

**Combined financial statements**  
**of**  
**EQUATE Petrochemical Company K.S.C.C. and Subsidiaries (“EQUATE Group”)**  
**and**  
**The Kuwait Olefins Company K.S.C.C. (“TKOC”)**

**Combined financial statements of EQUATE Group and TKOC  
State of Kuwait**

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<b>Contents</b>	<b>Page</b>
Independent auditor's report on combined financial statements	1 – 2
Combined statement of financial position	3
Combined statement of profit or loss and other comprehensive income	4
Combined statement of changes in equity	5
Combined statement of cash flows	6
Notes to the combined financial statements	7 – 45



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## Independent auditor's report

### The Shareholders

### **Equate Petrochemical Company K.S.C.C. and The Kuwait Olefins Company K.S.C.C. State of Kuwait**

#### Opinion

We have audited the combined financial statements of Equate Petrochemicals Company K.S.C.C. ("EQUATE" and its subsidiaries (together "EQUATE Group") and The Kuwait Olefins Company K.S.C.C. ("TKOC") (together referred to as "the Reporting Entity") which comprise the combined statement of financial position as at 31 December 2017, the combined 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 combined financial statements present fairly, in all material respects, the combined financial position of the Reporting Entity as at 31 December 2017, and its combined financial performance and its combined 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 *Auditor's Responsibilities for the Audit of the Combined Financial Statements* section of our report. We are independent of the Reporting Entity in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other 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 matters – Basis of preparation

We draw attention to Note 1 and 2 to the combined financial statements, which describes their basis of preparation, including the approach to and the purpose of preparing them. The combined financial statements of the Reporting Entity were prepared for presentation to lenders of EQUATE Group. Our opinion is not modified in respect of this matter.

#### Responsibilities of Management and Those Charged with Governance for the Combined Financial Statements

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



In preparing the combined financial statements, management is responsible for assessing the Reporting Entity 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 Reporting Entity or to cease operations, or has no realistic alternative but to do so.

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


## Auditor's Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined 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 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 combined financial statements.

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 combined 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 Reporting Entity'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 managements' 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 Reporting Entity'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 combined 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 Reporting Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the combined financial statements, including the disclosures, and whether the combined financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Reporting Entity to express an opinion on the combined 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.




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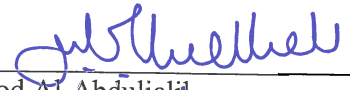
Kuwait: 5 March 2018

**Combined statement of financial position of  
EQUATE Group and TKOC  
State of Kuwait  
as at 31 December 2017**

	Notes	US\$ million	
		2017	2016
<b>Assets</b>			
Property, plant and equipment	4	2,564	2,452
Goodwill	5	1,689	1,689
Intangible assets	6	434	490
Deferred tax assets	7	48	33
Deferred charges and other assets	8	591	297
<b>Non-current assets</b>		<b>5,326</b>	<b>4,961</b>
Inventories	10	261	237
Due from related parties	9	89	79
Trade and other receivables	11	776	710
Deferred charges and other assets	8	25	23
Cash and bank balances	12	2,107	1,808
<b>Current assets</b>		<b>3,258</b>	<b>2,857</b>
<b>Total assets</b>		<b>8,584</b>	<b>7,818</b>
<b>Equity</b>			
Share capital		1,080	1,080
Treasury shares		(450)	(450)
Statutory reserve		540	540
Retained earnings		1,131	679
Remeasurement of retirement benefit obligation		(59)	(52)
Foreign currency translation reserve		45	6
<b>Total equity</b>		<b>2,287</b>	<b>1,803</b>
<b>Liabilities</b>			
Loans and borrowings	13	4,715	4,672
Deferred income	14	177	195
Deferred tax liabilities	7	230	252
Retirement benefit obligation	15	416	310
Long term incentives		4	4
<b>Non-current liabilities</b>		<b>5,542</b>	<b>5,433</b>
Long term incentives		5	5
Deferred income	14	15	15
Due to related parties	9	124	171
Trade and other payables	16	611	391
<b>Current liabilities</b>		<b>755</b>	<b>582</b>
<b>Total liabilities</b>		<b>6,297</b>	<b>6,015</b>
<b>Total equity and liabilities</b>		<b>8,584</b>	<b>7,818</b>

The accompanying notes form an integral part of these combined financial statements

  
 Ramesh Ramachandran  
 President & Chief Executive Officer  
 of EQUATE and TKOC

  
 Dawood Al-Abduljalil  
 Chief Financial Officer

**Combined statement of profit or loss and other comprehensive income of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

	Note	US\$ million	
		2017	2016
Sales		4,252	3,557
Cost of sales	17	(2,797)	(2,661)
<b>Gross profit</b>		<u>1,455</u>	<u>896</u>
Management fee	9	4	6
Reservation right fees		15	15
General, administrative and selling expenses	18	(101)	(94)
Other income		8	6
Foreign exchange (loss)		(3)	(4)
<b>Profit from operations</b>		<u>1,378</u>	<u>825</u>
Finance income		27	33
Finance costs		(188)	(123)
<b>Profit before contribution to Kuwait Foundation for the Advancement of Sciences (“KFAS”), Zakat, tax on subsidiaries and Board of Directors’ remuneration</b>		<u>1,217</u>	<u>735</u>
Contribution to KFAS	19	(11)	(7)
Contribution to Zakat	20	(7)	(4)
Tax on subsidiaries	7	(68)	(45)
Board of Directors’ remuneration		(0)	0
<b>Net profit for the year</b>		<u>1,131</u>	<u>679</u>
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Remeasurement of retirement benefit obligation	15	(7)	(8)
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Exchange differences on translating foreign operations		39	1
<b>Other comprehensive income for the year</b>		<u>32</u>	<u>(7)</u>
<b>Total comprehensive income for the year</b>		<u>1,163</u>	<u>672</u>

The accompanying notes form an integral part of these combined financial statements.

**Combined statement of changes in equity of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

	US\$ million						
	Share capital	Treasury shares	Statutory reserve	Retained earnings	Remeasurement of retirement benefit obligations	Foreign currency translation reserve	Total
<b>Balances as at 1 January 2016</b>	1,080	(450)	540	736	(44)	5	1,867
Net profit for the year	-	-	-	679	-	-	679
Other comprehensive income	-	-	-	-	(8)	1	(7)
<b>Total comprehensive income for the year</b>	-	-	-	679	(8)	1	672
Dividends paid	-	-	-	(736)	-	-	(736)
<b>Balance as at 31 December 2016</b>	1,080	(450)	540	679	(52)	6	1,803
<b>Balances as at 1 January 2017</b>	1,080	(450)	540	679	(52)	6	1,803
Net profit for the year	-	-	-	1,131	-	-	1,131
Other comprehensive income	-	-	-	-	(7)	39	32
<b>Total comprehensive income for the year</b>	-	-	-	1,131	(7)	39	1,163
Dividends paid	-	-	-	(679)	-	-	(679)
<b>Balance as at 31 December 2017</b>	1,080	(450)	540	1,131	(59)	45	2,287

The accompanying notes form an integral part of these combined financial statements.

**Combined statement of cash flows of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

	Notes	US\$ million	
		2017	2016
<b>Cash flows from operating activities</b>			
Net profit for the year		1,131	679
<i>Adjustments for:</i>			
Depreciation	4	286	285
Amortisation of intangible and deferred assets	6 & 8	81	81
Reservation right fees	14	(15)	(15)
Deferred income tax		(37)	(7)
Finance costs		188	123
Finance income		(27)	(33)
Provision for retirement benefit obligation	15	105	35
Foreign exchange loss on retirement benefit	15	4	(2)
Provision for long term incentives		5	3
		<u>1,721</u>	<u>1,149</u>
<i>Changes in:</i>			
Inventories		(24)	16
Due from related parties		(10)	185
Trade and other receivables		(66)	(107)
Deferred charges and other assets		19	(12)
Due to related parties		(47)	(62)
Trade and other payables		251	25
Retirement benefit obligation paid	15	(10)	(4)
Long term incentives paid		(6)	(4)
<b>Net cash from operating activities</b>		<u>1,828</u>	<u>1,186</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(361)	(164)
Payment of USGC Ethylene reservation fees	8	(315)	-
Purchase of intangible assets	6	-	(2)
Investment in staff saving scheme		(4)	(4)
Maturity / (placement) of short term deposits		394	(915)
Long-term loans repaid by related parties	9	-	253
Finance income received		42	39
<b>Net cash used in investing activities</b>		<u>(244)</u>	<u>(793)</u>
<b>Cash flows from financing activities</b>			
Drawdown of long term loan	13	-	2,500
Loans repaid	13	(500)	(5,000)
Proceeds from issuance of medium term note	13	-	2,218
Proceeds from issuance of Sukuk	13	500	-
Loan origination fees paid		(5)	(46)
Finance costs paid		(211)	(98)
Dividends paid		(679)	(736)
<b>Net cash (used in) financing activities</b>		<u>(895)</u>	<u>(1,162)</u>
Net increase / (decrease) in cash and cash equivalents		689	(769)
Cash and cash equivalents at beginning of the year		310	1,079
<b>Cash and cash equivalents at end of the year</b>	12	<u>999</u>	<u>310</u>

The accompanying notes form an integral part of these combined financial statements.



**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

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**1. Reporting entity**

EQUATE Petrochemical Company K.S.C.C. ("EQUATE") is a Closed Kuwaiti Shareholding Company incorporated in the State of Kuwait on 20 November 1995. EQUATE is engaged in manufacturing and sale of ethylene glycol ("EG") and polyethylene ("PE"). EQUATE also operates and maintains Olefins II, Styrene, Aromatics and Polypropylene plants on behalf of its related entities in Kuwait.

The Kuwait Olefins Company K.S.C.C. ("TKOC") is a Closed Kuwaiti Shareholding Company incorporated in the State of Kuwait on 10 October 2004 and is engaged in the manufacturing and sale of Ethylene and Ethylene Glycol ("EG"). TKOC is owned by EQUATE's shareholders and is managed by EQUATE's management. Additionally, the manufacturing plants of both EQUATE and TKOC are integrated and operated and managed by EQUATE's management under various agreements.

EQUATE and TKOC are owned by DOW Europe Holding B.V. ("DEH"), Petrochemical Industries Company K.S.C. ("PIC"), Boubyan Petrochemical Company K.S.C. ("BPC") and Al-Qurain Petrochemical Industries Company K.S.C. ("QPIC"). The shareholding of both the companies are identical and they are under common control. The registered address of both the companies is East Ahmadi, Block 9, Kuwait.

DEH is a subsidiary of the "The DOW Chemical Company". The word "DOW" further mentioned in this report refers to the "The DOW Chemical Company and its subsidiaries as a group".

EQUATE and its subsidiaries together referred as "EQUATE Group" and EQUATE Group and TKOC together referred as "the Reporting Entity".

The combined financial statements, which is the responsibility of the management of the Reporting Entity, is being presented with the sole purpose of providing, in a single set of financial statements, information related to the combined financial position and combined financial performance of the Reporting Entity. The combined financial statements is being prepared by and at the level of the common shareholders of EQUATE and TKOC. The combined financial statements of the Reporting Entity were prepared for presentation to lenders of EQUATE Group.

The combined financial statements as at and for the year ended 31 December 2017 comprise of the consolidated financial statements of EQUATE Group and its subsidiaries and TKOC. List of directly and indirectly owned subsidiaries of EQUATE are as follows:

**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

Name of entity	Country of incorporation	Principal business	Percentage of holdings	
			31 December 2017	31 December 2016
EQUATE BV	Netherlands	Holding Company	100%	100%
MEGC	Canada	Manufacturing and sales	100%	100%
EQUATE Sukuk SPC Limited	UAE	Special Purpose Company	100%	100%
<b>Held through EQUATE BV</b>				
MEGlobal B.V (“MEG B.V”)	Netherlands	Holding Company	100%	100%
MEGlobal Americas Inc	USA	Marketing and distribution	100%	100%
MEGlobal Asia Limited	China	Marketing and distribution	100%	100%
MEGlobal International FZE	UAE	Marketing and distribution	100%	100%
MEGlobal Mexico S.A. de C.V.	Mexico	Marketing and distribution	100%	100%
MEGlobal Trading Group	China	Marketing and distribution	100%	100%
MEGlobal Europe GmbH	Switzerland	Marketing and distribution	100%	100%
MEGlobal Comercio Do Brasil	Brazil	Marketing and distribution	100%	100%
Equipolymers GmbH	Germany	Manufacturing and sales of PET	100%	100%
Equipolymers Srl	Italy	Marketing of PET	100%	100%
<b>Held through MEGC</b>				
Alberta & Orient Glycol	Canada	Manufacturing and sales	100%	100%

The Management is evaluating scenarios of a potential future combination of TKOC and EQUATE. This project is still in a feasibility study stage and not yet approved by the Board of Directors.

These combined financial statements were authorised for issue by President and Chief Executive Officer of the Reporting Entity on 4 March 2018.

## **2. Basis of preparation**

### **a) Basis of accounting and combination**

These combined financial statements have been prepared by combining consolidated financial statements of EQUATE Group and financial statements of TKOC for the year ended 31 December 2017, prepared in accordance with International Financial Reporting Standards (IFRS).

These combined financial statements have been prepared as following:

- Financial statements of EQUATE Group and TKOC are combined on a line-by-line basis by adding together assets, liabilities, income and expenses;
- Share capital and reserves are aggregated;

**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

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- Inter-company transactions and balances between EQUATE Group and TKOC are eliminated; and
- Taxes have been determined based on the tax charges recorded by individual combined entities.

b) Basis of measurement

The combined financial statements have been prepared on historical or amortised cost basis except for derivative financial instruments, which is measured at fair value.

c) Functional and presentation currency

These combined financial statements are presented in United State Dollars (“US\$”), which is the functional currency of both EQUATE and TKOC. The functional currency is not the currency of the country in which the Reporting Entity is domiciled as majority of the transactions of the Reporting Entity is denominated in US\$. All financial statements presented in US\$ has been rounded to the nearest million.

d) Use of estimates and judgments

The preparation of the combined financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the combined financial statements are described in noted (3 s).

**3. Significant accounting policies**

The Reporting Entity has consistently applied the accounting policies set below to all periods presented in these combined financial statements. There were number of new standards and amendments to standards were applicable effective 1 January 2017. These did not have any significant financial impact on the Reporting Entity.

a) Basis of consolidation

The combined financial statements comprise the consolidated financial statements of EQUATE Group as at the reporting date and its subsidiaries (investees which are controlled by EQUATE Group) as at the same date or a date not earlier than one month from the reporting date. Control is achieved when the Reporting Entity is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Reporting Entity controls an investee if and only if the Reporting Entity has:

**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

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- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Reporting Entity has less than a majority of the voting or similar rights of an investee, the Reporting Entity considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Reporting Entity's voting rights and potential voting rights

The Reporting Entity re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Reporting Entity obtains control over the subsidiary and ceases when the Reporting Entity loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the Reporting Entity's combined financial statements from the date the Reporting Entity gains control until the date the Reporting Entity ceases to control the subsidiary.

Profit or loss and each component of the other comprehensive income are attributed to the shareholders of the Reporting Entity and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Reporting Entity's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Reporting Entity are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Reporting Entity lose control over a subsidiary, it derecognises the related assets (including goodwill and intangible assets), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

*Business combination under common control*

With respect to business combinations, arising from transfers of interests in entities that are under the control of the shareholders the Reporting Entity has chosen to apply IFRS 3 – Business combinations. Accordingly, transactions under common control are accounted for using the acquisition method whereby the assets and liabilities acquired are recognized at their fair value.

**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

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The cost of an acquisition is measured as the aggregate of the consideration transferred, and the identifiable assets acquired and liabilities assumed in a business combination which are measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Reporting Entity elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are recognized as expenses in the periods in which the costs are incurred. When the Reporting Entity acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognised in the combined statement of income.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date and included in cost of acquisition in determination of goodwill. Any resulting gain or loss on re-measurement of previously held equity interest is recognised in combined income statement. If the initial accounting for the business combination is incomplete by the end of the reporting period in which the combination occurs, the Reporting Entity reports provisional amounts for the items for which the accounting is incomplete and retrospectively adjusts these amounts during the measurement period of one year from the acquisition date.

Goodwill is measured as the excess of the aggregate of the fair value of the consideration transferred in the business combination, the amount recognized for non-controlling interest, and the fair value of any previously held equity interest in the acquiree, over the fair value of the acquiree's net identifiable assets acquired and liabilities assumed. If the aggregate consideration transferred, is lower than the fair value of net assets acquired, the difference is recognised as gain on business combination in the combined income statement on the acquisition date.

b) Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is computed on the straight-line method based on estimated useful lives of assets as follows:

Buildings, waterway improvements and roads	5 to 40 years
Plant and equipment	1 to 20 years
Office furniture and equipment	5 years
Vehicles	5 years

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.

**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

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Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the property, plant and equipment being replaced. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of fixed asset. All other expenditure is recognised in the statement of profit or loss when the expense is incurred. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Significant improvements and replacements of assets are capitalised.

Assets in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Reporting Entity's accounting policy. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

The replacement costs of major components and overhaul costs which improve the economic benefit that can be generated are capitalised by the Reporting Entity. The Reporting Entity recognises and accounts for each component of its asset separately for depreciation. The component approach is also applied where regular major inspections of an asset are a condition of continuing to use it. The cost of each inspection is treated as a separate item (replacement) of property, plant and equipment provided recognition criteria are satisfied.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised on a net basis within other income in the combined statement of profit or loss.

At each reporting date, the Reporting Entity reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Reporting Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the combined statement of profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the combined statement of profit or loss.

**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

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c) Goodwill

Goodwill arising on the acquisition of a subsidiary is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the consideration transferred over the net fair value of the identifiable net assets recognised.

If, after reassessment, the Reporting Entity's interest in the net fair value of the acquiree's identifiable net assets exceeds the consideration transferred, the excess is recognised immediately in the combined statement of profit and loss as a bargain purchase gain.

Goodwill is not amortised, but is reviewed for impairment at least annually. Goodwill impairment is determined by assessing the recoverable amount of cash-generating unit to which goodwill relates. The recoverable amount is the value in use of the cash-generating unit, which is the net present value of estimated future cash flows expected from such cash-generating unit. If the recoverable amount of cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit prorated on the basis of the carrying amount of each asset in the unit.

Any impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

d) Intangible assets

Intangible assets consist of technology and licences for the manufacture of ethylene, ethylene glycol and polyethylene. Intangible assets also consist of assets acquired on business combination like customer relationships, intellectual properties, brands, software and ethylene supply agreement, and brands.

Intangibles are measured at cost less accumulated amortisation and any accumulated impairment losses. Licenses to manufacture ethylene, ethylene glycol and polyethylene are amortised from the date of commencement of commercial production on a straight-line basis over twenty years, except for the olefin technology, which is amortised over five years.

Customer relationships (useful life-10 years), Intellectual properties, software and Ethylene Supply agreements acquired by the Reporting Entity have finite useful lives and are measured at cost less accumulated amortization and any accumulated impairment losses.

Brands recognized by the Reporting Entity on business combination has an infinite life and will be considered for annual impairment testing.

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.

At each reporting date, the Reporting Entity reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Reporting Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

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The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the combined statement of profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the combined statement of profit or loss.

e) Financial instruments

Classification

The Reporting Entity classifies its financial instruments as “loans and receivables” and financial liabilities other than at fair value through profit or loss. Management determines the appropriate classification at the time of acquisition.

Recognition and de-recognition

The Reporting Entity recognizes financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instruments. A financial asset (in whole or in part) is de-recognised when the contractual right to the cash flows from the financial asset expires or, when the Reporting Entity transfers substantially all the risks and rewards of ownership and has not retained control. If the Reporting Entity has retained control, it continues to recognize the financial asset to the extent of its continuing involvement in the financial asset.

A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

All regular way purchase and sale of financial assets are recognized using trade date accounting. Regular way purchase or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

Measurement

*Loans and receivables*

These are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured at amortized cost using the effective yield method.

Loans to related parties, due from related parties, trade and other receivables and cash and bank balances are classified as loans and receivables.



**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

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*Financial liabilities other than at fair value through profit or loss*

Financial liabilities other than at fair value through profit or loss are subsequently measured at amortized cost using the effective yield method.

Loans and borrowings, due to related parties and trade and other payables are classified as financial liabilities other than at fair value through profit or loss.

*Derivatives*

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each statement of financial position date. The resulting gain or loss is recognised in the combined statement of profit or loss immediately. Foreign exchange forward contracts are treated as trading instruments and are stated at fair market value with gains or losses included in foreign exchange gain / (loss) in the combined statement of profit or loss within the period they occur.

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 Reporting Entity.

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 than short-term financial instruments, is estimated by discounting the future contractual cash flows at the current market interest rates for similar financial instruments.

Impairment

*Assets carried at amortised cost*

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in combined statement of profit and loss.

**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

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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 previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in combined statement of profit and loss.

f) Inventories

Finished goods are measured at the lower of weighted average cost or net realisable value. The cost of finished products includes direct materials, direct labour and fixed and variable manufacturing overhead and other costs incurred in bringing inventories to their present location and condition.

Raw materials and catalysts are measured at weighted average cost net of allowance for slow-moving and obsolete items.

Spare parts are not intended for resale and are measured at weighted average cost after making allowance for slow-moving and obsolete items. Purchase cost includes the purchase price, import duties, transportation, handling and other direct costs.

Net realisable value is the estimated selling price for inventories in the ordinary course of business less estimated costs of completion and selling expenses.

g) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank current accounts and short term deposits with an original maturity of three months or less from the date of placement.

h) Treasury shares

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the statement of changes in equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in treasury shares reserve.

i) Retirement obligations

The Reporting Entity accounts for retirement benefits under IAS 19 “Employee Benefits”. Benefits are payable to EQUATE and TKOC employees on completion of employment in accordance with the Kuwaiti Labour Law. The subsidiaries have various pension plans in accordance with the local conditions and practices in the Country in which they operate. Benefits payable under these plans are in accordance with the laws in those countries.

**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

---

The cost of providing defined retirement benefit plans are determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each statement of financial position date. Re-measurement of the Reporting Entity's defined benefit obligation which mainly comprises actuarial gain and losses are recognised immediately in statement of other comprehensive income. Past service cost is recognised immediately in the period of plan amendment in the statement of profit or loss. Interest expense is determined on defined benefit obligation for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period, taking into account any changes in the defined benefit obligation during the period as a result of benefit payments. The liability is not externally funded. Liabilities for defined contribution plans are expensed as the related service is provided.

j) Provisions

A provision is recognised if, as a result of a past event, the Reporting Entity has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows that reflects current market assessments of the time value of money and the risks specific to the liability.

k) Revenue recognition

Sales net of applicable discounts, are recognised when the revenue is realised or realisable, has been earned, and collectability is reasonably assured. Revenue is recognised when significant risks and rewards of ownership are transferred to the buyer, which usually occurs at the time shipment is made. PE production is sold with freight paid by EQUATE and EG production is sold FOB ("Free On Board") shipping point. The transfer of the risks and rewards of ownership occurs when the product is delivered to the freight carrier. The Reporting Entity's terms of sale are included in its contracts of sale, order confirmation documents and invoices. Freight costs are recorded as "Cost of Sales".

Interest income is accrued on effective yield basis, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

l) Borrowing costs

Borrowing costs directly attributable to the construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets by applying a capitalisation rate on the expenditure on such assets, until such time as the assets are substantially ready for their intended use. The capitalisation rate used by the Reporting Entity is the weighted average of the borrowing costs applicable to the outstanding borrowings during the period. Borrowing costs that are not directly attributable to the acquisition, construction, or production of qualifying assets are recognised in the combined statement of profit or loss using the effective interest method in the period in which they are incurred.

**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

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m) Operating lease

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 are charged to the statement of 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.

n) Income taxes

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 combined statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

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 Reporting Entity intends to settle its current tax assets and liabilities on a net basis.

o) Reservation right fees

Reservation right fees are recognized in the combined statement of financial position as deferred income. The fees are presented as deferred income and recognized to income on a systematic and rational basis over a period of 20 years, which is the fees received from Olefins II project entities for usage of utility plant to the extent of construction cost of utility plant incurred by the Reporting Entity. The deferred income is amortised over the useful life of plant, which is 20 years.

p) Government Grants

Government grants related to assets are recognized in the combined statement of financial position as deferred income. The grants are presented as deferred income and recognized to income on a systematic and rational basis over a period of 20 years, which is the average life of the assets to which the grant relates.

q) Translation of foreign currencies

Transactions in foreign currencies are translated into US\$ at rates of exchange prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into US\$ at rates of exchange prevailing at the combined statement of financial position date. The resultant exchange differences are recorded in the combined statement of profit or loss.

**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

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Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost are translated using the exchange rate at the date of transaction.

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. Foreign currency differences arising on retranslation are recognised in the combined statement of profit or loss.

The assets and liabilities of foreign operations, are translated to US\$ at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to US\$ 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 Reporting Entity 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.

r) Operating segments

Segment reporting requires a “management approach” under which segment information is presented on the same basis as that used for internal reporting purposes. This leads to segments being reported in a manner that is more consistent with the internal reporting provided to the chief operating decision maker. A segment is distinguishable component of the Reporting Entity that engages in business activities from which it earns revenue and incurs costs. The operating segments are used by the management of the Reporting Entity to allocate resources and assess performance.

s) Critical accounting judgements and key sources of estimation uncertainty

The following are the critical accounting judgements, apart from those involving estimations (see below), that management has made in the process of applying the entity’s accounting policies and that have the most significant effect on the amounts recognised in the combined financial statements.

*Retirement Benefit Obligation*

The cost of providing retirement benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each statement of financial position date. Actuarial valuations are based on a number of assumptions and require significant judgements made by the management. The management believes that the assumptions used in determining the retirement benefit obligation using actuarial valuation method are reasonable.

**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

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*Determination of functional currency*

Functional currency is the currency of the primary economic environment in which the Reporting Entity operates. When indicators of the primary economic environment are mixed, management uses its judgment to determine the functional currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. The management have determined that the functional currency of the Company is US\$ since the majority of the Reporting Entity's transactions are denominated in US\$. Sales and Purchases are also received and paid in US\$.

*Acquisition accounting*

The Reporting Entity assesses the fair value of assets and liabilities assumed in an acquisition on a provisional basis. If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the assessed fair values, or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

*Deferred tax assets*

The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and are recorded on the statement of financial position. Deferred income tax assets are recorded to the extent that realization of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes reasonable judgments and estimates based on taxable profits and expectations of future income. As tax losses do not expire in Germany and Italy, utilization of these tax losses require management to consider taxable profits well into the future. This significant long-term view increases the uncertainty of such projections. As a result of this and certain limits on annual tax loss usage, the Reporting Entity limits its consideration of German and Italian tax losses to 10 years, which is considered a more foreseeable future, even though the ability to potentially utilize the tax losses extends beyond this period.

**Key sources of estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date are discussed below:

*Impairment of loans and receivables*

The Reporting Entity's management periodically reviews items classified as loans and receivables to assess whether an allowance for impairment should be recorded in the statement of profit or loss. Management estimates the amount and timing of future cash flows when determining the level of allowance required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty.

*Impairment of other tangible and intangible assets and useful lives*

The Reporting Entity's management tests annually whether tangible and intangible assets have suffered impairment in accordance with accounting policies. The recoverable amount of an asset is determined based on value-in-use method. This method uses estimated cash flow projections over the estimated useful life of the asset discounted using market rates.

**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

---

During the year, the Reporting Entity's reviewed the estimated useful life over which its tangible assets are depreciated and intangible assets are amortised. The Reporting Entity's management is satisfied that the estimates of useful life are appropriate. The depreciation and amortisation charged for the year may change significantly if actual life is different than the estimated useful life.

*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.

*Legal contingencies*

Legal contingencies cover a wide range of matters threatened in various jurisdictions against the Reporting Entity. Provisions are recorded for pending litigation when it is determined that an unfavourable 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.

t) New Standards and interpretations not yet adopted

Following standards have been issued but are not yet effective and have not been early adopted by the Reporting Entity:

*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 recognizing 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 Reporting Entity's financial assets but is not expected to have any impact on the classification and measurement of financial liabilities. The Reporting Entity is in the process of quantifying the impact of this standard on the combined financial statements, when adopted.

*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 recognized. 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

**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

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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 Reporting Entity's sales arrangements. Under IFRS 15, an entity recognizes 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 Reporting Entity is currently assessing the impact of above matter under IFRS 15.

The Reporting Entity has anticipated that IFRS 15 will be adopted in the Reporting Entity's combined financial statements when it becomes mandatory. Based on the current accounting treatment of the Reporting Entity's major sources of revenue (Note 2(g)) the management does not anticipate that the application of IFRS 15 will have a significant impact on the combined financial position and/or financial performance of the Reporting Entity, apart from providing more extensive disclosures on the Reporting Entity'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 Reporting Entity's combined financial statements as it is not practicable to provide a reasonable financial estimate of the effect until the management completes the detailed review.

*IFRS 16- Leases*

IFRS 16 introduces a single, on balance lease sheet accounting model for lessees. A lessee recognizes 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.

*The annual improvement to IFRS 2014-2016 cycle*

The amendments are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application permitted.

*IAS 28 Investments in Associates and Joint Ventures*

This provides guidelines in relation to following interpretations;

- A venture capital organisation, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis.
- A non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture.



**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

*The annual improvement to IFRS 2015-2017 cycle*

The amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted.

*IFRS 3 Business Combinations and IFRS 11 Joint Arrangements*

Clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business.

- If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.
- If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.

*IAS 12 Income Taxes*

Clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI or equity.

*IAS 23 Borrowing Costs*

Clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

**4. Property, plant and equipment**

	<b>US\$ million</b>				
	<b>Buildings, land, waterway improvements and roads</b>	<b>Plant and equipment</b>	<b>Office furniture and equipment</b>	<b>Assets under construction</b>	<b>Total</b>
<b>Cost</b>					
Balance at 1 January 2016	190	4,520	134	209	5,053
Additions	35	37	-	92	164
Transfers	-	113	4	(117)	-
Balance at 31 December 2016	225	4,670	138	184	5,217
Additions	1	82	-	278	361
Transfers	48	62	6	(116)	-
Disposal	-	(7)	-	-	(7)
Foreign currency translation	5	44	-	3	52
Balance at 31 December 2017	279	4,851	144	349	5,623

**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

	US\$ million				
	<b>Buildings, land, waterway improvements and roads</b>	<b>Plant and equipment</b>	<b>Office furniture and equipment</b>	<b>Assets under construction</b>	<b>Total</b>
Balance at 1 January 2016	74	2,279	127	-	2,480
Charge for the year	8	273	4	-	285
Balance at 31 December 2016	82	2,552	131	-	2,765
Charge for the year	8	274	4	-	286
Related to disposal	(1)	(6)	-	-	(7)
Foreign currency translation	2	13	-	-	15
Balance at 31 December 2017	91	2,833	135	-	3,059
<b>Carrying amounts</b>					
At 31 December 2016	143	2,118	7	184	2,452
At 31 December 2017	188	2,018	9	349	2,564

Assets under construction comprise of improvement projects for the existing plant. Such assets are not subject to depreciation until the improvements are tested and available and ready for use. It also includes costs incurred on the development of a new glycol plant in the Gulf Coast of the United States of America ("USGC project") which is scheduled to come on stream in 2019. The EQUATE Group has purchased land worth US\$ 35 million as part of the Gulf Coast plant development.

Depreciation is allocated to cost of sales and general, administrative and selling expenses in order to reflect appropriately the way in which economic benefits are derived from the use of property, plant and equipment (Note 17 and Note 18).

EQUATE and TKOC's plants are constructed on a land leased from Government of Kuwait and this renewable lease is valid until January 2020 and May 2031 respectively.

## **5. Goodwill**

Goodwill and indefinite useful life intangibles acquired in a business combination is allocated at acquisition to the Cash Generating Unit ('CGU') that is expected to benefit from that business combination. Goodwill represents expected economic benefits from the business combination including the future growth of the operations, synergies expected from supply chain and logistics, reduction of cost, silver leasing programs and access to global market and network. The impairment testing for Goodwill is carried out annually. The carrying amount of goodwill has been allocated to the Ethylene Glycol (EG) CGU. The recoverable amount of this cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on future production volume increases, financial budgets, market prices, and the industry supply demand balance of glycol as reviewed by the directors.

The Reporting Entity tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

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The recoverable amounts of the cash generating units are determined based on the value in use method. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using rates that reflect current market assessments of the time value of money and the risks specific to the cash generating units. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

Management used a Weighted Average Cost of Capital of 6.94% to 9.32% in 2017 (2016: 8.31% to 11.4%) and terminal value growth rate of 1% to 2% in 2017 (2016: 1% to 2%) for various CGUs.

The value in use of the cash-generating units to which goodwill has been allocated, as estimated by management indicates that there has been no impairment during the year ended 31 December 2017.

Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait

for the year ended 31 December 2017

6. Intangible assets

	US\$ million					Total
	Technology and license fees	Customer Relationships	Brand	Intellectual property	Software	
<b>Cost</b>						
Balance at 1 January 2016	332	320	88	11	15	766
Additions	2	-	-	-	-	2
Balance at 31 December 2016	334	320	88	11	15	768
Additions	-	-	-	-	-	-
Balance at 31 December 2017	334	320	88	11	15	768
<b>Accumulated amortisation and impairment losses</b>						
Balance at 1 January 2016	219	-	-	-	-	219
Charge for the year	17	33	-	-	9	59
Balance at 31 December 2016	236	33	-	-	9	278
Charge for the year	17	33	-	-	6	56
Balance at 31 December 2017	253	66	-	-	15	334
<b>Carrying amounts</b>						
At 31 December 2016	98	287	88	11	6	490
At 31 December 2017	81	254	88	11	-	434

In conjunction with the business combination between EQUATE, EQUATE BV and MEGC, the EQUATE Group obtained access to the distribution channels and customer relationships. These relationships have been recognized on acquisition and are being amortized over 10 year period. The amortization period of customer relationships represents management's best estimate of the expected usage or consumption of the economic benefits of the acquired assets, which is based on historical experience of customer attrition rates. The amortization of customer relationships is included in cost of sales. The EQUATE Group has also recognized the MEGlobal brand as an intangible asset on its acquisition of the MEGBV and MEGC business. Brand is tested for impairment. Refer note 5.

**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

**7. Deferred tax assets and liabilities**

The provision for income taxes consists of the following:

	<b>US\$ million</b>	
	<b>2017</b>	<b>2016</b>
Deferred tax-net		
Current	104	54
Deferred	(36)	(9)
	<u>68</u>	<u>45</u>

Net income taxes paid in 2017 were USD 63 (2016: USD 74 million). This represents deferred tax assets and liabilities of subsidiaries.

	<b>US\$ million</b>	
	<b>2017</b>	<b>2016</b>
Deferred tax assets		
Post – retirement benefit obligations	8	5
Goodwill	-	(9)
Tax losses	51	54
Property, plant and equipment	(11)	(19)
Others	-	2
	<u>48</u>	<u>33</u>
Deferred tax liabilities		
Goodwill	(67)	(117)
Property, plant and equipment	(135)	(134)
Others	(28)	(1)
	<u>(230)</u>	<u>(252)</u>

At 31 December 2017, the Group has unused significant tax losses of USD 445 million (2016: USD 384 million) available for offset against the future profits, with no expiration dates.

**8. Deferred charges and other assets**

	<b>US\$ million</b>	
	<b>2017</b>	<b>2016</b>
Ethylene supply agreement	202	225
Ethylene subscription – USGC project	385	70
Others	29	25
	<u>616</u>	<u>320</u>
Classified as: -		
Current	25	23
Non-current	591	297
	<u>616</u>	<u>320</u>

**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

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Others primarily comprise of license costs and ethylene subscription fees which will be amortized upon start-up of Glycol Plant in US Gulf Coast.

- License - agreement is with Dow to secure a fully-paid up Ethylene Oxide / Ethylene Glycol license for USD 16 million. Installments paid and accrued total USD 11 million, with two remaining installment payments to be paid totalling USD 5 million in the 2018 / 2019 timeframe.
- Ethylene - binding term sheet with Dow to secure an ethylene supply contract for the Gulf Coast facility being developed. The contract secures the subscription rights to 27.6% of one of Dow's ethylene crackers under development. Total cost is USD 700 million. On August 1, 2017 USD 315 million was paid and another payment of USD 315 million will be made on the earlier of the plants commencement date or February 1, 2019. The subscription payment is refundable if Dow does not proceed with its ethylene cracker.

**9. Related party transactions**

In the normal course of business, the Reporting Entity enter into transactions with its shareholders PIC (directly owned by Kuwait Petroleum Corporation ("KPC")), BPC, QPIC and DEH's, part of DOW.

EQUATE Marketing Company EC, Bahrain ("EMC"), which is owned by PIC and DEH, is the exclusive sales agent in certain territories for the marketing of PE produced by the EQUATE. EQUATE reimburses all the actual expenses incurred by EMC.

During 2004, DOW and PIC initiated a number of joint venture petrochemical projects ("Olefins II projects") in Kuwait to manufacture polyethylene, ethylene glycol and styrene monomer. The Olefins II projects consist of the EQUATE expansion project, and the incorporation and development of TKOC, The Kuwait Styrene Company K.S.C.C. ("TKSC") and Kuwait Aromatics Company K.S.C.C. ("KARO"). TKSC is a joint venture of DEH (42.5%) and KARO (57.5%). KARO is owned by PIC (40%), Kuwait National Petroleum Company K.S.C. ("KNPC") (40%) and QPIC (20%).

On 2 December 2004, EQUATE signed a Materials and Utility Supply Agreement ("MUSA") with TKOC, TKSC, KARO and PIC. Under the terms of the MUSA, EQUATE receives a reservation right fee from the above entities that equals the total capital construction costs incurred by EQUATE on the new utilities and infrastructure facilities under the Olefins II projects.

On 2 December 2004, EQUATE signed an Operations, Maintenance and Services Agreement ("OMSA") with TKOC, TKSC and KARO and PIC. Under the terms of the OMSA, EQUATE provides operating, maintenance and other services to the above entities and for which EQUATE receives a fixed management fee over and above the actual operating cost.

On 2 December 2004, TKOC signed an Ethylene supply agreement with EQUATE and TKSC. Under the terms of the agreement, the price per metric tonne of ethylene is paid by TKSC based on the quantity delivered to them at contract price.

During 2005, services agreements were signed between DOW, PIC and EQUATE with TKOC, TKSC, KARO and PIC for the provision of various services to the Olefins II projects.

**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

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An agreement to amend MUSA and service agreements (“primary agreements”) was signed between the parties to the primary agreements on 8 February 2006 releasing KARO from its obligations and liabilities under the primary agreements and appointing Kuwait Paraxylene Production Company K.S.C.C. (“KPPC”) in place of KARO to assume and perform all obligations of KARO as if KPPC were and had been a party to the primary agreements. KPPC is a 100% owned subsidiary of KARO.

On 31 May 2006, EQUATE signed term loan agreements with TKSC, under which EQUATE provided US\$ 497 million term loan to TKSC. During 2016, TKSC fully repaid the loan.

**Operational Facility** – Under the cash management services provided by DOW, the EQUATE Group’s subsidiaries also has in place an overnight cash sweeping facility with a subsidiary of DOW, DOW International Finance S.a.r.l. (“DIFS”). Under this arrangement, MEGC and the subsidiaries in EQUATE BV sweeps all of the bank accounts and either invests or borrows funds on an overnight basis. Under the terms of the agreement, the subsidiaries can borrow from DIFS at interest rates ranging from LIBOR plus a positive spread as set by DOW each half year that represents transactions with unrelated parties under similar terms and conditions plus 0.125% and inversely invest with DIFS at LIBOR plus a positive spread as set by DOW each half year that represents transactions with unrelated parties under similar terms and conditions minus 0.125%. Amounts outstanding as at 31 December 2017 under these arrangements were a net deposit of 1 million at interest rates ranging from 0.35% to 1.67% per annum (31 December 2016: USD 1 million net deposit at interest rates ranging from 0.38% to 1.5% per annum). These are indefinite credit arrangements subject to termination by either party. Interest is accrued monthly and capitalized.

All transactions with related parties are carried out on a negotiated contract basis.

The following is a description of significant related party agreements and transactions, other than described above:

- a) Supply by Union Carbide Corporation (“UCC”) of technology and licences relating to manufacture of PE and EG;
- b) Feed gas and fuel agreement with PIC
- c) Supply by the EQUATE Group of certain materials and services required by PIC to operate and maintain the polypropylene plant
- d) Excess EG Marketing Agreement
- e) General Services Agreement
- f) Secrecy Agreement
- g) Long Term Land Lease Agreement
- h) Site Services Agreement
- i) Employee Seconding Agreement
- j) Catalyst License Agreement
- k) Binding Term sheet – Gulf Coast
- l) Other Assignment and Assumption Agreements
- m) Ethylene supply agreement by MEGC with DOW.
- n) Feedstock supply agreement by MEGC with DOW for the USGC Project
- o) Master service agreement with DOW
- p) Ethylene Oxide (EO)/EG Swap Agreement (MEGC)
- q) Technology License Intellectual Property (IP) Agreement (MEGC)
- r) Catalyst Supply Agreement (MEGC)
- s) Storage Sublease (MEGC)
- t) Ground Lease (MEGC)
- u) Utilities Services Agreements (MEGC)

**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

v) Technical Services Agreement (MEGC)

In addition to the above there are number of arrangements with the related parties which are disclosed below.

Details of significant related party transactions are disclosed below:

	<b>US\$ million</b>	
	<b>2017</b>	<b>2016</b>
<b>a) Sales and management fee</b>		
Polypropylene plant management fees from PIC	0	2
Styrene plant management fees from TKSC	1	1
Aromatics Plant management fees from KPPC	3	3
Sale of utilities and services to KPPC, TKSC and PIC	48	44
Operating cost reimbursed by PIC for running of Polypropylene plant	44	36
Operating and utility cost reimbursed by TKSC for running of Styrene plant	55	46
Operating and utility cost reimbursed by KPPC for running of Aromatics plant	80	70
Interest income on long-term loan to TKSC	0	1
<b>b) Purchases and expenses</b>		
Feed gas and fuel gas purchased from KPC	450	499
Catalyst purchased from DOW	33	22
Ethylene Purchase from DOW	216	220
Service cost reimbursed to DOW	118	110
Glycol purchase from DOW	220	218
Catalyst purchased from UNIVATION	4	5
Operating costs reimbursed to EMC	4	4
Staff secondment costs reimbursed to DOW	4	4
Tugging fees payments to KOC	6	6
<b>c) Key management compensation</b>		
Salaries, short term and terminal benefits	8	5
<b>d) Due from related parties</b>		
Due from PIC	11	13
Due from UCC	0	1
Due from DOW	6	9
Due from TKSC	14	7
Due from KPPC	56	11
Due from KARO	0	0
Due from KPC	0	37
Due from KNPC	2	1
Due from SADARA	0	0
Due from Others	0	0
	<b>89</b>	<b>79</b>



**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

	<b>US\$ million</b>	
	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>e) Due to related parties</b>		
Due to KPC	84	88
Due to PIC	8	16
Due to Kuwait Oil Company K.S.C	2	2
Due to DOW	26	62
Due to KNPC	-	0
Due to KPPC	2	1
Due to UNIVATION	1	0
Due to TKSC	1	2
	<b>124</b>	<b>171</b>

**10. Inventories**

	<b>US\$ million</b>	
	<b>2017</b>	<b>2016</b>
Raw materials and consumables	82	68
Finished goods	119	111
Spare parts	61	59
	<b>262</b>	<b>238</b>
Provision for obsolete and slow moving inventories	(1)	(1)
	<b>261</b>	<b>237</b>

**11. Trade and other receivables**

	<b>US\$ million</b>	
	<b>2017</b>	<b>2016</b>
Trade receivables	728	621
Less: Provision for doubtful debts	(1)	(1)
Prepayments and other	49	90
	<b>776</b>	<b>710</b>

**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

**12. Cash and bank balances**

	US\$ million	
	31 December 2017	31 December 2016
Cash balances	0	0
Bank balances	89	149
Term deposits	2,018	1,659
Total cash and bank balances	2,107	1,808
Deposits with original maturity of more than 3 months	(1,063)	(1,457)
Amount reserved relating to staff saving scheme	(45)	(41)
Cash and cash equivalent for the statement of cash flows	999	310

The effective interest rate on time deposits as at 31 December 2017 was 1.52 % (31 December 2016: 2%) per annum.

**13. Loans and borrowings**

	US\$ million	
	2017	2016
<i>Non-current portion</i>		
Medium term note	2,233	2,213
Sukuk	495	-
Long term loan	1,987	2,459
	4,715	4,672

The movement in loans and borrowings is as follows:

	US\$ million	
	2017	2016
Balance at 1 January	4,672	4,970
Issue of Sukuk	500	-
Loan origination fee	43	(16)
Long term loan	(500)	2,500
Medium term note	-	2,218
Bridge loan facility	-	(5,000)
Balance at 31 December	4,715	4,672

*Long term loan*

On 23 June 2016, the EQUATE Group entered into a US\$ 5 billion long term loan agreement ("Term Loan") with a consortium of banks. The Term Loan consisted of US \$ 2 billion Tranche A 5-year bullet facility, US\$ 2 billion Tranche B 3-year bullet facility, and US\$ 1 billion 3 year revolving credit facility. EQUATE Group is jointly and severally a guarantor along with TKOC for the Term Loan and the credit facilities include customary covenants. On 23 June 2016 and on 30 November 2016, EQUATE Group drew down US\$ 2 billion from Tranche A facility and US\$ 0.5 billion from Tranche B facility, respectively. Tranche A facility will mature on 23 June 2021.

**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

On 28 February 2017, the EQUATE Group early settled Tranche B 3-year bullet facility amounting to US\$ 500 million of which US\$ 47 million pertaining to Islamic financing and US\$ 453 million pertaining to conventional financing facility. This facility had the original maturity date on 30 November 2019. Further undrawn available facility of Tranche B has been cancelled in February 2017.

At 31 December 2017, the details of the Term Loan are as follows:

	Total Facility	Term Loan	
		Tranche A	Revolving credit facility
Islamic financing	282	188	94
Conventional financing	2718	1,812	906
<b>Total</b>	<b>3,000</b>	<b>2,000</b>	<b>1,000</b>

Drawn/Outstanding as at 31 December 2017

			US\$ million	
			31 December 2017	31 December 2016
		<b>Repayment terms</b>		
Islamic financing	Tranche A	Bullet repayment on 5 <sup>th</sup> year	188	188
Islamic financing	Tranche B	Bullet repayment on 3 <sup>rd</sup> year	-	47
Conventional financing	Tranche A	Bullet repayment on 5 <sup>th</sup> year	1,812	1,812
Conventional financing	Tranche B	Bullet repayment on 3 <sup>rd</sup> year	-	453
			<b>2,000</b>	<b>2,500</b>

The effective interest rate as at 31 December 2017 for Tranche A Term Loan is 3.47% (2016: 2.72%) and tranche B is nil (2016: 2.52%).

At the reporting date, EQUATE Group had available for its utilization, US\$ 1 billion of undrawn committed revolving credit facility.

*Medium term notes*

In 2016, EQUATE Group established a US\$ 4 billion Global Medium Term Note Programme (the "Programme"), and on 3 November 2016 EQUATE B.V. (the "Issuer") issued notes (the "Notes"). The payments of amounts due in respect of the Notes is unconditionally and irrevocably guaranteed, jointly and severally, and not severally, by EQUATE and TKOC. The Notes are listed on Irish Stock Exchange ("ISE") and the proceeds are used to repay existing loan facilities. At the reporting date, the Issuer had issued following outstanding Notes.

**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

	US\$ million	
	31 December 2017	31 December 2016
i) Fixed interest rate Notes amounting to US\$ 1,000 million, having a term of 5 years, maturing in 2022, with an effective interest rate of 3.338%, and carrying a coupon rate of 3% per annum payable on a semi-annual basis.	983	983
ii) Fixed interest rate Notes amounting to US\$ 1,250 million having a term of 10 years, maturing in 2026, with an effective interest rate of 4.402%, and carrying a coupon rate of 4.25% per annum payable on a semi-annual basis.	1,235	1,235
	<u>2,218</u>	<u>2,218</u>

As at 31 December 2017, 5 year and 10 year medium term notes are quoted at 98.7629 and 101.7701 respectively (31 December 2016: 5 year and 10 year medium term notes are quoted at 95.5372 and 95.9918 respectively), based on level 1 inputs.

*Sukuk programme*

In December 2016, the Group established a USD 2 billion Sukuk programme (the "Sukuk") and issued Sukuk amounting to USD 500 million on 21 February 2017 having a term of 7 years, maturing in February 2024, with a profit rate of 3.944% per annum payable on a semi-annual basis. The Sukuk is guaranteed by EQUATE and TKOC and is listed on ISE. As at 31 December 2017, Sukuk are quoted at 102.177, based on level 1 inputs.

**14. Deferred income**

Deferred income comprises of the following:

	US\$ million	
	2017	2016
Reservation right fees for Olefins II project	183	198
Government grants	9	12
Balance at 31 December	<u>192</u>	<u>210</u>

Reservation right fees received from Olefins II project entities for usage of utility plant relating to Olefins II project, to the extent of construction cost of utility plant incurred by the Company. The deferred income is amortised over the useful life of plant, which is 20 years.

Government grants - EQUATE Group received a total of US\$ 34 million in 2005 and 2006 in government grants for the construction of the PET manufacturing facility at its Schkopau site. The government grants are presented as deferred income and recognized to income on a systematic and rational basis over a period of 20 years.

**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

	<b>US\$ million</b>	
	<b>2017</b>	<b>2016</b>
Non-current portion of deferred income	177	195
Current portion of deferred income	15	15
	<u>192</u>	<u>210</u>

**15. Retirement benefit obligation**

The most recent actuarial valuation of the present value of various defined benefit obligations were carried out at 31 December 2017. The present value of the defined benefit obligations and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	<b>2017</b>	<b>2016</b>
<b>Economic assumptions</b>		
Discount rate	3.44% - 3.75%	3.91% - 4.25%
Expected rate of increase in		
- Basic salary & variable allowances including overtime and incentives	3.5%- 6%	3.5% - 6%
- Average annual & quarterly incentives	23% p.a	23% p.a
Long-term inflation	2% - 3.5% p.a	2% - 3.5% p.a
Management variable incentive pay (as a percentage of basic salary)	Target percentage level	Target percentage level
<b>Demographic assumptions</b>		
Retirement age		
- Kuwaiti employees	Age 50	Age 50
- Non-Kuwaiti employees	Age 55	Age 55
Decrement		
- Mortality	None	None
- Turnover	Service related rates	Service related rates

The total expense recognised in the statement of profit or loss is as follows:

	<b>US\$ million</b>	
	<b>2017</b>	<b>2016</b>
Current service costs	22	20
Past service costs*	67	-
Interest on obligation	16	15
	<u>105</u>	<u>35</u>

**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

The total charge for the year, which has been included in the statement of profit or loss, is as follows:

	US\$ million	
	2017	2016
Cost of sales	88	30
General, administrative and selling expenses	17	5
	105	35

Movement in the retirement benefit obligation is as follows:

	US\$ million	
	2017	2016
Retirement benefit obligation as at 1 January	310	273
<i>Included in the combined statement of profit or loss</i>		
Current and past service costs	22	20
Past service costs*	67	-
Interest on obligation	16	15
	105	35
<i>Included in other comprehensive income</i>		
Re measurement (gain)/loss		
- Experience adjustment	(3)	(1)
- Actuarial changes arising from changes in economic	10	9
	7	8
Benefits paid	(10)	(4)
Foreign currency translation adjustment	4	(2)
Retirement benefit obligation as at 31 December	416	310

The Company's defined benefit obligation is unfunded. However, the subsidiaries have invested in Plan Assets.

\*Past service cost represents the financial effect of retrospective amendment to labour law of Kuwait.

Reconciliation of fair value of Plan Assets of the subsidiaries

	US\$ million	
	2017	2016
Defined benefit obligation of the subsidiaries	91	72
Fair value of plan assets of the subsidiaries	(62)	(52)
Net retirement benefit	29	20

**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

A sensitivity analysis of possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the retirement benefit obligation by the amounts shown below:

	<b>US\$ million</b>	
	<b>0.25% increase</b>	
	<b>2017</b>	<b>2016</b>
Discount rate	(7)	(6)
Basic salary & variable allowances including overtimes and	6	5

**16. Trade and other payables**

	<b>US\$ million</b>	
	<b>2017</b>	<b>2016</b>
Trade payables	278	190
Staff incentives	58	40
Staff saving schemes	44	36
Staff leave and other employee benefits	19	18
Accrual for KFAS and Zakat	20	9
Income tax	49	3
Accrued turnaround and capital expense	41	8
Interest payable	19	14
Others	83	73
	<b>611</b>	<b>391</b>

**17. Cost of sales**

	<b>US\$ million</b>	
	<b>2017</b>	<b>2016</b>
Materials	1,365	1,818
Distribution expenses	194	90
Staff cost	216	148
Depreciation and amortisation	364	363
Others	658	242
	<b>2,797</b>	<b>2,661</b>

**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

**18. General, administrative and selling expenses**

	<b>US\$ million</b>	
	<b>2017</b>	<b>2016</b>
Staff costs	41	31
Depreciation	3	3
Selling expenses	47	51
Others	10	9
	<b>101</b>	<b>94</b>

**19. Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)**

KFAS is calculated at 1% of the net profit for the year of EQUATE and TKOC after deducting the transfer to statutory reserves.

**20. Contribution to Zakat**

Zakat is calculated at 1% on the net profit for the year attributable to Kuwaiti shareholders of the Reporting Entity after allowable deductions.

**21. Additional Business and Geographical Information**

***Basis for segmentation***

The Reporting Entity have one significant business segment i.e; Performance Materials & Chemicals (“PMC”), which is the reportable segment. This business segment manufactures and markets different types of basic petrochemical products (refer note 1 for more details).

Equate Management Team (“EMT”), a committee comprises of certain board members of EQUATE Group and TKOC and key members of management, reviews the internal management reports of segments to monitor the performance and allocate capital. Earnings before Interest, Tax, Depreciation and Amortization (“EBITDA”) is the key measure used to monitor the performance of business because management believes that this information is the most relevant in evaluating the results of the business relative to other entities that operate in the similar industries. In addition to PMC business, EQUATE is engaged in managing operations of petrochemical plants of certain related parties, which did not meet the quantitative threshold for reportable segment.

***Information about reportable segments***

	<b>US\$ million</b>					
	<b>2017</b>			<b>2016</b>		
	<b>PMC</b>	<b>Others</b>	<b>Total</b>	<b>PMC</b>	<b>Others</b>	<b>Total</b>
External segment revenue	4,022	230	4,252	3,359	198	3,557
EBITDA	1,694	36	1,730	1,124	52	1,176
Net profit for the period	1,119	12	1,131	650	29	679
Interest income	(25)	(2)	(27)	(31)	(2)	(33)
Interest expenses	183	5	188	119	4	123
Depreciation, amortization and reservation rights	331	21	352	330	21	351
Income tax expenses/ KFAS/ ZAKAT	86	0	86	56	0	56



**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

***Revenue by product/ services and geography***

PMC business is managed on a worldwide basis, but operate manufacturing facilities and sales offices primarily in Kuwait, Canada, Germany, Dubai, Hong Kong and Singapore. The geographical information analyses the Reporting Entity' revenue by the Company's country of domicile and other countries. In presenting the geographical information, the segment revenue has been based on geographic location of customers.

<b>Revenue by product / services and geography</b>	<b>US\$ million</b>				
	<b>EG</b>	<b>PE</b>	<b>PET</b>	<b>Others</b>	<b>Total</b>
<b>31 December 2017</b>					
Americas	577	-	-	-	577
North Asia	1,134	374	-	-	1,508
India sub-continental	493	62	-	-	555
Europe	374	89	354	-	817
Rest of the World	235	330	-	230	795
External revenue	<u>2,813</u>	<u>855</u>	<u>354</u>	<u>230</u>	<u>4,252</u>
<b>31 December 2016</b>					
Americas	535	-	-	-	535
North Asia	918	319	-	-	1,237
India sub-continental	425	69	-	-	494
Europe	246	111	307	44	708
Rest of the World	109	320	-	154	583
External revenue	<u>2,233</u>	<u>819</u>	<u>307</u>	<u>198</u>	<u>3,557</u>

\* Rest of the World includes revenue from Kuwait of US\$ 66 million (2016: US\$ 54 million)

<b>EBITDA by product line</b>	<b>US\$ million</b>				
	<b>EG</b>	<b>PE</b>	<b>PET</b>	<b>Others</b>	<b>Total</b>
<b>31 December 2017</b>	1,308	368	18	36	1,730
<b>31 December 2016</b>	799	323	2	52	1,176

There are no customers that contributed more than 5% of the total revenue.

*for the year ended 31 December 2017*

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## **22. Financial risk management**

### **Overview**

The Reporting Entity is exposed to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

### **Financial management framework**

This note presents information about the Reporting Entity's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the Reporting Entity's management of capital. Further quantitative disclosures are included throughout these combined financial statements.

The Board of Directors of the Reporting Entity has overall responsibility for the establishment and oversight of the Reporting Entity's risk management framework. The Board has established the Finance Committee, which is responsible for developing and monitoring the Reporting Entity's risk management policies. The Committee reports regularly to the Board of Directors on its activities.

The Audit Committee oversees how management monitors compliance with the Reporting Entity's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Reporting Entity. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Reporting Entity's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Reporting Entity through internal risk reports which analyse exposures by degree and magnitude of risks.

### **Credit risk**

Credit risk is the risk of financial loss to the Reporting Entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Reporting Entity's trade and other receivables, due from related parties, loans to related parties and bank balances.

The Reporting Entity has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Reporting Entity only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Reporting Entity uses other publicly available financial information and its own trading records to rate its major customers. The Reporting Entity's exposure to and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management annually.

**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of trade receivables.

The Reporting Entity has significant credit risk exposure to banks. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

*Exposure to credit risk*

The carrying amount of following financial assets represents the maximum credit exposure of the Reporting Entity:

	<b>US\$ million</b>	
	<b>2017</b>	<b>2016</b>
Trade receivables	727	621
Due from related parties	89	79
Bank balances	2,107	1,808
<b>Total</b>	<b>2,923</b>	<b>2,508</b>

The average credit period on sales is 60 – 66 days except for some customers where a longer credit period has been approved. The Reporting Entity has provided fully for all receivables over 120 days because historical experience is that, such receivables past due beyond 120 days are generally not recoverable. Trade receivables between 60 days and 120 days are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience and historical data of payment statistics.

Of the above assets USD 2,897 million (2016: USD 2,507 million) are neither past due nor impaired and USD 26 million (2016: USD 1 million) are past due but not impaired.

Included in the Group's trade receivables balance are debtors with a carrying amount of USD 1.1 million (2016: USD 1.1 million) which are impaired and fully provided.

As at the reporting date, there are no collateral held by the Reporting Entity against the trade receivables.

In determining the recoverability of a trade receivable, the Reporting Entity considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believes that there is no further credit provision required in excess of the allowance for doubtful debts.

There was no movement in the allowance for doubtful debts during the current year.

**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	US\$ million	
	2017	2016
Domestic and Gulf Cooperation Council Countries	22	16
North America	60	60
Asia	549	327
Europe	68	52
Other regions	28	166
	<b>727</b>	<b>621</b>

**Liquidity risk**

Liquidity risk is the risk that the Reporting Entity will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Reporting Entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Reporting Entity's reputation.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Reporting Entity's short, medium and long-term funding and liquidity management requirements. The Reporting Entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below analyses the Reporting Entity's non-derivative financial liabilities based on the remaining period at the combined statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	US\$ million				Total	Carrying amount
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years		
<b>As at 31 December 2017</b>						
Trade and other payables	611	-	-	-	611	611
Due to related parties	124	-	-	-	124	124
Loans and borrowings	165	165	3,379	1,980	5,689	4,715
<b>Total</b>	<b>900</b>	<b>165</b>	<b>3,379</b>	<b>1,980</b>	<b>6,424</b>	<b>5,450</b>
<b>As at 31 December 2016</b>						
Trade and other payables	391	-	-	-	391	391
Due to related parties	171	-	-	-	171	171
Loans and borrowings	152	152	2,896	2,512	5,712	4,672
<b>Total</b>	<b>714</b>	<b>152</b>	<b>2,896</b>	<b>2,512</b>	<b>6,274</b>	<b>5,234</b>

**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Reporting Entity's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Reporting Entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

**Foreign currency risk**

The Reporting Entity undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The Reporting Entity's on balance sheet exposure to foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	US\$ million				Total
	Euro	Canadian Dollar	Kuwait Dinar	Other	
<b>31 December 2017</b>					
Assets	111	108	23	195	437
Liabilities	(49)	(292)	(584)	(33)	(958)
Net exposure	62	(184)	(561)	162	(521)
<b>31 December 2016</b>					
Assets	70	76	16	117	279
Liabilities	(30)	(180)	(435)	(16)	(661)
Net exposure	40	(104)	(419)	101	(382)

The following exchange rates were applied to translate the monetary assets and liabilities at 31 December 2017:

	Reporting date Mid-spot rate	
	2017	2016
Euro	0.837	0.954
Canadian Dollar	0.796	0.743
Kuwaiti Dinar	0.302	0.306

*Foreign currency sensitivity analysis*

As at 31 December 2017, if the US\$ had weakened/strengthened by 5% against the Euro, Canadian dollar and Kuwaiti Dinar with all other variables held constant, profit for the year would have been lower/higher by US\$ 26 million (2016: US\$ 19 million).

**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

Foreign currency exposure risks are managed by dealing in forward contracts within approved limits. As at 31 December 2017, the Reporting Entity had following net notional forward exchange contracts (off balance sheet exposure):

	<b>US\$ million</b>	
	<b>2017</b>	<b>2016</b>
<b>Long position</b>		
KD	812	333
CAD	497	470
Euro	92	27
Others	102	144
<b>Short position</b>		
CAD	51	295
KD	365	310
Euro	140	60
Others	115	223

The fair value of forward foreign exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk free interest rate. These are classified as Level II.

**Interest rate risk**

The Reporting Entity is exposed to interest rate risk as it borrows and places funds.

*Interest rate sensitivity analysis*

During the year, if interest rates on USD denominated borrowings had been 10 basis points higher/lower with all other variables held constant, profit for the previous year would have been USD 4.72 (2016: USD 4.67 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

The Reporting Entity's exposure to interest rates on financial assets and financial liabilities are disclosed in Notes 12 and 13 to the combined financial statements.

**Determination of 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. Underlying the definition of fair value is the presumption that the Reporting Entity is a going concern without any intention, or need, to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

The fair value of financial assets and financial liabilities (excluding derivative instruments, medium term notes and Sukuk) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions. The fair value of forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (level II inputs). The fair value of medium term notes and Sukuk are determined using quoted prices (level I inputs). All other financial instruments are classified as Level III.

**Notes to the combined financial statements of  
EQUATE Group and TKOC  
State of Kuwait**

*for the year ended 31 December 2017*

**23. Commitments and contingent liabilities**

The Reporting Entity has a fixed gas purchase commitment with a related party of approximately US\$ 1.28 million per day (31 December 2016: US\$ 1.21 million) until the agreement is cancelled in writing by the parties.

The Reporting Entity under the excess EG marketing agreement has a commitment to purchase from DOW an annual volume for a term to 2024.

The EQUATE Group under the Ethylene Supply Agreement has a commitment to purchase and obligates DCC ULC to supply a contract quantity of ethylene each year through 2024 with an additional two five year extensions through to 2034.

In addition to the above, the Reporting Entity had the following commitments and contingent liabilities outstanding as at 31 December 2017:

	<b>US\$ million</b>	
	<b>31 December 2017</b>	<b>31 December 2016</b>
Letters of credit and letters of guarantee	291	61
Capital commitments	107	31
Ethylene reservation fees	315	630
License-Gulf coast	5	2

MEGlobal Americas entered into agreement with various parties related to the development of a new glycol plant in the Gulf Coast, of the United States ('US'). The plant is scheduled to come on stream in 2019.

**24. Operating lease**

	<b>US\$ million</b>	
	<b>31 December 2017</b>	<b>31 December 2016</b>
Less than one year	29	23
Between one and five years	40	58
More than five years	43	46
	<u>112</u>	<u>127</u>