MEGlobal Canada ULC

Consolidated Financial Statements and Independent Auditors' Report for the year ended 31 December 2017

Table of Contents

KPMG

KPMG Lower Gulf Limited
Level 13, Boulevard Plaza Tower One
Mohammed Bin Rashid Boulevard, Downtown Dubai, UAE
Tel. +971 (4) 403 0300, Fax +971 (4) 330 1515

Independent Auditors' Report

To the Board of Directors of MEGlobal Canada ULC

Report on the Audit of Special Purpose Consolidated Financial Statements

Opinion

We have audited the special purpose consolidated financial statements of MEGlobal Canada ULC ("the Company") and its subsidiary (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying special purpose consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Special Purpose Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Basis of Accounting

We draw attention to note 2.1 to the special purpose consolidated financial statements, which describes the basis of accounting.

The special purpose consolidated financial statements are prepared under International Financial Reporting Standards reporting framework for the information of the Directors of the Company. As a result, the special purpose consolidated financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Special Purpose Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the special purpose consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of special purpose consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the special purpose consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Special Purpose Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the special purpose consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 ISAs 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 special purpose consolidated financial statements.

Auditors' Responsibilities for the Audit of the Special Purpose Consolidated Financial Statements (continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the special purpose consolidated 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the special purpose consolidated 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the special purpose consolidated financial statements, including the disclosures, and whether the special purpose consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Auditors' Responsibilities for the Audit of the Special Purpose Consolidated Financial Statements (continued)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the special purpose consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

KPMG

KPMG Lower Gulf Limited
Dubai, United Arab Emirates
Date: 14 FEB 2018

MEGlobal Canada ULC
Halifax, Nova Scotia

Consolidated statement of financial position
As at 31 December *(all amounts in US$ million, except share data)*

	Notes	2017	2016
Assets			
Non-current assets			
Property, plant and equipment (net of accumulated depreciation)	3	556	558
Goodwill	4	1,461	1,461
Intangible assets (net of accumulated amortization)	4	9	10
Deferred income taxes	13	10	5
Deferred charges and other assets	5	211	228
Total non-current assets		**2,247**	**2,262**
Current assets			
Cash and cash equivalents		-	-
Accounts and other receivables			
Trade receivables (net of allowance for doubtful accounts of $0)		3	5
Related parties	12	158	90
Others receivables		10	8
Notes receivable	6,12	91	9
Inventories	7	29	33
Deferred charges and other assets	5	17	19
Total current assets		**308**	**164**
Total assets		**2,555**	**2,426**
Equity and liabilities			
Equity			
Class A – authorized, unlimited shares; Issued 200,000,100 shares in 2015	8	-	-
Class B – authorized, unlimited shares; Issued 0 shares in 2015		-	-
Additional paid-in-capital		200	200
Retained earnings		359	128
Pension plans reserve		(6)	(2)
Foreign currency translation reserve		23	(2)
Total stockholders' equity		**576**	**324**
Non-current liabilities			
Long term debt	9	1,601	1,601
Deferred income tax	13	176	187
Pension and other post-retirement benefits	15	30	19
Other deferred liabilities		-	1
Total non-current liabilities		**1,807**	**1,808**
Current liabilities			
Notes payable	6,12	71	227
Accounts and other payables			
Trade payables		29	21
Related parties	12	13	34
Others payable		2	4
Income taxes payable		45	-
Accrued and other current liabilities		12	8
Total current liabilities		**172**	**294**
Total liabilities		**1,979**	**2,102**
Total equity and liabilities		**2,555**	**2,426**

The accompanying notes on pages 11 to 29 form an integral part of these special purpose consolidated financial statements.

The independent auditors' report is set on pages 2 to 5.

Consolidated statement of financial position
As at 31 December *(all amounts in US$ million, except share data)*

These consolidated financial statements were authorized for issue on behalf of the Board of Directors on 14 FEB 2018 and signed on their behalf by:

Naser Aldousari

Director

Ramesh Ramachandran

Director

Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December *(all amounts in US$ million)*

	Notes	2017	2016
Net sales	16	870	689
Cost of sales		(497)	(469)
Other income		2	1
Operating profit		**375**	**221**
Net loss on foreign currency transactions		(4)	(2)
Interest expense		(58)	(50)
Finance expense		**(62)**	**(52)**
Income before income taxes		313	169
Provision for income taxes	13	(82)	(44)
Net profit for the year		**231**	**125**
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		25	(1)
Pension and other post-retirement benefits		(4)	(2)
Other comprehensive income for the year, net of tax		21	(3)
Total comprehensive income for the year		**252**	**122**
Net profit attributable to:			
Equity holders of the company		**231**	**125**
Total comprehensive income attributable to:			
Equity holders of the company		**252**	**122**

The accompanying notes on pages 11 to 29 form an integral part of these special purpose consolidated financial statements.

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Consolidated statement of changes in equity
For the year ended 31 December *(all amounts in US$ million)*

	Attributable to owners of the company				
	Additional paid in capital	**Retained earnings**	**Foreign currency translation reserve**	**Pension plan reserve**	**Total**
Balance at 1 January 2016	200	3	(1)	-	202
Profit for the year	-	125	-	-	125
Other comprehensive income for the year	-	-	(1)	(2)	(3)
Total comprehensive income for the year	**-**	**125**	**(1)**	**(2)**	**122**
Balance at 31 December 2016	**200**	**128**	**(2)**	**(2)**	**324**
Balance as at 1 January 2017	**200**	**128**	**(2)**	**(2)**	**324**
Profit for the year	-	231	-	-	231
Other comprehensive income for the year	-	-	25	(4)	21
Total comprehensive income for the year	**-**	**231**	**25**	**(4)**	**252**
Balance at 31 December 2017	**200**	**359**	**23**	**(6)**	**576**

The accompanying notes on pages 11 to 29 form an integral part of these special purpose consolidated financial statements.

Consolidated statement of cash flows
For the year ended 31 December *(all amounts in US$ million)*

	Notes	2017	2016
Cash flows from operating activities			
Net profit for the year		231	125
Adjustments:			
Depreciation of property, plant and equipment	3	59	55
Amortization of intangible and deferred assets		20	1
Provision for tax	13	82	44
Changes in:			
Accounts and other receivable		(68)	7
Inventories		4	(5)
Accounts and other payable		(15)	18
Other assets and liabilities		11	10
Net cash generated from operating activities		324	255
Income taxes paid	13	(53)	(69)
Net cash from operating activities		**271**	**186**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(33)	(33)
Receipts from MEGlobal BV (notes receivables)		-	7
Lending to MEGlobal BV (notes receivables)		(82)	-
Net cash used in investing activities		**(115)**	**(26)**
Cash flows from financing activities			
Borrowing from NBK long term credit facility	9	-	1,601
Repayments of loans and borrowings		-	(1,663)
Repayment of notes payables		(156)	(98)
Net cash used in financing activities		**(156)**	**(160)**
Net cash flows during the year		-	-
Cash and cash equivalents at December 31		-	-

The accompanying notes on pages 11 to 29 form an integral part of these special purpose consolidated financial statements.

The independent auditors' report is set on pages 2 to 5.

1. REPORTING ENTITY

MEGlobal Canada ULC ("the Company") is domiciled in Canada. These special purpose consolidated financial statements include the financial performance and position of the Company and its wholly owned subsidiary Alberta & Orient Glycol Company ULC ("A&O") (together referred to as the "Group").

Nature of Operations – MEGlobal Canada ULC, formed in December 2015 via a series of amalgamations, is a wholly owned subsidiary of EQUATE Petrochemical Company K.S.C.C. ("EQUATE"), which is also the Ultimate Parent Company of the Group. Prior to the change in shareholding, it operated as MEGlobal Canada Inc., a joint venture between Dow Chemical Canada ULC ("DCC ULC") and PicCan Holdings Inc. ("PicCan"). Each party held a 50% shareholding interest.

The Group is a producer of monoethylene glycol ("MEG") and diethylene glycol ("DEG"), commonly referred to as ethylene glycol ("EG"). It operates three world scale EG facilities in Alberta, Canada.

The Company's registered office is located at Suite 1300, 1969 Upper Water Street, Purdy's Wharf Tower II, Halifax, Nova Scotia, Canada.

2. BASIS OF PREPARATION

2. 1 Statement of Compliance

The special purpose consolidated financial statements ("consolidated financial statements") have been prepared in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and have been prepared on the historical cost basis except for derivative financial instruments which are measured at fair value. All amounts in these consolidated financial statements have been rounded to the nearest millions, and presented in U.S. dollars which is Company's functional and presentation currency, unless otherwise indicated.

These consolidated financial statements have been prepared under International Financial Reporting Standards reporting framework solely for information of the Directors of the Company.

2. 2 Significant Accounting Policies

The accounting policies as outlined below and used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the consolidated financial statements for the year ended 31 December 2016. Additionally, the Group also adopted amendments and annual improvements to IFRSs, relevant to the Group which are effective for annual reporting period starting from 1 January 2017. These did not result in any material impact on the accounting policies, financial position or performance of the Group.

Principles of Consolidation – The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary A&O. Upon consolidation, all material inter-Group accounts, transactions and profits have been eliminated.

Subsidiaries - Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of a subsidiary is included in the consolidated financial statements from the date control commences until the date on which control ceases.

Financial Instruments and Risk Management **–** The Group classifies non-derivative financial assets as loans and receivables and non-derivative financial liabilities as other financial liabilities.

Non-derivative financial assets and financial liabilities- recognition and derecognition: The Group initially recognises loans and receivables on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date when the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expired. Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Non-derivative financial assets- measurement*:* These financial assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method. Loans and receivables comprise of cash and cash equivalents, accounts receivable, notes receivable with related parties.

Non-derivative financial liabilities- measurement: The other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method. Other non-derivative financial liabilities comprise of notes payable to related parties, accounts payable, long term and short-term debt.

Derivative financial instruments: Foreign exchange forward contracts are derivative instruments used by the Group to hedge its foreign currency exposure. Derivatives are recognized initially at fair value; and any directly attributable transaction costs are recognized in profit or loss as they are incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss.

Cash and Cash Equivalents – Cash and cash equivalents consist of cash and money market funds with an original maturity of three months or less.

Inventories – Inventories are stated at the lower of cost or net realizable value. The cost of inventories are based on the standard cost that approximates the cost is determined by the first-in, first-out ("FIFO") method. Standard costs are revised at the beginning of each month. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business less estimated cost of completion and selling expenses.

Property, plant and equipment – Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses, if any. It include expenditures for major renewals and betterments. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives, residual values and depreciation methods are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Properties under construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Maintenance and repairs are normally expensed during the financial period in which they are incurred. If major renewals are performed and these activities bring to the Group future economic benefits in excess of the originally assessed standard of performance, the expenditures are capitalized and depreciated over the remaining useful life of the related asset.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of comprehensive income.

Goodwill – Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses. Goodwill is reviewed for annual impairment test. Any impairment is recognized immediately in profit or loss and is not subsequently reversed.

Intangible Assets **–** Intangible Assets that are acquired by the group and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses, if any. The estimated useful lives, residual values and amortisation methods are reviewed at each year end, with the effect of any changes in estimate being accounted for on a prospective basis.

Impairment

Financial assets measured at amortized cost: Financial assets not carried at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security or observable data indicating that there is measureable decrease in expected cash flows from a group of financial assets.

The Group considers evidence of impairment for these assets at an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historic trends.

An impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of assets, the relevant amounts are written off. If the amount of impairment loss subsequently decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit and loss.

Non-financial assets: At each reporting date, the Group reviews the carrying amounts of its non-financial assets, other than inventories and deferred tax assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units ("CGUs"). Goodwill arising from business combination is allocated to CGU or groups of CGUs that are expected to benefit from the synergies of the combination. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. All impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The fair value of financial instruments carried at amortised cost, other derivative financial instruments, is estimated by discounting the future contractual cash flows at the current market interest rates for similar financial instruments.

Operating leases **–** Leases of assets under which the lessor effectively retains all the risks and rewards of ownership are classified as operating leases. Payments made under operating lease are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Deferred Charges and Other Assets **–** The Group amortizes on a straight line basis or productive use method as appropriate.

Provisions - Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. When the Group expects a provision to be reimbursed, the inflow is recognized as an asset only when the reimbursement is certain.

Income Taxes – Income tax comprises current and deferred tax. Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivables in respect of previous years.

Deferred income tax assets and liabilities are computed for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future. Such deferred income tax asset and liability computations are based on substantially enacted tax laws and rates applicable to periods in which the differences are expected to affect taxable income. Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Revenue Recognition – The Group recognizes revenue from sale of goods when the significant risks and rewards of the ownership of the goods have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Revenue is measured, net of returns, discounts and sales related taxes.

Finance income and finance costs - The Group's finance income and finance costs include interest income, interest expense and the foreign currency gain or loss on financial assets and financial liabilities. Interest income or expense is recognized using the effective interest method.

Foreign Currency Translation – The functional currency for the Company is U.S. dollars, while the A&O subsidiary uses Canadian dollars.

Foreign currency transactions: Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss.

Foreign operations: The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to USD at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to USD at the average exchange rates for current year. Foreign exchange differences arising on translation are recognized in other comprehensive income and presented in the foreign currency translation reserve in equity. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to the non-controlling interests.

Employee benefits

i. Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

ii. Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

iii. Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

Recent Accounting Pronouncements – A number of new standards, amendments to standards are effective for annual periods beginning after 1 January 2017 and early adoption is permitted; however the Group has not early adopted the following new or amended standards in preparing these consolidated financial statements. Of particular relevance to the Group are:

IFRS 9- Financial Instruments: Classification and Measurement

The IASB issued IFRS 9 - Financial Instruments in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018 with a permission to early adopt. IFRS 9 sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non- financial assets. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The adoption of this standard will have an effect on the classification and measurement of Group’s financial assets but is not expected to have any impact on the classification and measurement of financial liabilities. Group has not performed a detailed impact assessment of IFRS 9 as the Group expects no significant impact on its consolidated statement of financial position and equity resulting from transition to IFRS 9.

IFRS 15 – Revenue from Contracts with Customers

The standard, effective for annual periods beginning on or after January 1, 2018, establishes a single and comprehensive framework for determining whether, how much and when revenue is recognised. It replaces the following existing standards and interpretations upon its effective date:

• IAS 18 – Revenue,
• IAS 11 – Construction Contracts,
• IFRIC 13 – Customer Loyalty Programs,
• IFRIC 15 – Agreements for the Construction of Real Estate,
• IFRIC 18 – Transfers of Assets from Customers, and,
• SIC 31 – Revenue-Barter Transactions Involving Advertising Services

This standard applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards. Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, plant and equipment and intangible assets. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The new standard also provides greater guidance on the accounting for provisionally priced contracts which applies to most of the Group’s sales arrangements. Under IFRS 15, an entity recognises when (on as) a performance obligation is satisfied, i.e. when “control” of the goods as services underlying the particular performance obligation is transferred to customers. The Group is currently assessing the impact of above matter under IFRS 15.

The Group has anticipated that IFRS 15 will be adopted in the Group's consolidated financial statements when it becomes mandatory. Based on the current accounting treatment of the Group’s revenue the management does not anticipate that the application of IFRS 15 will have a significant impact on the consolidated financial position and/or financial performance of the Group, apart from providing more extensive disclosures on the Group’s revenue transactions. However, as the management is still in the process of assessing the full impact of the application of IFRS 15 on the Group’s consolidated financial statements as it is not practicable to provide a reasonable financial estimate of the effect until the management complete the detailed review.

IFRS 16- Leases

IFRS 16 introduces a single, on balance lease sheet accounting model for lessees. A lessee recognises a right of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases—Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

Critical Accounting Judgments and Key Sources of Estimation Uncertainty - In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities and income and expenses that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments and key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Revenue recognition – Sales are billed to customers based on provisional pricing and are subsequently adjusted for the actual settlement prices. As of the end of the reporting period the Group estimates the final settlement price based on the prices observed in the market.

Impairment of goodwill – Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Impairment of property, plant and equipment and intangible assets with finite useful lives – The Group assesses the carrying value of property, plant, equipment, identifiable intangible assets, and long-lived assets annually, or more frequently if events or changes in circumstances indicate that such carrying value may not be recoverable. Factors that trigger an impairment review include underperformance relative to historical or projected future results, significant changes in the manner of use of the assets or the strategy for the overall business and significant negative industry or economic trends. The most significant variables in determining cash flows are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. Amounts estimated could differ materially from what will actually occur in the future.

Estimation of useful lives of property, plant and equipment and intangible assets with finite useful live –The Group estimates the useful lives of property, plant and equipment and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates.

Allowances for doubtful accounts – The Group creates an allowance for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. If the customers' financial conditions were to deteriorate, additional allowances may be required in future periods.

Allowances against inventory – The Group periodically reviews inventory for any declines in net realizable value below cost, and creates an allowance against the inventory balance for any such decline. These reviews require management to assess the estimated future demand for products. Possible changes in these estimates could result in revisions to the evaluation of inventory in future periods.

Legal contingencies – Legal contingencies cover matters threatened in various jurisdictions against the Group. Provisions are recorded for pending litigation when it is determined that an unfavorable outcome is probable and the amount of loss can be reasonably estimated, after consideration of advice from attorneys. Due to the inherent uncertain nature of litigation, the ultimate outcome or actual cost of the settlement may materially vary from estimates.

Employee benefits – Short term employee benefits are measured on an undiscounted basis and are expensed as the related service is performed. Liabilities are recognized for the amount expected to be paid under the short and long term incentive programs offered by the Group. These obligations can be estimated reliably. Also refer note 15 for estimates relating to post retirement benefits.

Measurement of fair values – A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 10 – Derivative instruments and hedging

For the year ended 31 December (all amounts in US$ million, except share data)

3. PROPERTY, PLANT AND EQUIPMENT

Details of the net book value of the property, plant and equipment at 31 December are as follows:

	Land & Waterway Improvements	Buildings	Machinery & Equipment	Construction in Progress	Total
Cost					
As at 1 January 2016	7	44	500	29	580
Additions	-	-	25	8	33
Transfers	-	-	27	(27)	-
Disposals	-	-	(2)	-	(2)
As at 31 December 2016	**7**	**44**	**550**	**10**	**611**
Accumulated depreciation					
As at 1 January 2016	-	-	-	-	-
Depreciation expense	1	2	52	-	55
Disposals	-	-	(2)	-	(2)
Foreign currency translation	-	-	-	-	-
As at 31 December 2016	**1**	**2**	**50**	**-**	**53**
Carrying amounts					
As at 31 December 2016	**6**	**42**	**500**	**10**	**558**
Cost					
As at 1 January 2017	7	44	550	10	611
Additions	-	1	24	8	33
Transfers	-	-	10	(10)	-
Disposals	-	-	(1)	-	(1)
Foreign currency translation	1	3	23	1	28
As at 31 December 2017	**8**	**48**	**606**	**9**	**671**
Accumulated depreciation					
As at 1 January 2017	1	2	50	-	53
Depreciation expense	-	2	57	-	59
Disposals	-	-	(1)	-	(1)
Foreign currency translation	-	-	4	-	4
As at 31 December 2017	**1**	**4**	**110**	**-**	**115**
Carrying amounts					
As at 31 December 2017	**7**	**44**	**496**	**9**	**556**

The following useful lives are used in the calculation of depreciation expense:

Waterways improvements	1 to 25 years
Buildings	5 to 40 years
Machinery and equipment	1 to 20 years

For the year ended 31 December (all amounts in US$ million, except share data)

4. GOODWILL AND OTHER INTANGIBLE ASSETS

Details of Goodwill and other intangibles at 31 December are as follows:

	Goodwill	Intellectual Property	Software	Total
Cost				
As at 1 January 2016	1,461	10	1	1,472
Addition	-	-	-	-
As at 31 December 2016	**1,461**	**10**	**1**	**1,472**
Accumulated Amortization				
As at 1 January 2016	-	-	-	-
Amortisation expense for the year	-	1	-	1
As at 31 December 2016	**-**	**1**	**-**	**1**
Carrying Amounts				
As at 31 December 2016	**1,461**	**9**	**1**	**1,471**
Cost				
As at 1 January 2017	1,461	10	1	1,472
Addition	-	-	-	
As at 31 December 2017	**1,461**	**10**	**1**	**1,472**
Accumulated Amortization				
As at I January 2017	-	1	-	1
Amortization expense for the year	-	1	-	1
As at 31 December 2017	**-**	**2**	**-**	**2**
Carrying Amounts				
As at 31 December 2017	**1,461**	**8**	**1**	**1,470**

Goodwill acquired in a business combination is allocated to the cash-generating unit ("CGU') that is expected to benefit from that business combination. Goodwill represents the expected economic benefits from the business combination including the future growth of the operations, synergies expected from supply chain and logistics, reduction of cost and access to global market and network. The impairment testing for Goodwill is carried out annually. The Group has one CGU for the purpose of impairment testing. The carrying amount of goodwill has been allocated to this CGU.

The recoverable amount of the CGU is determined from value-in-use calculations. The key assumptions for the value-in-use calculations are those regarding the discount rate, growth rates, freight cost and forecasted CFR prices. Management estimates discount rates using post-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on industry growth forecasts. The Group prepares cash flow forecasts derived from the most recent financial budgets and market updates reviewed by management for the next five years, with adjustments as necessary to better reflect subsequent information, and extrapolates cash flows for the following five years based on an estimated growth rate of 2% per annum which is also the terminal growth rate applied. The terminal growth rate does not exceed the average long-term revenue growth rate for the relevant markets. The rate used to discount the forecast cash flows is in the range of 8% to 9%. Though a period longer than 5 years is used for cash flow projections, this is not expected to impact the impairment assessment as the expected sales volumes are constant after the fifth year and terminal growth rate of 2% is applied on key variables.

As a result of the annual impairment analysis carried out during the current year, the estimated recoverable amount of the CGU exceeded its carrying amount. Management has not identified any reasonably possible change in the assumptions which could cause the carrying amount to exceed the recoverable amount. Management is confident that based on its assessment, the goodwill is recoverable and accordingly, no impairment loss has been recorded. The amortization expense of intellectual property is included in cost of sales.

For the year ended 31 December (all amounts in US$ million, except share data)

5. DEFERRED CHARGES AND OTHER ASSETS

	2017			2016		
	Current	Non-current	Total	Current	Non-current	Total
Ethylene supply agreement	13	197	210	14	209	223
Financing costs – Bank	3	7	10	3	10	13
Ethylene storage cavern	1	4	5	1	5	6
Others	-	3	3	1	4	5
	17	**211**	**228**	**19**	**228**	**247**

6. NOTES RECEIVABLE / PAYABLE

	2017		2016	
	Notes Receivable	Notes Payable	Notes Receivable	Notes Payable
MEGlobal B.V.	91	71	9	226
EQUATE Petrochemical Company K.S.C.C	-	-	-	1
	91	**71**	**9**	**227**

MEGlobal B.V. Revolving Credit Facility **–** The Group has a multi-currency revolving credit facility in place with MEGlobal B.V., for working capital financing up to a maximum of $500 (2016: $500) at an interest rate of Base Rate to 0.25% (2016: 0.25%) above base rate (Base Rate is defined as the funding cost of MEGlobal B.V., which represents 1 to 6 month USD LIBOR and a spread of 1.50% (2016:1.50%)). The facility can also be used to deposit excess funds. As of 31 December, the Group had deposited a net $20 (2016: $217) in various currencies with rates ranging from 2.11% to 2.36% (2016: 2.37% to 2.62 %). The facility does not have a specific tenure and is repayable on demand. Interest is accrued monthly.

EQUATE Petrochemical Company K.S.C.C. Credit Facility **–** The Group has a revolving credit facility in place with EQUATE for working capital financing up to a maximum of $1,000 (2016: $1,000) at an interest rate of 0.50% (2016: 0.50%) above LIBOR. As of 31 December, the Group has not utilized this facility (2016: $1). The facility does not have a specific tenure and is repayable on demand. Interest is accrued monthly.

7. INVENTORIES

Details of inventory at 31 December are as follows:

	2017	2016
Finished Goods	10	13
Raw Materials and Supplies	19	20
Total inventories	**29**	**33**

8. COMMON STOCK

The Group has two classes of common stock: Class A and Class B. Both classes of shares carry no par value per share.

Class A Shares:
Authorized: unlimited shares
Issued and outstanding: 200,000,100 shares
Stockholder: EQUATE Petrochemical Company K.S.C.C

For the year ended 31 December (all amounts in US$ million, except share data)

8. COMMON STOCK *(continued)*

Class B Shares:

Authorized: unlimited shares
Issued and outstanding: 0 shares

These classes of common stock have the same rights, preferences and restrictions.

9. LONG TERM DEBT – BANKS

On 23 June 2016, EQUATE entered into a US $5,000 long term loan agreement ("Term Loan") with a consortium of banks. The Term Loan consisted of US $2,000 Tranche A 5-year bullet facility, US $2,000 Tranche B 3-year bullet facility, and US $1,000 3 year revolving credit facility. The Group is jointly and severally a guarantor along with EQUATE and The Kuwait Olefins Company K.S.C.C ("TKOC") for the Term Loan and the credit facilities include customary covenants.

Details of the Term Loan are as follows:

		Term Loan		
	Total Facility	Tranche A	Tranche B	Revolving credit facility
Islamic Financing	470	188	188	94
Conventional Financing	4,530	1,812	1,812	906
Total	**5,000**	**2,000**	**2,000**	**1,000**

The Group has borrowed $1,601 under Term A of this facility. The interest/profit rate payable on the facility is LIBOR+1.95% [2.72% as on December 31, 2017] (2016: LIBOR+1.95% [2.72% as on December 31, 2016]). Interest/profit on the above facility amounted to $55 (2016: $20).

10. DERIVATIVES INSTRUMENTS AND HEDGING

The Group's operations require active participation in foreign exchange markets. The Group enters into foreign exchange forward contracts to hedge various currency exposures. Exposures primarily relate to assets and liabilities denominated in foreign currencies. The primary business objective of the activity is to optimize the U.S. dollar value of the Group's assets and liabilities with respect to exchange rate fluctuations. Assets and liabilities denominated in the same foreign currency are netted, and only the net exposure is hedged. At 31 December 2017, the Group had forward contracts to buy, sell or exchange foreign currencies. These contracts had various expiration dates and are with MEGlobal BV. The Group has not engaged in any cash flow hedges.

	2017		**2016**	
	Gain	**Loss**	**Gain**	**Loss**
Derivatives relating to				
Foreign currency mark to market impact on profit or loss	-	(5)	-	(1)

As at 31 December, the Group had the following net notional forward exchange contracts:

	2017		**2016**	
	CAD	**USD**	**CAD**	**USD**
Long Position	485	274	392	9
Short Position	29	14	217	5

For the year ended 31 December (all amounts in US$ million, except share data)

10. DERIVATIVES INSTRUMENTS AND HEDGING *(continued)*

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The net mark to market loss on the above currencies amounting to $5 (2016: $1) as at 31 December 2017 is shown under level 3 inputs.

11. COMMITMENTS

11.1 Lease commitments

The Group has entered into leases for rail cars from third parties, land from DCC ULC, Silver from MEGlobal International FZE, and equipment from others under operating leases. At 31 December, the future minimum rental commitments under non-cancelable leases are as follows.

Minimum Lease Commitment	2017	2016
2017	-	1
2018	1	1
2019	1	1
Total	2	3

11.2. Other commitments

MEGlobal International FZE ("the related party") has entered into short term arrangements to obtain the right to use 5,635,540 troy ounces (2016: 6,851,252 troy ounces) of silver worth $95 (2016: $111) with a variety of banks. The title and ownership of the silver rests with banks. These arrangements matures over various dates in 2018. The related party pays service fees for these arrangements which are expensed over the terms of such arrangements. The related party also bears the risk of loss of silver resulting from usage. The related party assigned the right to use silver to MEGlobal Canada ULC and its wholly owned subsidiary Alberta & Orient Glycol Company ULC for utilization in its manufacturing operations on similar terms.

12. RELATED PARTY TRANSACTIONS

The Group has entered into certain commercial arrangements with some of its ultimate stockholders or affiliates of the stockholders. They include:

- Ethylene Supply Agreement
- Ethylene Oxide (EO)/EG Swap Agreement
- Technology License Intellectual Property (IP) Agreement
- Catalyst Supply Agreement
- Storage Sublease
- Ground Lease
- Utilities Services Agreements
- Technical Services Agreement
- General Services Agreement
- Secrecy Agreement
- Employee Seconding Agreement
- Other Assignment and Assumption Agreements

For the year ended 31 December (all amounts in US$ million, except share data)

12. RELATED PARTY TRANSACTIONS *(continued)*

A summary of significant balances with affiliated entities is as follows:

	2017			2016		
	Dow Consolidated Companies	EQUATE Petrochemical BV	EQUATE Petrochemical K.S.C.C.	Dow Consolidated Companies	EQUATE Petrochemical BV	EQUATE Petrochemical K.S.C.C.
Purchase						
Ethylene	216	-	-	209	-	-
Services	78	2	-	49	2	-
Inventories	-	-	-	-	3	-
Sales						
Inventories	4	839	-	5	605	-
Services	6	-	-	5	-	-
Interest expenses	-	3	-	-	6	-
Interest income	-	1	-	-	2	-
Included in the December 31 Statement of Financial Position						
Accounts receivable	1	157	-	6	84	-
Accounts payable	12	1	-	28	6	-
Notes receivable	-	91	-	-	9	-
Notes payable	-	71	-	-	226	1

Dow Consolidated Companies includes: The Dow Chemical Group ("TDCC"), Union Carbide Corporation, DCC ULC, Dow Europe Holding B.V., DCOMCO Inc., DIFS and other TDCC subsidiaries and or related companies to a smaller extent.

EQUATE Petrochemical B.V. includes: MEGlobal B.V., MEGlobal Americas Inc., MEGlobal Europe GmbH, MEGlobal International FZE, MEGlobal Asia Limited, MEGlobal Mexico S.A. de C.V., MEGlobal Trading Co. Ltd. MEGlobal Comercio Do Brasil Ltda, Equipolymers GmbH, and Equipolymers SRL.

EQUATE Petrochemical Company K.S.C.C. is the Parent Company and other entities above fall under "other related parties" category.

All outstanding balances with these related parties are at agreed upon prices and are to be settled in accordance with standard terms of the agreements.

The Ethylene Supply Agreement commits the Group to purchase and obligates DCC ULC to supply a contract quantity of ethylene each year through 2024 with additional two five year extensions through to 2034, on a predetermined contract pricing formula. The provisions of the agreement allow for certain cost adjustments based on contractual formulas and raw material inputs and are generally settled in conjunction with the monthly related Group settlement and reconciliation process. Management believes that the impacts of these settlements are not significant.

The Company has no key managerial personnel employed.

For the year ended 31 December (all amounts in US$ million, except share data)

13. INCOME TAXES

The provision for income taxes consists of the following:

	2017	2016
Current	98	53
Deferred	(16)	(9)
Total	**82**	**44**

Tax rate reconciliation:

		2017		2016
Income before income taxes		313		169
Tax at the Canadian statutory rate	27%	85	27%	45
Other		(3)		(1)
Tax expense and effective tax rate for the year	**27%**	**82**	**26%**	**44**

Net income taxes paid in 2017 were $53 (2016: $69).

Significant components of the Group's deferred income tax assets and liabilities are as follows:

	2017	2016
Deferred Income Tax Assets:		
Post-retirement benefit obligations	8	5
Other Assets	2	-
Total	10	5
Deferred Income Tax Liabilities:		
Property	121	128
Other Assets and intangibles	55	59
Total	176	187
Net Deferred Income Tax Liabilities	**166**	**182**

14. EMPLOYEE BENEFIT PROGRAMS

Benefit program expenses which include compensation and all Group benefit programs totaled $43 in 2017 ($31 in 2016). Employees of the Group maintained their participation in all DCC ULC sponsored health and welfare benefit programs for the year ended 2017. The Group pays for the costs incurred under these plans. The employee savings and pension plans are in the name of the Group.

15. POST-RETIREMENT BENEFITS

The Group operates a non-contributory defined Benefit Plan ("Plan") for its employees. The Plan became effective July 1, 2004 replacing the Dow Chemical Canada Inc. Salaried Employees Pension Plan and the Union Carbide Pension Plan for Canadian employees; both plans had been in place for the Group's employees up until that time. All former Dow Chemical Canada Inc. ("DCCI") employees, who were also members of their respective plans, transferred to employment with the Group on July 1, 2004 and became employees of the Group and members of the Plan on that date. As of December 31, 2011, the defined benefit plan was closed to new entrants. The Group introduced a new defined contribution plan for employees hired on or after January 1, 2012.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out on December 31, 2016 in 2017. These valuations reflect the past service costs and asset transfers of the Union Carbide Canada and the DCCI Salaried Employees Pension plans to the Plan. The Plan's liabilities were assessed by utilizing the Projected Unit Credit actuarial method.

For the year ended 31 December (all amounts in US$ million, except share data)

15. POST-RETIREMENT BENEFITS *(continued)*

The pension plan exposes the Group to actuarial risks such as longevity risk, currency risk, interest rate risk and investment risk.

The Group provides certain health and welfare benefits to retired employees. These benefits which are supplemental to provincial health care plans cover eligible employees age 50 and over who have completed a minimum of ten years of credited active service. The Group and the retiree share the costs of these benefits. This unfunded benefit plan is cancellable by the Group.

Actuarial assumptions:	Defined Benefit Pension Plans		Other Post-Retirement Benefits	
Valuations at:	**2017**	**2016**	**2017**	**2016**
Discount Rate	3.44%	3.91%	3.47%	3.95%
Salary Increases – Current	5.00%	3.50%	3.50%	3.50%
Salary Increases – Subsequent Year	3.50%	3.50%	-	3.50%
Salary Increase – Thereafter	3.50%	3.50%	-	3.50%
Inflation	2.00%	2.00%	-	-
Heather Care Trend Rates:				
Drugs – Initial	-	-	5.00%	5.50%
Drugs – Ultimate Trend	-	-	5.00%	5.00%
Drugs - Year Ultimate Trend Rate Reached	-	-	2018	2018
Other Health Care	-	-	4.00%	4.00%

Defined benefit cost:	Defined Benefit Pension Plans		Other Post-Retirement Benefits	
	2017	**2016**	**2017**	**2016**
Profit & loss (P&L)				
Current services costs	3	3	-	-
Net interest cost	-	-	-	-
Cost recognized in P&L	3	3	-	-
Other comprehensive income (OCI)				
Actuarial loss due to:				
- Liability experience	4	-	(1)	-
- Liability assumption changes	6	2	-	-
Actuarial loss / (gain) arising during year	10	2	(1)	-
Return on plan assets (greater)/less than discount rate	(1)	(1)	-	-
Remeasurement effects recognized in OCI before tax	9	1	(1)	-
Defined benefit cost	**12**	**4**	**(1)**	**-**

Net financial position:	Defined Benefit Pension Plans		Other Post-Retirement Benefits	
	2017	**2016**	**2017**	**2016**
Development of Net Financial Position				
Defined benefit obligation	(87)	(67)	(5)	(5)
Fair value of assets	62	53	-	-
Net Defined Benefit Liability	**(25)**	**(14)**	**(5)**	**(5)**

For the year ended 31 December (all amounts in US$ million, except share data)

15. POST-RETIREMENT BENEFITS *(continued)*

Reconciliation of Benefit Obligation:	Defined Benefit Pension Plans		Other Post-Retirement Benefits	
	2017	**2016**	**2017**	**2016**
Acquired in a Business Combination	-	-	-	-
Benefit Liability at January 1	67	59	5	4
Current services cost	3	2	-	-
Interest cost	3	2	-	-
Actuarial (gain)/losses arising from:				
- Demographic assumptions	-	-	-	-
- Financial assumptions	6	2	-	-
- Experience assumptions	4	-	(1)	1
Benefits paid	(1)	(1)	-	-
Gain/(loss) due to exchange rate movements	5	3	1	-
Benefit liability at December 31	**87**	**67**	**5**	**5**

Reconciliation of Fair Value of Plan Assets:	Defined Benefit Pension Plans	
	2017	**2016**
Acquired in a Business Combination	-	-
Fair value of plan assets at 1 January	53	47
Company contributions	6	2
Benefits paid	(1)	(1)
Interest income on plan assets	2	2
Return on plan assets greater than discount rate	1	1
(Gain)/loss due to exchange rate movements	1	2
Fair value of plan assets at 31 December	**62**	**53**

The Fair Value of Plan Assets is analyzed as follows:	Defined Benefit Pension Plans	
	2017	**2016**
Cash	6	2
Bonds	22	21
Equity	34	30
Total	**62**	**53**

The Group's 2018 funding requirements for the defined benefit pension plans is expected to be $6 (2017:$4).

Contributions to the defined contribution plan for other post-retirement benefits were immaterial in 2017 and will remain so in 2018.

Pension and post-retirement costs are included in the employee benefits component of labor and thus follow labor costs to various line items of the consolidated statement of profit or loss and other comprehensive income.

A 1% point decrease in the discount rate would have an impact of $18 (2016: $15) on the defined benefit obligation of the pension plans and a $1 (2016: $1) impact on the defined benefit obligation of other post-retirement obligations.

The plan assets do not include any of the Group's financial instruments, nor property occupied by, or other assets used by the Group.

For the year ended 31 December (all amounts in US$ million, except share data)

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Market – The Group's products are primarily sold under a sales and distribution agreement with EQUATE B.V. and its subsidiaries around the globe. Prices are primarily affected by industry cycles and supply and demand balances. EQUATE B.V. addresses the associated business risks, by customer and geographic diversification, stringent credit management, and efficient channels to markets.

EQUATE B.V. assumes inventory positions, related price risks, commercial and credit risks of trade customers and related working capital financing.

Sales by Customer:	2017	2016
EQUATE B.V.	794	605
Other	76	84
Total	**870**	**689**

Geographic Region:	2017	2016
Americas	823	651
North Asia	47	38
Total	**870**	**689**

Credit – The Group is protected from third party credit risk due to the EQUATE B.V. distribution channels. In addition, the Group is selling products to local customers on open account and secured terms and engages in an active and conservative credit management policy that includes credit insurance. Management believes there are no significant past due receivables subject to credit risk. In accordance with management procurement policies, trade payables are settled in accordance with normal credit terms. With respect to financial assets, the maximum exposure is equal to the carrying amount of the assets on the statement of financial position. Temporary surplus cash is placed either with TDCC or with top rated third party banks.

Trade accounts receivable including related parties aging analysis:

	2017	2016
Current	161	95
Total	**161**	**95**

The management considers the notes receivables to be fully recoverable.

Concentration – The Group participates in the manufacturing and trade industry sector and can be analyzed by the following geographic regions post intergroup eliminations:

	2017		2016	
Geographic Region:	Assets	Liabilities	Assets	Liabilities
North America	2,407	307	2,320	593
Middle East	57	1,601	14	1,602
Europe	91	71	93	232

Interest – The Group is exposed to interest rate risk on all interest/profit bearing deposits and borrowings. The Group's long term debt via the EQUATE facility carries interest/profit at cost of funds plus margin (effective rate 3.52% on 31 December 2017). The sensitivity analysis shows that an increase of 1% in the interest/profit rate has $16 impact on the statement of profit or loss and other comprehensive income.

Liquidity – As disclosed on the face of the financial statements, the Group manages its short term obligations based on its own cash flow and credit facilities granted from the related companies.

For the year ended 31 December (all amounts in US$ million, except share data)

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

The dividend policy of the Group is driven by a targeted debt to equity ratio, cash flow and liquidity, and is restricted by certain tax and legal provisions prevailing in various jurisdictions in which the Group operates.

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest/profit payments:

	2017				2016			
	0 to 3 months	3 to 12 months	>1 year	Total	0 to 3 months	3 to 12 months	>1 year	Total
Accounts payables and accruals	101	-	-	101	68	-	-	68
Long term debt - banks	12	37	1,723	1,772	-	-	1,645	1,645
Notes payable	71	-	-	71	227	-	-	227
Total Liabilities	**184**	**37**	**1,723**	**1,944**	**295**	**-**	**1,645**	**1,940**

Foreign exchange – The Group is exposed to foreign currency translation and transaction gains and losses based on the nature and structure of its operations and changes in reporting and transaction currencies. The Group manages these foreign currency risks with foreign exchange contracts.

	Average rates		Period-end rates	
	Full year	Full Year	December 31	
	2017	2016	2017	2016
	USD	USD	USD	USD
1 CAD Canadian Dollar	0.772	0.757	0.796	0.743

The Group's estimate of the fair value of these financial instruments approximates their carrying amounts as of 31 December 2017 (31 December 2016) except for derivative financial instruments. The estimated fair value amounts have been determined by the Group using available market information and valuation methodologies.