivables	14	<b>108,391,471</b>	162,792,119
Short-term murabaha deposits		-	63,000,000
Cash and cash equivalents	15	<b>113,086,237</b>	119,823,733
<b>Total current assets</b>		<b>344,587,422</b>	463,847,040
<b>Total assets</b>		<b>1,943,037,580</b>	2,120,727,756
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	16	<b>1,206,000,000</b>	1,206,000,000
Share premium		<b>72,850,071</b>	72,850,071
Statutory reserve	17	<b>44,118,693</b>	44,118,693
Accumulated deficit		<b>(269,156,000)</b>	(181,921,196)
<b>Total equity</b>		<b>1,053,812,764</b>	1,141,047,568
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Long-term borrowings	18	<b>587,366,332</b>	685,359,324
Lease liabilities	11	<b>25,677,141</b>	-
Employee benefit obligations	19	<b>47,725,116</b>	41,085,887
<b>Total non-current liabilities</b>		<b>660,768,589</b>	726,445,211
<b>Current liabilities</b>			
Trade and other payables	20	<b>76,508,865</b>	87,643,360
Current portion of long-term borrowings	18	<b>144,883,286</b>	157,613,395
Lease liabilities	11	<b>1,114,076</b>	-
Zakat payable	22	<b>5,950,000</b>	7,978,222
<b>Total current liabilities</b>		<b>228,456,227</b>	253,234,977
<b>Total liabilities</b>		<b>889,224,816</b>	979,680,188
<b>Total equity and liabilities</b>		<b>1,943,037,580</b>	2,120,727,756

The accompanying notes are an integral part of these financial statements.

The accompanying financial statements were authorized for issue by the Company's Board of Directors on 1 March 2020 and were signed on their behalf by:



Abdullah A. Al-Hajri  
Chief Financial Officer



Ali Al-Asmi  
Chief Executive Officer



Abdullah Al Sanea  
Chairman

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

	Share capital	Share premium	Statutory reserve	Accumulated deficit	Total
<b>At 1 January 2018</b>	1,206,000,000	72,850,071	44,118,693	(227,551,389)	1,095,417,375
Impact of change in accounting policy	-	-	-	(766,835)	(766,835)
Profit for the year	-	-	-	46,153,843	46,153,843
Other comprehensive income for the year	-	-	-	243,185	243,185
Total comprehensive income for the year	-	-	-	46,397,028	46,397,028
<b>At 31 December 2018</b>	1,206,000,000	72,850,071	44,118,693	(181,921,196)	1,141,047,568
Loss for the year	-	-	-	(84,075,501)	<b>(84,075,501)</b>
Other comprehensive loss for the year	-	-	-	(3,159,303)	<b>(3,159,303)</b>
Total comprehensive loss for the year	-	-	-	(87,234,804)	<b>(87,234,804)</b>
<b>At 31 December 2019</b>	<b>1,206,000,000</b>	<b>72,850,071</b>	<b>44,118,693</b>	<b>(269,156,000)</b>	<b>1,053,812,764</b>

The accompanying notes are an integral part of these financial statements.

The accompanying financial statements were authorized for issue by the Company's Board of Directors on 1 March 2020 and were signed on their behalf by:



Abdullah A. Al-Hajri  
Chief Financial Officer



Ali Al-Asiri  
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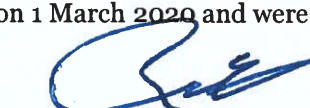
Abdullah Al Sanea  
Chairman

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

	Note	For the year ended 31 December	
		2019	2018
<b>Cash flows from operating activities</b>			
(Loss) profit before zakat		(78,167,600)	55,299,858
<u>Adjustments for:</u>			
Depreciation and amortization	10, 11, 12	121,162,551	123,644,010
Loss on disposal of property plant, and equipment		-	273,975
Write-off of property, plant and equipment		3,882,527	-
Financial costs – net		37,531,819	38,919,178
Provision for employee benefit obligations	19	7,195,969	7,030,337
<u>Changes in operating assets and liabilities:</u>			
Increase in inventories		(4,878,526)	(4,263,100)
Decrease in trade and other receivables		52,324,428	7,232,533
Decrease in trade and other payables		(11,134,495)	(1,599,528)
Cash generated from operations		127,916,673	226,537,263
Financial costs paid on borrowings		(36,860,542)	(50,819,614)
Financial costs paid on lease liabilities		(1,424,350)	-
Financial income received on short-term murabaha deposits		4,062,025	2,570,563
Zakat paid	22	(7,936,123)	(9,492,161)
Employee benefit obligations paid	19	(3,716,043)	(5,178,740)
<b>Net cash inflow from operating activities</b>		<b>82,041,640</b>	<b>163,617,311</b>
<b>Cash flows from investing activities</b>			
Payments for purchase of property, plant and equipment	10	(37,056,951)	(49,306,441)
Proceeds from disposal of property, plant and equipment		1,161	180,270
Redemption of (placements in) short-term murabaha deposits		63,000,000	(63,000,000)
<b>Net cash inflow (outflow) from investing Activities</b>		<b>25,944,210</b>	<b>(112,126,171)</b>
<b>Cash flows from financing activities</b>			
Repayments of long-term borrowings		(113,668,500)	(172,769,050)
Principal elements of lease payments		(1,054,846)	-
<b>Total cash outflow from financing activities</b>		<b>(114,723,346)</b>	<b>(172,769,050)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(6,737,496)</b>	<b>(121,277,910)</b>
Cash and cash equivalents at beginning of year		119,823,733	241,101,643
<b>Cash and cash equivalents at end of year</b>		<b>113,086,237</b>	<b>119,823,733</b>
<b>Non-cash activities:</b>			
Right-of-use assets recorded against lease liabilities	2	27,846,063	-
Prepaid lease rentals adjusted against right-of-use assets	2	1,712,667	-
Allowance for ECL on trade receivables recognized in accumulated deficit		-	766,835

The accompanying notes are an integral part of these financial statements.

The accompanying financial statements were authorized for issue by the Company's Board of Directors on 1 March 2020 and were signed on their behalf by:



Abdullah A. Al-Hajri  
Chief Financial Officer



Ali Al-Asiri  
Chief Executive Officer



Abdullah Al Sanea  
Chairman

**METHANOL CHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended 31 December 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, Dimethylformamide, Di-methyl carbon, Pentaerythritol, Sodium Formate and Acetaldehyde.

The Company is a joint stock company registered in the Kingdom of Saudi Arabia and operating under Commercial Registration (CR) number 2050057828 issued in Dammam on 30 Dhu al-Hijjah 1428 H (9 January 2008). The accompanying financial statements include the accounts of the Company and its branch registered in Jubail under CR number 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 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of financial statements of the Company are set out below.

**2.1 Basis of preparation**

**(a) Statement of compliance**

These financial statements of the Company have been prepared in compliance with International Financial Reporting Standards (“IFRS”) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants (“SOCPA”).

**(b) Historical cost convention**

The financial statements are prepared under the historical cost convention except as otherwise disclosed in the accounting policies below.

**(c) 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 - ‘Leases’ (“IFRS 16”) effective 1 January 2019. The other standards did not have any impact on the Company’s accounting policies and did not require retrospective adjustments.

The impact of the adoption of IFRS 16 is disclosed below and the new accounting policies are disclosed in Note 2.9.

**IFRS 16**

The Company has adopted IFRS 16 from 1 January 2019 and did not restate comparative information or adjust the opening equity as allowed by the transitional provisions of IFRS 16. Accordingly, the Company has recorded lease liabilities and right-of-use assets arising from the application of IFRS 16 in the statement of financial position at 1 January 2019 and right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.



**METHANOL CHEMICALS COMPANY**  
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**For the year ended 31 December 2019**  
(All amounts in Saudi Riyals unless otherwise stated)

On adoption of IFRS 16, the Company has recognized lease liabilities in relation to leases which were previously classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities are measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of 1 January 2019. The Company's weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.6%.

(i) *Practical expedients applied*

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and
- exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application.

The Company has also elected not to reassess whether a contract is or contains, a lease at the date of initial application. Instead, for contracts entered into before the date of initial application the Company relied on its assessment made under the previously applicable accounting standards.

(ii) *Reconciliation of operating lease commitments disclosed as at 31 December 2018 and lease liability recognized as at 1 January 2019:*

	<b>Saudi Riyals</b>
Operating lease commitments disclosed as at 31 December 2018	<b>16,423,810</b>
Adjustments as a result of a different treatment of extension options	<b>27,117,320</b>
Discounted using the Company's incremental borrowing rate of at the date of initial application	<b>(15,695,067)</b>
Lease liability recognized as at 1 January 2019	<b><u>27,846,063</u></b>
Of which are:	
Current lease liabilities	<b>1,054,846</b>
Non-current lease liabilities	<b><u>26,791,217</u></b>
	<b><u>27,846,063</u></b>

(iii) *Right-of-use assets*

The Company's right-of-use assets relate to parcels of land, a warehouse facility and an inventory storage tank. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

(iv) *Adjustments recognised in the statement of financial position at 1 January 2019*

The change in accounting policy affected the following items in the statement of financial position at 1 January 2019:

- Right-of-use assets - increased by Saudi Riyals 29.6 million
- Trade and other receivable - decreased by Saudi Riyals 1.7 million (adjustment for prepaid rent)
- Lease liabilities - increased by Saudi Riyals 27.9 million



**METHANOL CHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended 31 December 2019**  
(All amounts in Saudi Riyals unless otherwise stated)

**(d) Standards issued but not yet effective**

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Company. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

**2.2 Revenue**

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.

**2.3 Financial income**

Financial income is calculated using the effective interest rate method.

**2.4 Foreign currencies**

**(a) Functional and presentation currency**

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements are presented in "Saudi Riyals", which is the Company's presentation as well as functional currency.

**(b) Transactions and balances**

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies other than Saudi Riyals are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

**2.5 Zakat**

The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT"). Zakat is calculated based on higher of approximate zakat base and adjusted profit and charged to profit or loss. Additional zakat, if any, is accounted for when determined to be required for payment.

Amounts accrued for zakat expense in one year may have to be adjusted in a subsequent year if the estimate of the annual charge changes.

**METHANOL CHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended 31 December 2019**  
(All amounts in Saudi Riyals unless otherwise stated)

## **2.6 Segment reporting**

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, and which are reviewed by the Chief Operating Decision Maker of the Company.

The Board of Directors of the Company has appointed a Chief Executive Officer, who assesses the financial performance and position of the Company, and makes strategic decisions. Chief Executive Officer has been identified as being the Chief Operating Decision Maker.

The financial statements are prepared on the basis of a single reporting segment consistent with the information reviewed by the Chief Operating Decision Maker of the Company.

## **2.7 Earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

## **2.8 Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated on property, plant and equipment so as to allocate its cost, less estimated residual value, on a straight-line basis. Depreciation is charged to profit or loss.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in profit or loss.

Major spare parts and stand-by equipment qualify for recognition as property, plant and equipment when the Company expects their useful life to be more than one year.

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each annual reporting period.

**METHANOL CHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended 31 December 2019**  
(All amounts in Saudi Riyals unless otherwise stated)

When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its estimated recoverable amount and is reviewed at each reporting date for possible reversal of impairment loss.

Assets in the course of construction or development are capitalised in the construction-in-progress account. The asset under construction or development is transferred to the appropriate category in property, plant and equipment, once the asset is in a location and condition necessary for it to be capable of operating in the manner intended by management. The cost of an item of construction-in-progress comprises its purchase price, construction / development cost and any other cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Construction-in-progress is not depreciated.

## **2.9 Leases**

### **2.9.1 Accounting policy applied from 1 January 2019**

At the inception of the contract the Company assesses whether a contract is or contains a lease. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

#### ***Lease liabilities***

The lease liability is initially measured at the net present value of the lease payments payable at the commencement date of the lease. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is the case for the Company's leases, 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, security and conditions.

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party quotations which are adjusted to reflect changes in financing conditions since such quotations were received; and
- makes adjustments specific to the lease, for example lease term, country, currency and security.

Lease liabilities include the net present value of the following lease payments:

- fixed lease payments, less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- amounts expected to be payable by the Company under residual value guarantees;
- the exercise price of purchase options, if the Company is reasonably certain to exercise the options;
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease; and
- lease payments to be made under reasonably certain extension options.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest rate method) and by reducing the carrying amount to reflect lease payments made.

**METHANOL CHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended 31 December 2019**  
(All amounts in Saudi Riyals unless otherwise stated)

The Company re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is re-measured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); and
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

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***Right-of-use assets***

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement of the lease and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses, if any.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37 "Provisions, contingent liabilities and contingent assets". The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of the lease term or the economic useful life of the underlying asset. If a lease transfers ownership of the underlying asset to the Company or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the date when the asset is ready for use.

**2.9.2 Accounting policy applied until 31 December 2018**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the term of the lease. The financial information presented as of and for the year ended 31 December 2018 does not reflect the requirements of IFRS 16 and is not comparable to the financial information presented as of and for the year ended 31 December 2019.

**2.10 Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any. The useful lives of intangible assets are assessed to be finite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each annual reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is charged to profit or loss in the expense category consistent with the function of the intangible asset.



**METHANOL CHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended 31 December 2019**  
(All amounts in Saudi Riyals unless otherwise stated)

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the disposal proceeds and carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives which are between 4 to 20 years.

**2.11 Financial instruments**

**2.11.1 Financial assets**

*(i) Classification*

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) Recognition and derecognition*

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.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

*(iii) Measurement*

Subsequent measurement of Company's financial assets are at amortised cost. Interest income from financial assets is measured and recognised in profit or loss using the effective interest rate method. Any gain or loss arising on derecognition is recognised in profit or loss.

*(iv) Impairment*

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 as permitted by IFRS 9, which requires expected lifetime losses to be recognised from the initial recognition of the related financial assets. The amount of loss is charged to profit or loss.

The loss rates are based on probability of default based on historical trends relating to collections of Company's trade receivables. The loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the expected weighted average rate of increase in inflation for the upcoming year in the regions where its sales are concentrated as the most relevant factor and accordingly, adjusts the loss rates based on such expected changes.

Trade receivables are written-off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, significant decrease in credit worthiness of the customer, the failure of the customer to engage in a repayment plan with the Company, and a failure to make contractual payments for a period of greater than 365 days past due.



**METHANOL CHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended 31 December 2019**  
(All amounts in Saudi Riyals unless otherwise stated)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in profit or loss. Impairment losses are presented under "General and administrative expenses" in the statement of comprehensive income.

While cash and cash equivalents are also subject to impairment requirements of IFRS 9, the identified impairment loss was immaterial.

### **2.11.2 Financial liabilities**

All financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are recognized initially at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these are measured at amortized cost using the effective interest rate method.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognised in profit or loss.

### **2.11.3 Offsetting financial assets and liabilities**

Financial assets and liabilities are offset and net amounts are reported in the financial statements, when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the assets and liabilities simultaneously.

### **2.12 Impairment of non-financial assets**

The Company assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses of continuing operations are charged to profit or loss in those expense categories consistent with the function of the impaired asset.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

**METHANOL CHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended 31 December 2019**  
(All amounts in Saudi Riyals unless otherwise stated)

**2.13 Inventories**

Raw materials and consumables, work in progress and finished goods are stated at the lower of cost and net realizable value. Cost comprises direct materials, direct labor and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Provision for slow-moving inventories is made considering various factors including age of the inventory items, historic usage and expected utilization in future.

**2.14 Trade receivables**

Trade receivables are carried at the transaction price related to a performance obligation less allowance for ECL on trade receivables. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. The Company holds trade receivables with the objective to collect the contractual cash flows and therefore measures them at amortized cost using effective interest rate method.

**2.15 Short-term murabaha deposits**

Short-term murabaha deposits include placements in murabaha deposits with banks and other short term highly liquid investments, with original maturities of more than three months but not more than one year from the date of acquisition. Short-term murabaha deposits are placed with financial institutions with investment grade rating, which are considered to have low credit risk, hence a provision, if material, is recognized at an amount equal to 12 month's expected credit loss, unless there is evidence of significant increase in credit risk of the counter party.

**2.16 Cash and cash equivalents**

Cash is cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Investments normally only qualify as cash equivalent if they have a short maturity of three months or less from the date of acquisition.

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**2.17 Share capital**

Ordinary shares are classified as equity. Transaction costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

**2.18 Trade payables**

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method.

**METHANOL CHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended 31 December 2019**  
(All amounts in Saudi Riyals unless otherwise stated)

**2.19 Borrowings**

Borrowings are initially recognized at fair value (being proceeds received), net of eligible transaction costs incurred, if any. Subsequent to initial recognition long-term borrowings are measured at amortized cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest rate method.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss as other income or finance costs. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

**2.20 Borrowing costs**

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. Other borrowing costs are charged to profit or loss in the period in which they are incurred.

**2.21 Employee benefit obligations**

The Company operates a single post-employment benefit scheme of defined benefit plan driven by the labor laws and workman laws of the Kingdom of Saudi Arabia which is based on most recent salary and number of service years.

The post-employment benefit scheme is not funded. Valuation of the obligations under the plan is carried out by an independent actuary based on the projected unit credit method. The costs relating to such plan primarily consist of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation in respect of employee service in previous years.

Current and past service costs related to post-employment benefits and unwinding of the liability at discount rates used are charged to profit or loss.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized directly in other comprehensive income and transferred to retained earnings in the statement of changes in equity in the period in which they occur.

Changes in the present value of the defined benefit obligations resulting from plan amendments or curtailments are charged to profit or loss as past service costs. End of service payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the labor law of Saudi Arabia.

**METHANOL CHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended 31 December 2019**  
(All amounts in Saudi Riyals unless otherwise stated)

### **3 Critical accounting estimates and judgments**

The preparation of financial statements in conformity with IFRS 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 judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and judgments concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year are discussed below:

#### *Impairment of property, plant and equipment*

Management, in accordance with the accounting policy stated in Note 2.12, tests assets or CGUs for impairment whenever impairment indicators exist. Among others, the events or changes in circumstances which could indicate that an asset or CGU may be impaired mainly include the following:

- A significant decrease in the market prices of Company's products;
- A significant change in the extent or manner in which an asset is being used or in its physical condition including a significant decrease in current and projected sales volumes; and
- A current-period operating loss combined with a history and forecast of operating losses.

Management determines the recoverable amounts of CGUs based on value-in-use calculations. These calculations require the use of estimates in relation to the future cash flows and use of an appropriate discount rate applicable to the circumstances of the Company. At 31 December 2019, there has been no significant change in these estimates.

Future events could cause the estimates used in these value-in-use calculations to change adversely with a consequent effect on the future results of the Company. Management has performed a sensitivity analysis around the estimates. Reasonably possible changes in discount and growth rates and forecasted market prices used may cause the carrying value to exceed the recoverable value of the CGUs resulting in additional impairment in future periods.

### **4 Revenue**

The Company derives revenue from the sale of goods at a point in time.

	<b>2019</b>	<b>2018</b>
Export sales	<b>415,425,045</b>	551,533,957
Local sales	<b>111,814,555</b>	150,078,770
	<b><u>527,239,600</u></b>	<b><u>701,612,727</u></b>



**METHANOL CHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended 31 December 2019**  
(All amounts in Saudi Riyals unless otherwise stated)

**5 Cost of sales**

	<b>Note</b>	<b>2019</b>	<b>2018</b>
Raw material and consumables used		<b>205,606,565</b>	264,504,888
Depreciation	10, 11	<b>116,664,421</b>	115,542,697
Salaries, wages and benefits		<b>112,087,140</b>	99,005,518
Repairs and maintenance		<b>11,109,948</b>	13,317,773
Insurance		<b>6,053,408</b>	4,992,383
Amortization	12	<b>1,850,544</b>	4,295,239
Other		<b>14,408,605</b>	4,382,973
		<b>467,780,631</b>	506,041,471

**6 Selling and distribution expenses**

	<b>Note</b>	<b>2019</b>	<b>2018</b>
Freight charges		<b>36,863,407</b>	36,495,099
Salaries and benefits		<b>9,752,994</b>	8,915,284
Sales commission		<b>3,166,355</b>	8,115,512
Depreciation	10, 11	<b>947,930</b>	453,207
Other		<b>2,635,553</b>	6,942,370
		<b>53,366,239</b>	60,921,472

**7 General and administrative expenses**

	<b>Note</b>	<b>2019</b>	<b>2018</b>
Salaries and benefits		<b>21,528,271</b>	19,381,911
Repairs and maintenance		<b>7,334,783</b>	6,641,716
Professional and legal fees		<b>3,202,940</b>	3,892,539
Board of directors' fees	21	<b>2,266,654</b>	2,043,788
Depreciation	10	<b>1,643,185</b>	1,962,097
Amortization	12	<b>56,471</b>	1,390,770
Other		<b>7,038,004</b>	7,413,604
		<b>43,070,308</b>	42,726,425

**8 Other operating (expenses) income - net**

	<b>2019</b>	<b>2018</b>
Scrap sales	<b>(63,562)</b>	2,101,798
Bank charges	<b>(3,753,833)</b>	(3,544,166)
Other, net	<b>159,192</b>	3,738,045
	<b>(3,658,203)</b>	2,295,677



**METHANOL CHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended 31 December 2019**  
(All amounts in Saudi Riyals unless otherwise stated)

**9 Financial costs**

	Note	2019	2018
Financial cost on borrowings		<b>36,824,426</b>	38,342,116
Amortization of transaction costs	18	<b>2,981,515</b>	3,613,453
Financial cost on lease liabilities	11	<b>1,424,350</b>	-
		<b>41,230,291</b>	41,955,569

**10 Property, plant and equipment**

	1 January	Additions	Disposals / Write-offs	Transfers	31 December
<b>2019</b>					
<b>Cost</b>					
Buildings and leasehold improvements	365,591,326	158,270	-	-	<b>365,749,596</b>
Plant, machinery and equipment	2,774,463,409	13,041,042	(1,671,193)	10,273,710	<b>2,796,106,968</b>
Furniture, fixtures and office equipment	29,919,619	340,892	(5,999)	-	<b>30,254,512</b>
Planned turnaround costs	87,953,872	1,626,366	-	1,545,143	<b>91,125,381</b>
Vehicles	3,439,760	488,000	-	-	<b>3,927,760</b>
Construction-in-progress	18,688,019	21,402,381	(3,604,594)	(11,818,853)	<b>24,666,953</b>
	<u>3,280,056,005</u>	<u>37,056,951</u>	<u>(5,281,786)</u>	<u>-</u>	<u><b>3,311,831,170</b></u>
<b>Accumulated depreciation and impairment</b>					
Buildings and leasehold improvements	(128,101,068)	(10,155,801)	-	-	<b>(138,256,869)</b>
Plant, machinery and equipment	(1,418,261,646)	(93,059,195)	1,393,261	-	<b>(1,509,927,580)</b>
Furniture, fixtures and office equipment	(27,268,169)	(1,329,921)	4,837	-	<b>(28,593,253)</b>
Planned turnaround costs	(57,133,904)	(12,425,755)	-	-	<b>(69,559,659)</b>
Vehicles	(3,238,669)	(137,167)	-	-	<b>(3,375,836)</b>
	<u>(1,634,003,456)</u>	<u>(117,107,839)</u>	<u>1,398,098</u>	<u>-</u>	<u><b>(1,749,713,197)</b></u>
<b>Net book value</b>	<u><b>1,646,052,549</b></u>				<u><b>1,562,117,973</b></u>

Construction-in-progress balance as at 31 December 2019 principally represents costs incurred on certain expansion projects. The Company expects such projects to be completed in 2020.

**METHANOL CHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended 31 December 2019**  
(All amounts in Saudi Riyals unless otherwise stated)

	1 January	Additions	Disposals / Write-offs	Transfers	31 December
<b>2018</b>					
<b>Cost</b>					
Buildings and leasehold improvements	362,124,486	439,377	-	3,027,463	365,591,326
Plant, machinery and equipment	2,750,242,395	13,008,429	(1,044,599)	12,257,184	2,774,463,409
Furniture, fixtures and office equipment	29,579,984	354,419	(14,784)	-	29,919,619
Planned turnaround costs	51,984,449	18,300,707	(350,000)	18,018,716	87,953,872
Vehicles	4,279,600	-	(839,840)	-	3,439,760
Construction-in-progress	34,787,873	17,203,509	-	(33,303,363)	18,688,019
	<u>3,232,998,787</u>	<u>49,306,441</u>	<u>(2,249,223)</u>	<u>-</u>	<u>3,280,056,005</u>
<b>Accumulated depreciation and impairment</b>					
Buildings and leasehold improvements	(117,997,113)	(10,103,955)	-	-	(128,101,068)
Plant, machinery and equipment	(1,324,130,915)	(94,721,091)	590,360	-	(1,418,261,646)
Furniture, fixtures and office equipment	(25,386,874)	(1,896,078)	14,783	-	(27,268,169)
Planned turnaround costs	(46,449,344)	(11,034,560)	350,000	-	(57,133,904)
Vehicles	(3,876,187)	(202,317)	839,835	-	(3,238,669)
	<u>(1,517,840,433)</u>	<u>(117,958,001)</u>	<u>1,794,978</u>	<u>-</u>	<u>(1,634,003,456)</u>
<b>Net book value</b>	<u>1,715,158,354</u>				<u>1,646,052,549</u>

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

Depreciation is charged to profit or loss over the following estimated economic useful lives:

	Number of years
• Buildings and leasehold improvements	5 - 33
• Plant, machinery and equipment	3 - 35
• Furniture, fixtures and office equipment	3 - 10
• Vehicles	4

**METHANOL CHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended 31 December 2019**  
(All amounts in Saudi Riyals unless otherwise stated)

**11 Leases**

	<b>1 January 2019</b>	<b>Depreciation</b>	<b>December 2019</b>
<b>Right-of-use assets</b>			
Land	25,712,372	(1,317,204)	<b>24,395,168</b>
Warehouse and inventory storage tank	3,846,358	(830,493)	<b>3,015,865</b>
	<u>29,558,730</u>	<u>(2,147,697)</u>	<u><b>27,411,033</b></u>
			<b>2019</b>
<b>Lease liabilities</b>			
As at 1 January			<b>27,846,063</b>
Repayments			<u><b>(2,479,196)</b></u>
			<b>25,366,867</b>
Financial cost			<u><b>1,424,350</b></u>
As at 31 December			<u><b>26,791,217</b></u>
Lease liabilities are presented in the statement of financial position as follows:			
Lease liabilities			<b>1,114,076</b>
Current maturity shown under current liabilities			<u><b>25,677,141</b></u>
			<u><b>26,791,217</b></u>

Maturity profile of lease liabilities is disclosed in Note 23.2.

*i) Other amounts recognised in profit and loss*

Expense relating to short-term leases (included in selling and marketing and general and administrative expenses) recognized during the year ended 31 December 2019 amounted to Saudi Riyals 1.0 million.

The total cash outflow for leases in 2019 was Saudi Riyals 3.8 million.

*ii) Additional information about the Company's leasing activities*

The Company has leases in respect of various parcels of land, a warehouse facility and a storage tank. Rental contracts are typically made for fixed periods but may have extension options.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants. Leased assets may not be used as security for borrowing purposes.

Low-value assets comprise IT equipment and certain storage tanks.

Extension and termination options are included to maximise operational flexibility in terms of managing the assets used in the Company's operations. The majority of extension options held are exercisable only by mutual agreement of the Company and the respective lessor.

**METHANOL CHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended 31 December 2019**  
(All amounts in Saudi Riyals unless otherwise stated)

**12 Intangible assets**

	<b>Computer software</b>	<b>Payment to acquire contractual rights of pipeline</b>	<b>Total</b>
<b><u>2019</u></b>			
<b>Cost</b>			
1 January	25,008,775	15,750,000	40,758,775
Write-off	(1,667,677)	-	(1,667,677)
31 December	<u>23,341,098</u>	<u>15,750,000</u>	<u>39,091,098</u>
<b>Accumulated amortization</b>			
1 January	(23,236,858)	(6,693,750)	(29,930,608)
Charge	(1,119,515)	(787,500)	(1,907,015)
Write-off	1,667,677	-	1,667,677
31 December	<u>(22,688,696)</u>	<u>(7,481,250)</u>	<u>(30,169,946)</u>
<b>Net book value</b>			
31 December	<u>652,402</u>	<u>8,268,750</u>	<u>8,921,152</u>
	<b>Computer software</b>	<b>Payment to acquire contractual rights of pipeline</b>	<b>Total</b>
<b><u>2018</u></b>			
<b>Cost</b>			
1 January and 31 December	<u>25,008,775</u>	<u>15,750,000</u>	<u>40,758,775</u>
<b>Accumulated amortization</b>			
1 January	(18,338,349)	(5,906,250)	(24,244,599)
Charge	(4,898,509)	(787,500)	(5,686,009)
31 December	<u>(23,236,858)</u>	<u>(6,693,750)</u>	<u>(29,930,608)</u>
<b>Net book value</b>			
31 December	<u>1,771,917</u>	<u>9,056,250</u>	<u>10,828,167</u>

**13 Inventories**

	<b>2019</b>	<b>2018</b>
Finished products	28,512,020	23,026,977
Raw materials	19,971,728	18,442,874
Consumables and spare parts, held not for sale	76,127,274	77,732,298
Goods-in-transit	18,242,196	11,154,799
Other	<u>3,932,887</u>	<u>3,364,907</u>
	146,786,105	133,721,855
Less: provision for slow-moving inventories	<u>(23,676,391)</u>	<u>(15,490,667)</u>
	<u>123,109,714</u>	<u>118,231,188</u>

**METHANOL CHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended 31 December 2019**  
(All amounts in Saudi Riyals unless otherwise stated)

Finished products at 31 December 2019 have been written-down by Saudi Riyals 1.0 million (2018: Saudi Riyals 0.2 million) to bring them to their net realizable values which has been charged to "Cost of sales" in the accompanying statement of comprehensive income.

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

	2019	2018
1 January	15,490,667	14,120,096
Provision	8,185,724	1,370,571
31 December	23,676,391	15,490,667

**14 Trade and other receivables**

	Note	2019	2018
Trade receivables		81,870,466	139,261,200
Less: allowance for ECL on trade receivables	14.2	(1,714,645)	(1,216,125)
		80,155,821	138,045,075
Advances to suppliers		6,021,384	2,852,407
Advances to employees		4,742,093	4,841,660
Prepayments		6,742,446	7,462,109
Other		10,729,727	9,590,868
		108,391,471	162,792,119

**14.1** The Company has assessed expected lifetime losses pertaining to trade receivables as per the simplified approach as permitted by IFRS 9. Trade receivables are due based on individual credit terms of each customer. There were no contracts with a significant financing component or variable consideration during the years ended 31 December 2019 and 2018. As at 31 December 2019, trade receivables of Saudi Riyals 18.2 million (2018: Saudi Riyals 30.3 million) were past due but not impaired. These relate to a number of individual customers for whom there is no recent history of default. Aging profile of trade receivables is as follows:

	2019	2018
Not due	63,677,796	108,988,593
Overdue for up to 3 months	16,390,077	25,553,069
Overdue for a period between 4 to 6 months	276,814	2,790,085
Overdue for a period between 7 to 12 months	3,265	755,605
Overdue for over 12 months	1,522,514	1,173,848
	81,870,466	139,261,200

The Company considers any trade receivables overdue for more than a year to be in default and are accordingly fully provided for. The loss rates for the other ageing brackets are not significant.

**14.2** The movement in allowance for ECL on trade receivables is as follows:

	2019	2018
1 January	1,216,125	700,881
Restatement due to change in accounting policy	-	766,835
Charge (reversal)	498,520	(251,591)
31 December	1,714,645	1,216,125



**METHANOL CHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended 31 December 2019**  
 (All amounts in Saudi Riyals unless otherwise stated)

**14.3** The other classes within trade and other receivables do not contain impaired assets. The maximum exposure to credit risk at reporting date is the carrying amount of each receivable.

**14.4** The Company does not hold any collateral as security.

**15 Cash and cash equivalents**

	<b>2019</b>	<b>2018</b>
Cash in hand	<b>10,000</b>	10,000
Cash at bank	<b>52,576,237</b>	18,813,733
Time deposits	<b>60,500,000</b>	101,000,000
	<b><u>113,086,237</u></b>	<b><u>119,823,733</u></b>

Time deposits are murabaha deposits placed with commercial banks, with a maturity period of three months or less from date of placement, and yield financial income ranging from 1.60% to 2.20% per annum (2018: 1.10% to 2.95% per annum).

**16 Share capital**

As at 31 December 2019, the authorized, issued and fully paid-up share capital comprised of 120.6 million ordinary shares (2018: 120.6 million ordinary shares) of Saudi Riyals 10 per share.

**17 Statutory reserve**

In accordance with the Company's By-laws and Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer 10% of the net income for the year to a statutory reserve until such reserve equals 30% of its share capital. This reserve is currently not available for distribution to the shareholders of the Company. No such transfer was made for the years ended 31 December 2019 and 2018 due to accumulated deficit at the end of such years.

**METHANOL CHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended 31 December 2019**  
(All amounts in Saudi Riyals unless otherwise stated)

**18 Long-term borrowings**

	<b>2019</b>	<b>2018</b>
Saudi Industrial Development Fund ("SIDF")	<b>245,000,000</b>	295,000,000
Murabaha Facilities-Syndicate loans	<b>252,317,450</b>	285,085,950
Murabaha Facilities-Bilateral loans	<b>237,930,000</b>	268,830,000
	<b>735,247,450</b>	848,915,950
Accrued financial costs	<b>2,105,236</b>	2,141,352
	<b>737,352,686</b>	851,057,302

Less unamortized transaction costs related to:

SIDF	<b>(687,238)</b>	(1,473,071)
Murabaha Facilities-Syndicate loans	<b>(2,393,538)</b>	(3,594,432)
Murabaha Facilities-Bilateral loans	<b>(2,022,292)</b>	(3,017,080)
	<b>(5,103,068)</b>	(8,084,583)
	<b>732,249,618</b>	842,972,719

Long-term borrowings are presented in the statement of financial position as follows:

Long-term borrowings	<b>587,366,332</b>	685,359,324
Current maturity shown under current liabilities	<b>144,883,286</b>	157,613,395
	<b>732,249,618</b>	842,972,719

Movements in unamortized transaction costs are as follows:

	<b>2019</b>	<b>2018</b>
1 January	<b>8,084,583</b>	11,698,036
Less: amortization	<b>(2,981,515)</b>	(3,613,453)
31 December	<b>5,103,068</b>	8,084,583
Related to:		
Long-term borrowings	<b>2,378,368</b>	4,888,126
Current maturity shown under current liabilities	<b>2,724,700</b>	3,196,457
	<b>5,103,068</b>	8,084,583

**METHANOL CHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended 31 December 2019**  
 (All amounts in Saudi Riyals unless otherwise stated)

**18.1 SIDF loan**

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

The covenants of the SIDF loan require the Company to maintain certain level of financial conditions, limiting dividends distribution and annual capital expenditure above certain limits and certain other matters. As at 31 December 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 December 2019 with a carrying value of Saudi Riyals 1.6 billion. The carrying value of the SIDF loan is denominated in Saudi Riyals.

During the year ended 31 December 2019, the Company agreed with SIDF to re-schedule certain installments. The re-scheduling did not result in substantial modification of the terms of the loan agreement. The aggregate maturity of the loan is spread in 2020 through 2021.

During the year ended 31 December 2019, the Company repaid Saudi Riyals 50.0 million of the principal amount against the outstanding balance.

**18.2 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 Murabaha facilities require the Company to maintain certain level of financial conditions, limiting dividends distribution and annual capital expenditure above certain limits and certain other matters. As at 31 December 2019, the Company was in compliance with these covenants. The carrying values of such long-term borrowings are denominated in Saudi Riyals.

The aggregate maturities of these loans, based on their respective repayment schedules, are spread in 2020 through 2022.

During the year ended 31 December 2019, the Company repaid Saudi Riyals 63.7 million of the principal amount against the outstanding balance.

**18.3 Maturity profile of long-term borrowings**

	<b>2019</b>	<b>2018</b>
<b>Years ending 31 December:</b>		
2019	-	158,668,500
2020	<b>145,502,750</b>	195,502,750
2021	<b>411,472,900</b>	316,472,900
2022	<b>178,271,800</b>	178,271,800
	<b>735,247,450</b>	<b>848,915,950</b>

**METHANOL CHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended 31 December 2019**  
(All amounts in Saudi Riyals unless otherwise stated)

**19 Employee benefit obligations**

**19.1 General description of the plan**

The Company operates an unfunded defined benefit plan in line with the labour law requirement in the Kingdom of Saudi Arabia. The end of service benefit payments under the plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of their termination of employment, as defined by the conditions stated in the labour laws of the Kingdom of Saudi Arabia. The benefit payments are due upon termination of or resignation from employment.

	2019	2018
1 January	41,085,887	39,477,475
Current service cost	5,273,306	5,565,210
Interest expense	1,922,663	1,465,127
Payments	(3,716,043)	(5,178,740)
Remeasurements	3,159,303	(243,185)
31 December	47,725,116	41,085,887

**19.2 Amounts recognized in the statement of comprehensive income**

The amounts recognized in the statement of comprehensive income related to employee benefit obligations are as follows:

	2019	2018
Current service cost	5,273,306	5,565,210
Interest expense	1,922,663	1,465,127
<b>Total amount charged to profit or loss</b>	<b>7,195,969</b>	<b>7,030,337</b>
<u>Remeasurements</u>		
Gain from change in demographic assumptions	(368,993)	(2,010)
Loss (gain) from change in financial assumptions	312,077	(1,544,749)
Loss from change in experience adjustments	3,216,219	1,303,574
<b>Total amount recognized in other comprehensive income</b>	<b>3,159,303</b>	<b>(243,185)</b>

**19.3 Key actuarial assumptions**

	2019	2018
Discount rate	3.40%	4.75%
Salary growth rate	3.00%	4.75%

**19.4 Sensitivity analysis for actuarial assumptions**

	Change in assumption		Impact on employee benefit obligations	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
<b>2019</b>				
Discount rate	0.5%	0.5%	(2,014,788)	2,587,110
Salary growth rate	0.5%	0.5%	2,580,554	(2,049,044)



**METHANOL CHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended 31 December 2019**  
(All amounts in Saudi Riyals unless otherwise stated)

	<b>Change in assumption</b>		<b>Impact on employee benefit obligations</b>	
	<b>Increase in assumption</b>	<b>Decrease in assumption</b>	<b>Increase in assumption</b>	<b>Decrease in assumption</b>
<b>2018</b>				
Discount rate	0.5%	0.5%	(2,441,770)	2,662,090
Salary growth rate	0.5%	0.5%	2,119,443	(1,975,824)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of defined benefit obligation calculated with projected unit credit method at the end of the reporting period) has been applied when calculating the employee benefits obligation.

#### **19.5 Expected maturity analysis**

The weighted average duration of the defined benefit obligation is 10.0 years (2018: 11.4 years). The expected maturity analysis of undiscounted employee benefits obligations is as follows:

	<b>Less than a year</b>	<b>Between 1 - 2 years</b>	<b>Between 2 - 5 years</b>	<b>Between 5 - 10 years</b>	<b>Total</b>
<b>31 December 2019</b>	<b>3,653,654</b>	<b>3,616,253</b>	<b>11,127,496</b>	<b>28,367,337</b>	<b>46,764,740</b>
<b>31 December 2018</b>	<b>2,009,051</b>	<b>2,960,767</b>	<b>8,588,040</b>	<b>30,074,273</b>	<b>43,632,131</b>

#### **20 Trade and other payables**

	<b>2019</b>	<b>2018</b>
Trade payables	<b>41,174,354</b>	50,028,805
Accrued expenses	<b>31,204,477</b>	35,674,845
Advances from customers	<b>3,989,526</b>	1,799,202
Other	<b>140,508</b>	140,508
	<b>76,508,865</b>	<b>87,643,360</b>

Revenue recognised, during the year, that was included in the contract liability at the beginning of the year ended 31 December 2019 amounted to Saudi Riyals 1.8 million (2018: Saudi Riyals 1.3 million).

#### **21 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 significant influence ("other related parties").

- (a) Following are the significant transactions with related parties entered into by the Company during the years ended 31 December:

<b>Nature of transactions and relationship</b>	<b>For the year ended 31 December</b>	
	<b>2019</b>	<b>2018</b>
Purchases from other related parties	-	1,481,220
Costs and expenses charged by other related parties	-	620,086

**METHANOL CHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended 31 December 2019**  
(All amounts in Saudi Riyals unless otherwise stated)

(b) Key management personnel compensation

	<b>For the year ended 31 December</b>	
	<b>2019</b>	<b>2018</b>
Salaries and other short-term employee benefits	<b>7,557,872</b>	6,844,638
Employee benefit obligations	<b>385,280</b>	250,114
Board of directors' fees	<b>2,266,654</b>	2,043,788
	<b>10,209,806</b>	9,138,540

**22 Zakat**

**22.1 Significant components of zakat base**

	<b>2019</b>	<b>2018</b>
Shareholders' equity at beginning of year	<b>1,141,047,568</b>	1,095,417,375
Adjusted net (loss) profit	<b>(65,483,145)</b>	59,251,588
Long-term borrowings	<b>732,249,618</b>	842,972,719
Property, plant and equipment, as adjusted	<b>(1,562,117,973)</b>	(1,732,811,260)
Other	<b>(26,134,177)</b>	54,298,458
Approximate zakat base	<b>219,561,891</b>	319,128,880

**22.2 Provision for zakat**

	<b>2019</b>	<b>2018</b>
1 January	<b>7,978,222</b>	8,324,368
Provision for the year	<b>5,907,901</b>	7,978,222
Adjustment related to prior years	-	1,167,793
Payments	<b>(7,936,123)</b>	(9,492,161)
31 December	<b>5,950,000</b>	7,978,222

**22.3 Status of zakat assessments and certificates**

The Company has received the zakat assessments from the GAZT for the years through 2010. Zakat assessments for the years 2011 through 2018 have not been finalized by the GAZT. The Company has obtained zakat certificates for the years through 2018.

**23 Financial risk management**

**23.1 Financial risk factors**

The Company's activities expose it to variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on having cost effective funding as well as managing financial risk to minimize earnings volatility, sufficient liquidity to repay creditors and lenders and provide maximum return to shareholders.

**METHANOL CHEMICALS COMPANY**  
(A Saudi Joint Stock Company)

**Notes to the financial statements**

**For the year ended 31 December 2019**

(All amounts in Saudi Riyals unless otherwise stated)

**23.2 Financial assets and liabilities as per their respective maturities**

	<b>Interest / Mark-up bearing</b>		<b>Non-interest / Non mark-up bearing</b>		
	Maturity up to one year	Maturity after one year	Subtotal	Maturity up to one year	Maturity after one year
<b>Financial assets</b>					
Trade and other receivables	-	-	-	95,010,580	-
Cash and cash equivalents	60,500,000	-	60,500,000	52,586,237	-
31 December 2019	60,500,000	-	60,500,000	147,596,817	-
31 December 2018	164,000,000	-	164,000,000	167,675,801	-
				167,675,801	331,675,801

**Financial liabilities**

Long-term borrowings	145,502,750	589,744,700	735,247,450	2,105,236	-
Future financial cost on long-term borrowings	34,232,352	29,999,882	64,232,234	-	-
Lease liabilities	2,479,196	38,582,738	41,061,934	-	-
Trade and other payables	-	-	-	72,519,339	-
31 December 2019	182,214,298	658,327,320	840,541,618	74,624,575	-
31 December 2018	196,755,786	758,146,702	954,902,488	87,985,510	-
				87,985,510	1,042,887,998

The carrying value of financial assets and financial liabilities approximate their fair value.

Non-financial assets and non-financial liabilities amounting to Saudi Riyals 15.1 million and Saudi Riyals 4.0 million, respectively (2018: Saudi Riyals 15.2 million and Saudi Riyals 1.8 million, respectively) have been excluded from trade and other receivables and trade and other payables, respectively.

**METHANOL CHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended 31 December 2019**  
(All amounts in Saudi Riyals unless otherwise stated)

*(i) Credit risk*

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. Revenues of approximately Saudi Riyals 75.8 million are derived from a single external customer, based in Sweden (2018: Saudi Riyals 184.6 million from two customers, based in Sweden and Germany). The maximum exposure to credit risk is equal to the carrying amount of financial assets. At 31 December 2019, 30% of accounts receivable were due from four customers (2018: 36% from three customers). Management believes that this concentration of credit risk is mitigated as the customers have established track record of regular and timely payments.

For trade receivables, an internal risk assessment process determines the credit quality of the customers, taking into account their financial positions, past experiences and other factors. Individual risk limits are set based on internal or external credit worthiness ratings in accordance with limits set by the management. The carrying amount of trade receivables relates to a number of independent customers for whom there is no recent history of default. Also see Note 2.11.

Cash and cash equivalents and short-term murabaha deposits represent low credit risk as they are placed with reputable local banks.

*(ii) Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot be reasonably predicted, such as natural disasters.

Cash flow forecasting is performed by management on an annual basis. Management also monitors monthly rolling forecasts of the Company's liquidity requirements and takes necessary measures to ensure it has sufficient cash to meet its operational needs.

*(iii) Market risk*

Market risk is the risk that changes in foreign exchange rate and interest rates will affect the Company's income or value of its holding in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing returns.

*a) Foreign exchange risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions and financial instruments are primarily in Saudi Riyals and US dollars. Since Saudi Riyal is pegged to US dollar, management of the Company believes that the currency risk for the financial instruments is not significant.

*b) Interest rate risk*

Interest rate risk arises due to changes in market interest rates that result in fluctuation in fair value or future cash flows of a financial instrument. Borrowings obtained at variable rates expose the Company to cash flow interest rate risk.



**METHANOL CHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended 31 December 2019**  
(All amounts in Saudi Riyals unless otherwise stated)

At 31 December 2019, the Company had variable interest bearing financial assets of Saudi Riyals 60.5 million (2018: Saudi Riyals 164.0 million) and financial liabilities of Saudi Riyals 735.2 million (2018: Saudi Riyals 848.9 million), and had the interest rate varied by 1% with all the other variables held constant, net change in (loss) profit before zakat for the year would have been approximately Saudi Riyals 5.2 million (2018: Saudi Riyals 4.8 million) lower / higher, mainly as a result of lower / higher financial charges on floating rate borrowings.

c) *Price risk*

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

## **24 Fair value of assets and liabilities**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

As at 31 December 2019 and 2018, the fair values of the Company's current 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.

## **25 Categories of financial assets and financial liabilities**

As at 31 December 2019 and 2018, all financial assets and financial liabilities were carried at amortized cost.

## **26 Capital risk management**

The Company's objectives when managing capital are to:

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders; and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company monitors capital on the basis of the following gearing ratio:

	<b>Note</b>	<b>2019</b>	<b>2018</b>
Total borrowings	18	<b>732,249,618</b>	842,972,719
Less: Cash and cash equivalents	15	<b>(113,086,237)</b>	(119,823,733)
Net debt		<b>619,163,381</b>	723,148,986
Total equity		<b>1,053,812,764</b>	1,141,047,568
Gearing ratio		<b>59%</b>	63%

**METHANOL CHEMICALS COMPANY**  
**(A Saudi Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended 31 December 2019**  
(All amounts in Saudi Riyals unless otherwise stated)

**27 Basic and diluted (loss) earnings per share**

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

	<b>For the year ended 31 December</b>	
	<b>2019</b>	<b>2018</b>
(Loss) earnings for the year	<b>(84,075,501)</b>	46,153,843
Weighted average number of ordinary shares for basic and diluted (loss) earnings per share	<b>120,600,000</b>	120,600,000
(Loss) earnings per share	<b>(0.70)</b>	0.38

**28 Contingencies and commitments**

- (i) At 31 December 2019, the Company was contingently liable for bank guarantees and letters of credit issued in the normal course of business amounting to Saudi Riyals 55.9 million and Saudi Riyals 0.4 million, respectively (2018: Saudi Riyals 57.2 million and Nil, respectively).
- (ii) The capital expenditure contracted by the Company but not incurred till 31 December 2019 was approximately Saudi Riyals 31.7 million (2018: Saudi Riyals 17.4 million).