

**EQUATE Petrochemical Company K.S.C.C.
And Subsidiaries
State of Kuwait**



**Consolidated Financial Statements and
Independent Auditor's Report for the year ended
31 December 2017**

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Independent auditor's report

The Shareholders
Equate Petrochemical Company K.S.C.C.
State of Kuwait

Opinion

We have audited the consolidated financial statements of Equate Petrochemical Company K.S.C.C. ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated 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 Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our 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.

Key Audit Matters

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



Valuation of goodwill

See Note 5 to the consolidated financial statements.

The key audit matter

At 31 December 2017, the Group carries a goodwill balance of USD1,689 million relating to Ethylene Glycol business of its significant subsidiaries. The Group tested its goodwill at the reporting date to determine if they are recoverable, which involves significant management judgments about future market conditions, assumptions on sales, cost of sales, gross margins, economic growth rate and discount rate. Due to the significance of goodwill balance and the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgmental areas that our audit is concentrated on.

How the matter was addressed in our audit

As part of our audit we assessed the methods used by management of the company to determine the recoverable amount of the CGU's as well as the key assumptions utilized in management's annual impairment analysis. We performed audit procedures over the significant forecast assumptions for 2018, including volume, capacity, sales price and cost. Cash flows for the years 2019 and beyond were reviewed based on the base forecast for 2018 and market data for the EG business. Additionally, we validated that the result and cash flow projection in the impairment analysis are consistent with the long range plan approved by the Board of Directors.

Revenue recognition

See Note 3(k) to the consolidated financial statements.

The key audit matter

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

Majority of the Group's sales are export sales. The terms and conditions of transferring the risk and rewards and the lead time between shipment and delivery differ per country of destination and are complex, which increases the level of sensitivity to errors.

As a result, the Group could overstate revenue through improper cut-off or manual adjustments to revenue resulting in incorrect revenue recognition.

How the matter was addressed in our audit

Our audit procedures included, amongst others, assessing the appropriateness of the Group's revenue recognition accounting policies.

We tested the design and implementation and the operating effectiveness of controls around sales process starting from contracts approval and sign-off, customer order's approval, recording of sales, to reconciliations with cash receipts and customers' records.

We performed testing of revenue recorded using sampling techniques, by examining the relevant supporting documents including customer orders, invoices, shipping documents and / or bills of lading and requisite approvals.

Tested the sales reversals and credit memos for price adjustments subsequent to the balance sheet date to verify whether revenue for the period is to be adjusted.

We conducted procedures over sales transactions that were taken place before and after the year end to ensure that revenue was recognised in the correct period, by examining the relevant supporting documents including customer orders, invoices, shipping documents and / or bills of lading and requisite approvals.

We inspected whether there are any manual journal entries



passed relating to revenue accounts, and the underlying documents and rationale for the same.

In addition, we confirmed certain customers' receivable balances at the balance sheet date.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Group's annual report, other than the consolidated financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the Board of Directors report which forms part of the annual report and the remaining sections of the annual report are expected to be made available to us after that date.

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

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

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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



Report on Other Legal and Regulatory Requirements

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the consolidated financial statements include the information required by the Companies Law No. 1 of 2016, as amended, and its Executive Regulations and the Company's Memorandum and Articles of Association. In our opinion, proper books of account have been kept by the Company, an inventory count was carried out in accordance with recognized procedures and the accounting information given in the board of directors' report agrees with the books of accounts of the Company. We have not become aware of any violations of the provisions of the Companies Law No. 1 of 2016, as amended, and its Executive Regulations, or of the Company's Memorandum and Articles of Association during the year ended 31 December 2017 that might have had a material effect on the business of the Group or on its consolidated financial position.

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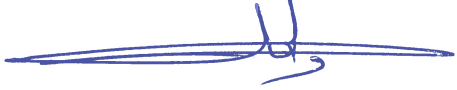
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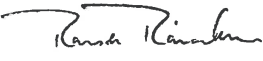


Consolidated Statement of Financial Position
as at 31 December 2017

	Note	USD million	
		2017	2016
ASSETS			
Property, plant and equipment	4	1,851	1,762
Goodwill	5	1,689	1,689
Intangible assets	6	365	417
Deferred tax assets	7	48	33
Deferred charges and other assets	8	591	297
Loans to related party	9	237	384
Non-current assets		4,781	4,582
Inventories	10	232	229
Loans to related party	9	147	140
Due from related parties	9	156	49
Trade and other receivables	11	775	688
Deferred charges and other assets	8	25	23
Cash and bank balances	12	1,774	1,542
Current assets		3,109	2,671
Total assets		7,890	7,253
Equity			
Share capital	13	700	700
Treasury shares	13	(450)	(450)
Statutory reserve	13	350	350
Retained earnings		771	415
Remeasurement of retirement benefit obligation		(59)	(52)
Foreign currency translation reserve		45	6
Total equity		1,357	969
Liabilities			
Loans and borrowings	14	4,715	4,672
Deferred income	15	333	368
Deferred tax liabilities	7	230	252
Retirement benefit obligation	16	416	310
Long term incentives		4	4
Non-current liabilities		5,698	5,606
Long term incentives		5	5
Deferred income	15	32	32
Due to related parties	9	194	277
Trade and other payables	17	604	364
Current liabilities		835	678
Total liabilities		6,533	6,284
Total equity and liabilities		7,890	7,253

The attached notes on pages 11 to 47 form an integral part of these consolidated financial statements.


Waleed Al-Bader
Chairman


Ramesh Ramachandran
President & Chief Executive Officer



Consolidated Statement of Profit or Loss and other Comprehensive Income
for the year ended 31 December 2017

	Note	USD million	
		2017	2016
Sales		4,374	3,645
Cost of sales	18	(3,311)	(3,042)
Gross profit		1,063	603
Management fees	9	7	9
Reservation right fees	15	32	32
General, administrative and selling expenses	19	(99)	(93)
Other income		8	6
Foreign exchange loss		(5)	(4)
Profit from operation		1,006	553
Finance income		33	36
Finance costs		(187)	(122)
Profit before contribution to Kuwait Foundation For the Advertisement of Sciences ("KFAS"), Zakat, tax on subsidiaries and Board of Directors' remuneration		852	467
Contribution to KFAS	20	(8)	(4)
Contribution to Zakat	21	(5)	(3)
Tax on subsidiaries	7	(68)	(45)
Board of Directors' remuneration	22	(0)	(0)
Net profit for the year		771	415
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Remeasurements of retirement benefit obligation	16	(7)	(8)
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Exchange differences on translating foreign operations		39	1
Other comprehensive expenses for the year		32	(7)
Total comprehensive income for the year		803	408

The attached notes on pages 11 to 47 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity
for the year ended 31 December 2017

	USD million						Total
	Share capital	Treasury shares	Statutory reserve	Retained earnings	Remeasurement of retirement benefit obligation	Foreign currency translation reserve	
Balance as at 1 January 2016	700	(450)	350	403	(44)	5	964
Net profit for the year	-	-	-	415	-	-	415
Other comprehensive expense	-	-	-	-	(8)	1	(7)
Total comprehensive income	-	-	-	415	(8)	1	408
Dividends paid (Note 13)	-	-	-	(403)	-	-	(403)
Balance as at 31 December 2016	<u>700</u>	<u>(450)</u>	<u>350</u>	<u>415</u>	<u>(52)</u>	<u>6</u>	<u>969</u>
Balance as at 1 January 2017	700	(450)	350	415	(52)	6	969
Net profit for the year	-	-	-	771	-	-	771
Other comprehensive expense	-	-	-	-	(7)	39	32
Total comprehensive income	-	-	-	771	(7)	39	803
Dividends paid (Note 13)	-	-	-	(415)	-	-	(415)
Balance as at 31 December 2017	<u>700</u>	<u>(450)</u>	<u>350</u>	<u>771</u>	<u>(59)</u>	<u>45</u>	<u>1,357</u>

The attached notes on pages 11 to 47 form an integral part of these consolidated financial statements.



Consolidated Statement of Cash Flows
for the year ended 31 December 2017

	Notes	USD million	
		2017	2016
Cash flows from operating activities			
Net profit for the year		771	415
<i>Adjustments for:</i>			
Depreciation	4	227	227
Amortisation of intangible and deferred assets	6&8	77	76
Reservation right fees	15	(32)	(32)
Deferred income tax		(37)	(7)
Finance costs		187	122
Finance income		(33)	(36)
Provision for retirement benefit obligation	16	105	35
Foreign exchange gain on retirement benefit obligations	16	4	(2)
Provision for long term incentives		5	3
		<u>1,274</u>	<u>801</u>
<i>Changes in:</i>			
Inventories		(3)	3
Due from related parties		(107)	186
Trade and other receivables		(87)	(86)
Deferred charges and other assets		19	(19)
Long term incentives paid		(6)	(4)
Due to related parties		(83)	(22)
Trade and other payables		272	47
Retirement benefit obligation paid	16	(10)	(4)
Net cash from operating activities		<u>1,269</u>	<u>902</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(279)	(159)
Purchase of intangible assets	6	-	(2)
Payment of USGC Ethylene reservation fees	8	(315)	-
Investment in staff saving scheme		(4)	(4)
Maturity / (placement) of short term deposits		399	(1,053)
Long-term loans repaid by related parties	9	140	385
Finance income received		38	34
Net cash used in investing activities		<u>(21)</u>	<u>(799)</u>



Consolidated Statement of Cash Flows
for the year ended 31 December 2017

Cash flows from financing activities

Draw down of long term loan	14	-	2,500
Proceeds from Sukuk	14	500	-
Loans repaid	14	(500)	(5,000)
Proceeds from issue of medium term note	14	-	2,218
Loan origination fees paid	14	(5)	(46)
Finance costs paid		(201)	(90)
Dividends paid	13	(415)	(403)
Net cash used in financing activities		<u>(621)</u>	<u>(821)</u>
Net increase / (decrease) in cash and cash equivalents		627	(718)
Cash and cash equivalents at beginning of the year		<u>229</u>	<u>947</u>
Cash and cash equivalents at end of the year	12	<u>856</u>	<u>229</u>

The attached notes on pages 11 to 47 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. Reporting entity

EQUATE Petrochemical Company K.S.C.C. (“the Company”) is a closed Kuwaiti Shareholding Company incorporated in the State of Kuwait on 20 November 1995 with commercial registration number 63392 dated 20 November 1995.

The Company is 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”).

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”.

The objective of the Company is to manufacture all kinds of petrochemical products. The Company may have interests in, or in any way associate itself with entities, which are carrying on activities similar to its own or which may help the Company to realise its objectives, whether in the State of Kuwait or abroad.

The Group is primarily engaged in the manufacture and sale of ethylene glycol (“EG”), polyethylene (“PE”) and polyethylene terephthalate (“PET”). The Company also operates and maintains Olefins II, Styrene, Aromatics and Polypropylene plants on behalf of related entities in Kuwait.

The address of the Company’s registered office is East Ahmadi, Block 9, Kuwait.

The consolidated financial statements comprise of the Company and its subsidiaries (together referred to as “the Group” and individually “the Group entities”).

A list of significant directly and indirectly owned subsidiaries is as follows:

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

These consolidated financial statements were authorised for issue by the Board of Directors on 14 February 2018 and are subject to approval of shareholders at the forth-coming Annual General Meeting.

2. Base of preparation

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), the requirements of the Companies Law No. 1 of 2016, as amended and its Executive Regulations, the company’s memorandum and articles of association and Ministerial order No.18 of 1990.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost or amortized cost basis, except for the derivative financial instruments which are measured at fair value.

c) Functional and presentation currency

The consolidated financial statements are presented in United States Dollars (“USD”) which is the functional currency of the Company. The Company’s functional currency is not the currency of the country in which it is domiciled as majority of the transactions of the company are denominated in USD. All financial information presented in USD has been rounded to the nearest million. A separate set of financial statements is presented in Kuwaiti Dinar (“KD”) for purpose of submission to the Ministry of Commerce and Industry, State of Kuwait.

d) Use of estimates and judgments

The preparation of 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 are significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described in noted (3 r).

3. Significant accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year except for the adoption of the following new and amended standards effective for the annual periods beginning on 1 January 2017.

Disclosure initiatives (Amendments to IAS 7)

The amendments require disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

Amendments to IAS 12: Recognition of Deferred Tax Assets for unrealized losses

The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.

Annual improvements to IFRS 2014-2016 cycle

The annual improvements to IFRS 2014-2016 cycle including amendments to IFRS, which are summarised below:

IFRS 12: disclosure of interest in other entities

The amendments to IFRS 12 provide additional guidelines to disclose requirements for interest in other entities also apply to interest that are classified as held for sale or distribution.

a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at the reporting date and its subsidiaries (investees which are controlled by the Group) as at the same date or a date not earlier than one month from the reporting date. Control is achieved when the Group 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 Group controls an investee if and only if the Group has:

- 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 Group has less than a majority of the voting or similar rights of an investee, the Group 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 Group's voting rights and potential voting rights

Notes to the Consolidated Financial Statements

The Group 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 Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the Group's consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of the other comprehensive income are attributed to the shareholders of the Parent Company of the Group 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 Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group 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 Group 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 Group 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.

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 Group 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 Group 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 consolidated income statement.

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 consolidated 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 Group 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 consolidated income statement on the acquisition date.

Notes to the Consolidated Financial Statements

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.

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 Group'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 Group. The Group 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 consolidated statement of profit or loss.

At each reporting date, the Group 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 Group 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 consolidated 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 consolidated statement of profit or loss.

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 Group'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 consolidated 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 Group have finite useful lives and are measured at cost less accumulated amortization and any accumulated impairment losses.

Brands recognized by the Group 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 Group 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 Group 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 consolidated statement of profit or loss.

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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 statement of profit or loss.

e) Financial instruments

Classification

The Group 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 Group 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 Group transfers substantially all the risks and rewards of ownership and has not retained control. If the Group 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.

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 consolidated 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 consolidated statement of profit or loss within the period they occur.

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Fair values

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

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

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair value of financial instruments carried at amortised cost, other than short-term financial instruments, is estimated by discounting the future contractual cash flows at the current market interest rates for similar financial instruments.

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:

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

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement.

For financial instruments carried at amortized cost, fair values are not materially different from their carrying values and are used only for disclosure purpose. Fair value of such financial instruments are classified under level 3 determined based on discounted cash flow basis, with most significant inputs being the discount rate that reflects the credit risk of counterparties.

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 consolidated statement of profit and loss.

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 consolidated statement of profit and loss.

Notes to the Consolidated Financial Statements

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 Group accounts for retirement benefits under IAS 19 "Employee Benefits". Benefits are payable to the Company's 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.

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 Group'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 Group 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 the Group 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 Group’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 Group 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 consolidated statement of profit or loss using the effective interest method in the period in which they are incurred.

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

o) Reservation right fees

Reservation right fees are recognized in the consolidated 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 Parent Company. The deferred income is amortised over the useful life of plant, which is 20 years.

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p) Government grants

Government grants related to assets are recognized in the consolidated 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 USD at rates of exchange prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into USD at rates of exchange prevailing at the statement of financial position date. The resultant exchange differences are recorded in the statement of profit or loss.

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 statement of profit or loss.

The assets and liabilities of foreign operations, are translated to USD at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to USD at the average exchange rates for current year. Foreign exchange differences arising on translation are recognized in other comprehensive income and presented in the foreign currency translation reserve in equity.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to the non-controlling interests.

r) 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 consolidated 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.

Determination of functional currency

Functional currency is the currency of the primary economic environment in which the Group 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 USD since the majority of the Company's transactions are denominated in USD. Sales and Purchases are also received and paid in USD.

Acquisition accounting

The Group 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 Group 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 Group'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 Group'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.

During the year, the Group reviewed the estimated useful life over which its tangible assets are depreciated and intangible assets are amortised. The Group'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 Group. Provisions are recorded for pending litigation when it is determined that an unfavorable outcome is probable and the amount of loss can be reasonably estimated, after consideration of advice from attorneys. Due to the inherent uncertain nature of litigation, the ultimate outcome or actual cost of the settlement may materially vary from estimates.

Notes to the Consolidated Financial Statements

s) 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 Group:

IFRS 9- Financial Instruments

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 Group's financial assets but is not expected to have any impact on the classification and measurement of financial liabilities. The Group is in the process of quantifying the impact of this standard on the consolidated 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

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

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

Notes to the Consolidated Financial Statements

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 application of IFRS 15, IFRS 9 and IFRS 16 may have significant impact on amounts reported and disclosures made in the Group's financial statements. However, currently it is not practicable to provide a reasonable estimate of effects of the application of these standards until the Group performs a detailed review.

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.

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.



Notes to the Consolidated Financial Statements

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.

Notes to the Consolidated Financial Statements

4. Property, plant and equipment

	USD million				
	Buildings, land, waterway improvements and roads	Plant and equipment	Office furniture and equipment	Assets under construction	Total
Cost					
Balance at 1 January 2016	180	3,387	112	208	3,887
Additions	35	37	-	87	159
Transfers	-	113	4	(117)	-
Balance at 31 December 2016	215	3,537	116	178	4,046
Additions	1	32	-	246	279
Transfers	48	57	5	(110)	-
Disposal	-	(6)	-	-	(6)
Foreign currency translation	5	44	-	1	50
Balance at 31 December 2017	269	3,664	121	315	4,369
Balance at 1 January 2016	71	1,881	105	-	2,057
Charge for the year	8	215	4	-	227
Balance at 31 December 2016	79	2,096	109	-	2,284
Charge for the year	8	215	4	-	227
Related to disposal	-	(6)	-	-	(6)
Foreign currency translation	2	11	-	-	13
Balance at 31 December 2017	89	2,316	113	-	2,518
Carrying amounts					
At 31 December 2016	136	1,441	7	178	1,762
At 31 December 2017	180	1,348	8	315	1,851

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. In 2016 the Group has purchased land worth USD 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 18 and Note 19).

The Company's plant was constructed on a land leased from Government of Kuwait and this renewable lease is valid until January 2020.

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

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 Consolidated Financial Statements

6. Intangible assets

	USD million					Total
	Technology and license fees	Customer Relationships	Brand	Intellectual property	Software	
Cost						
Balance at 1 January 2016	239	320	88	11	15	673
Additions	2	-	-	-	-	2
Balance at 31 December 2016	241	320	88	11	15	675
Additions	-	-	-	-	-	-
Balance at 31 December 2017	241	320	88	11	15	675
Accumulated amortisation and impairment losses						
Balance at 1 January 2016	205	-	-	-	-	205
Charge for the year	11	33	-	-	9	53
Balance at 31 December 2016	216	33	-	-	9	258
Charge for the year	12	34	-	-	6	52
Balance at 31 December 2017	228	67	-	-	15	310
Carrying amounts						
At 31 December 2016	25	287	88	11	6	417
At 31 December 2017	13	253	88	11	-	365

In conjunction with the business combination, the Group obtained access to the distribution channels and customer relationships. These relationships have been recognized on acquisition and are being amortized over 10 years 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 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 Consolidated Financial Statements

7. Deferred tax assets and liabilities

The provision for income taxes consists of the following:

	USD million	
	2017	2016
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.

	USD million	
	2017	2016
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

	USD million	
	2017	2016
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>

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

Notes to the Consolidated Financial Statements

- 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 Group enters 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 Company. The Company 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 The Kuwait Olefins Company K.S.C.C. ("TKOC"), The Kuwait Styrene Company K.S.C.C ("TKSC") and Kuwait Aromatics Company K.S.C.C. ("KARO"). TKOC is owned by DEH (42.5%), PIC (42.5%), BPC (9%) and QPIC (6%). 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, the Company signed a Materials and Utility Supply Agreement ("MUSA") with TKOC, TKSC, KARO and PIC. Under the terms of the MUSA, the Company receives a reservation right fee from the above entities that equals the total capital construction costs incurred by the Company on the new utilities and infrastructure facilities under the Olefins II projects

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

On 2 December 2004, the Company signed an Ethylene Supply Agreement with TKOC. Under the terms of the agreement, the price per metric tonne of Ethylene is paid to TKOC based on the quantities delivered by them at the contract price.

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

An agreement to amend the 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, the Company signed term loan agreements with TKOC and TKSC, under which the Company provided a USD 1.5 billion term loan to TKOC and USD 497 million term loan to TKSC. The term loans are repayable over a period of 11 years in biannual instalments starting from 15 December 2009 and carry coupon rate of LIBOR + 0.625% till 19 May 2013, LIBOR + 0.725% till 19 May 2016 and LIBOR + 0.825% till the maturity date. During 2016 TKSC fully prepaid the loan.

Notes to the Consolidated Financial Statements

Operational Facility – Under the cash management services provided by Dow, the 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 USD 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 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)
- v) Technical Services Agreement (MEGC)

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



Notes to the Consolidated Financial Statements

Details of significant related party transactions are disclosed below:

	USD million	
	2017	2016
a) Sales and management fee		
Polypropylene plant management fees from PIC	0	2
Olefins plant management fees from TKOC	3	3
Styrene plant management fees from TKSC	1	1
Aromatics Plant management fees from KPPC	3	3
Sale of ethylene to TKOC	4	-
Operating cost reimbursed by PIC for running of Polypropylene plant	44	36
Operating and utility cost reimbursed by TKOC for running of Olefins plant	171	132
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 loans to TKOC and TKSC	9	9
b) Purchases and expenses		
Feed gas and fuel gas purchased from KPC	366	417
Purchase of Ethylene Glycol from TKOC	636	436
Catalyst purchased from Dow	13	11
Ethylene Purchase from Dow	216	209
Service cost reimbursed to Dow	118	99
Glycol purchase from Dow	220	207
Catalyst purchased from UNIVATION	4	5
Operating costs reimbursed to EMC	4	4
Staff secondment costs reimbursed to Dow	4	4
Ethylene and other purchases from TKOC	63	75
c) Key management compensation		
Salaries and short term benefits	7	4
Terminal benefits	1	1
d) Due from related parties		
Due from PIC	11	10
Due from UCC	-	1
Due from Dow	6	9
Due from TKOC	69	13
Due from TKSC	12	4
Due from KPPC	56	11
Due from KNPC	2	1
Due from SADARA	-	0
Due from Others	0	0
	156	49

Notes to the Consolidated Financial Statements

	USD million	
	2017	2016
e) Loans to related party		
<i>Non-current portion</i>		
TKOC	237	384
	<u>237</u>	<u>384</u>
<i>Current portion</i>		
TKOC	147	140
	<u>147</u>	<u>140</u>
Movement of long-term loans: TKOC		
Balance at 1 January	524	656
Payment during the year	(140)	(132)
Balance at 31 December	<u>384</u>	<u>524</u>
f) Due to related parties		
Due to KPC	68	74
Due to PIC	7	15
Due to Kuwait Oil Company K.S.C	-	0
Due to Dow	26	62
Due to KNPC	-	0
Due to KPPC	2	1
Due to TKSC	1	2
Due to TKOC	90	123
	<u>194</u>	<u>277</u>

10. Inventories

	USD million	
	2017	2016
Raw materials and consumables	54	61
Finished goods	118	110
Spare parts	61	59
	<u>233</u>	<u>230</u>
Provision for obsolete and slow moving inventories	(1)	(1)
	<u>232</u>	<u>229</u>

11. Trade and other receivables

	USD million	
	2017	2016
Trade receivables	728	621
Less: Provision for doubtful debts	(1)	(1)
Prepayments and other	48	68
	<u>775</u>	<u>688</u>

12. Cash and bank balances

	USD million	
	2017	2016
Cash balances	0	0
Bank balances	74	138
Term deposits	1,700	1,404
Total Cash and bank balances	1,774	1,542
Less: Deposits with original maturity more than 3 months	(873)	(1,272)
Less: Amount reserved relating to staff saving scheme (Note 16)	(45)	(41)
Cash and cash equivalent for the purpose of cash flows	<u>856</u>	<u>229</u>

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

13. Share capital

The share capital of the Company comprises 2,160 million authorised, issued and fully paid up shares of Fils 100 each (2016: 2,160 million authorised, issued and fully paid up shares of Fils 100 each) (1,000 Fils equals 1 Kuwaiti Dinar).

Treasury shares

The Company's treasury shares comprise the cost of the Company's own shares held. At 31 December 2017 and 2016, the Company held 113,612,868 shares which are 5.26% of the issued shares at a cost of USD 450 million). This amount is debited in the consolidated statement of changes in equity.

Statutory reserve

As required by the Companies Law No. 1 of 2016, as amended and the Company's Articles of Association, 10% of the profit for the year is to be transferred to the statutory reserve until the reserve reaches a minimum of 50% of the paid up share capital. This reserve is not available for distribution except for payment of a dividend of 5% of paid up share capital in years when retained earnings are not sufficient for the payment of such dividends.

During the annual general meeting of 2008, the shareholders resolved to discontinue the transfer to the statutory reserve as the reserve reached 50% of the Company's paid up share capital.

Proposed dividend

The Board of Directors proposed a cash dividend of USD 771 million for the year ended 31 December 2017 (2016: USD 415 million) which is subject to the approval of shareholders at the Annual General Assembly. This dividend has not been recorded in the accompanying consolidated financial statements, and will be recorded only once it has been approved by the shareholders. On 23 March 2017, the shareholders approved the dividend for the year ended 31 December 2016 and accordingly USD 415 million, representing 20.28 cents per share was paid by the Company.

Notes to the Consolidated Financial Statements

14. Loans and borrowings

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

The movement in loans and borrowings is as follows:

	USD 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	<u>4,715</u>	<u>4,672</u>

Long term loan

On 23 June 2016, the Group entered into a USD 5 billion long term loan agreement (“Term Loan”) with a consortium of banks. The Term Loan consisted of USD 2 billion Tranche A 5-year bullet facility, USD 2 billion Tranche B 3-year bullet facility, and USD 1 billion 3 year revolving credit facility. The 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, the Group drewdown USD 2 billion from Tranche A facility and USD 0.5 billion from Tranche B facility, respectively. Tranche A facility will mature on 23 June 2021.

On 28 February 2017, the Group early settled Tranche B 3-year bullet facility amounting to USD 500 million of which USD 47 million pertaining to Islamic financing and USD 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:

	Term loan	
	Tranche A	Revolving credit facility
Total Facility		
Islamic financing	282	94
Conventional financing	2,718	906
Total	<u>3,000</u>	<u>1,000</u>

Notes to the Consolidated Financial Statements

Drawn/Outstanding as at 31 December 2017

			USD million	
			2017	2016
Islamic financing	Tranche A	Bullet repayment on 5 th year	188	188
Islamic financing	Tranche B	Bullet repayment on 3 rd year	-	47
Conventional financing	Tranche A	Bullet repayment on 5 th year	1,812	1,812
Conventional financing	Tranche B	Bullet repayment on 3 rd year	-	453
			2,000	2,500

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, the Group had available for its utilization, USD 1 billion of undrawn committed revolving credit facility.

Medium term notes

In 2016, the Group established a USD 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.

		USD million	
		2017	2016
i)	Fixed interest rate Notes amounting to USD 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 USD 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
		2,218	2,218

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 the Company and TKOC and is listed on ISE. As at 31 December 2017, Sukuk are quoted at 102.177, based on level 1 inputs.

Notes to the Consolidated Financial Statements

15. Deferred income

Deferred income comprises of the following: -

	USD million	
	2017	2016
Reservation right fees for Olefins II project	356	388
Government grants	9	12
Balance at 31 December	365	400

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 - The Group received a total of USD 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.

	USD million	
	2017	2016
Non-current portion of deferred income	333	368
Current portion of deferred income	32	32
	365	400

16. 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:

	2017	2016
Economic assumptions		
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
Demographic assumptions		
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

Notes to the Consolidated Financial Statements

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

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

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

	USD million	
	2017	2016
Cost of sales	88	30
General, administrative and selling expenses	17	5
	<u>105</u>	<u>35</u>

Movement in the retirement benefit obligation is as follows:

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

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.

Notes to the Consolidated Financial Statements

Reconciliation of fair value of Plan Assets of the subsidiaries

	USD 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

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:

	USD million	
	0.25% increase	
	2017	2016
Discount rate	(7)	(6)
Basic salary & variable allowances including overtimes and incentives	6	5

17. Trade and other payables

	USD million	
	2017	2016
Trade payables	278	188
Staff incentives	58	40
Staff saving schemes	44	36
Staff leave and other employee benefits	19	18
Accrual for KFAS and Zakat	14	4
Income tax	49	3
Accrued turnaround and capital expense	41	8
Interest payable	19	14
Others	82	53
	604	364

18. Cost of sales

	USD million	
	2017	2016
Materials	2,100	2,372
Distribution expenses	187	83
Staff cost	216	148
Depreciation and amortisation	301	300
Others	507	139
	3,311	3,042

Notes to the Consolidated Financial Statements

19 General, administrative and selling expenses

	USD million	
	2017	2016
Staff costs	41	31
Depreciation	3	3
Selling expenses	45	49
Others	10	10
	99	93

20 Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)

KFAS is calculated at 1% of the net profit for the year of the Company after deducting the transfer to statutory reserve.

21 Contribution to Zakat

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

22 Board of Director's remuneration

The total remuneration payable to the Board during the year amounted to USD 79,898 (2016: USD 74,427). The same is disclosed as nil on the face of the consolidated statement of profit or loss due to rounding off to millions. This is subject to approval of shareholders in the Annual General Meeting.

23 Additional Business and Geographical Information

Basis for segmentation

The Group has 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 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, the Group is engaged in managing operations of petrochemical plants of certain related parties, which did not meet the quantitative threshold for reportable segment.

Notes to the Consolidated Financial Statements

Information about reportable segments

	2017 USD million			2016 USD million		
	PMC	Others	Total	PMC	Others	Total
External segment revenue	4,022	352	4,374	3,359	286	3,645
EBITDA	1,270	8	1,278	814	10	824
Net profit for the period	763	8	771	405	10	415
Interest income	(33)	-	(33)	(36)	-	(36)
Interest expenses	187	-	187	122	-	122
Depreciation, amortization and reservation right fees	272	-	272	271	-	271
Income tax / KFAS /Zakat	81	-	81	52	-	52

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 Group's 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.

	EG (USD million)	PE (USD million)	PET (USD million)	Others (USD million)	Total (USD million)
31 December 2017					
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	-	352	917
External revenue	<u>2,813</u>	<u>855</u>	<u>354</u>	<u>352</u>	<u>4,374</u>
31 December 2016					
Americas	535	-	-	-	535
North Asia	918	319	-	-	1,237
India sub-continental	425	69	-	-	494
Europe	246	111	307	-	664
Rest of the World*	109	320	-	286	715
External revenue	<u>2,233</u>	<u>819</u>	<u>307</u>	<u>286</u>	<u>3,645</u>

* Rest of the World includes revenue from Kuwait of USD 66 million (2016: USD 54 million).

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

EBITDA by product line	EG (USD million)	PE (USD million)	PET (USD million)	Others (USD million)	Total (USD million)
31 December 2017	884	368	18	8	1,278
31 December 2016	489	323	2	10	824

24 Financial risk management

Overview

The Company 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 Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Finance Committee, which is responsible for developing and monitoring the Group'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 Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. 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 Group's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group 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 Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade and other receivables, due from related parties, loans to related parties and bank balances.

The Group 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 Group 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 Group uses other publicly available financial information and its own trading records to rate its major customers. The Group'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.

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 Group 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.

Notes to the Consolidated Financial Statements

Exposure to credit risk

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

	USD million	
	2017	2016
Trade receivables	727	621
Due from related parties	156	49
Loans to related parties	384	524
Other receivables	48	65
Bank balances	1,774	1,542
Total	3,089	2,801

The average credit period on sales is 60 (2016: 60 days) except for some customers where a longer credit period has been approved. The average age of these receivables is 54 (2016: 58 days). The Group 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 3,063 million (2016: USD 2,800 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 Group against the trade receivables.

In determining the recoverability of a trade receivable, the Group 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.

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

	USD million	
	2017	2016
Domestic & Gulf Cooperation Council countries (GCC)	22	16
North America	60	60
Asia	549	327
Europe	68	52
Other regions	28	166
	727	621

Notes to the Consolidated Financial Statements

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group'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 Group'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 Group's short, medium and long-term funding and liquidity management requirements. The Group 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 Group's non-derivative financial liabilities based on the remaining period at the consolidated statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	USD million				Total	Carrying amount
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years		
As at 31 December 2017						
Trade and other payables	604	-	-	-	604	604
Due to related parties	194	-	-	-	194	194
Loans and borrowings	165	165	3,379	1,980	5,689	4,715
Total	963	165	3,379	1,980	6,487	5,513
As at 31 December 2016						
Trade and other payables	364	-	-	-	364	364
Due to related parties	277	-	-	-	277	277
Loans and borrowings	152	152	2,896	2,512	5,712	4,672
Total	793	152	2,896	2,512	6,353	5,313

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

Foreign currency risk

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

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



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	USD million				Total
	Euro	Canadian Dollar	Kuwait Dinar	Other	
31 December 2017					
Assets	100	108	20	195	423
Liabilities	(49)	(292)	(576)	(33)	(950)
Net exposure	<u>51</u>	<u>(184)</u>	<u>(556)</u>	<u>162</u>	<u>(527)</u>
31 December 2016					
Assets	60	76	15	117	268
Liabilities	(30)	(180)	(428)	(16)	(654)
Net exposure	<u>30</u>	<u>(104)</u>	<u>(413)</u>	<u>101</u>	<u>(386)</u>

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 USD 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 USD 26 million (2016: USD 19 million).

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

	USD million	
	2017	2016
Long position		
KD	812	333
CAD	497	470
Euro	73	18
Others	102	144
Short position		
CAD	51	295
KD	365	310
Euro	118	44
Others	115	223

Notes to the Consolidated Financial Statements

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 Group 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 4.92 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

The Group's exposure to interest rates on financial assets and financial liabilities are disclosed in Notes 9, 12 and 14 to the consolidated 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 Group 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.

25 Commitments and contingent liabilities

The Group has a fixed gas purchase commitment with a related party of approximately USD 1 million (2016: USD 1 million) per day until the agreement is cancelled in writing by both parties.

The Group under the Excess EG Marketing agreement has a commitment to purchase from Dow an annual volume for a term to 2024.

The 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 Group had the following commitments and contingent liabilities outstanding as at 31 December:

	USD million	
	2017	2016
Letters of credit and letters of guarantee	291	61
Capital commitments	104	23
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.



Notes to the Consolidated Financial Statements

26 Operating lease

	USD million	
	2017	2016
Less than one year	29	23
Between one and five years	40	58
More than five years	42	45
	<u>111</u>	<u>126</u>

27 Capital management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. There were no changes /in the Group's approach to Capital Management during the year.

The capital structure of the Group consists of debt, which includes the loans and borrowings net of loans to related parties, cash and bank balances and equity, comprising issued capital, treasury shares, statutory reserves and retained earnings.

The Company is not subject to externally imposed capital requirements, except the minimum requirement of the Companies Law No. 1 of 2016, as amended and its Executive Regulations.