The Kuwait Olefins Company K.S.C.C.
State of Kuwait

Financial Statements and
Independent auditor's report for the year ended
31 December 2018

Contents **Page**

Independent auditor's report	1 – 3
Statement of financial position	4
Statement of profit and loss and other comprehensive income	5
Statement of changes in equity	6
Statement of cash flows	7
Notes to financial statements	8 - 31

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Independent auditor's report

The Shareholders
The Kuwait Olefins Company K.S.C.C.
State of Kuwait

Opinion

We have audited the financial statements of The Kuwait Olefins Company K.S.C.C. ("the Company"), which comprise the statement of financial position as at 31 December 2018, the 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 financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company 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.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report is the Board of Directors report included in the Company's annual report, but does not include the financial statements and our auditor's report thereon.

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

KPMG Safi Al-Mutawa & Partners, a Kuwaiti Public Accountant and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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

If, based on the work we have performed on the other information obtained prior to the date of this auditor's 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 Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 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 financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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.

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 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 2018 that might have had a material effect on the business of the Company or on its financial position.

Safi A. Al-Mutawa
License No 138 "A"
of KPMG Safi Al-Mutawa & Partners
Member firm of KPMG International

Kuwait: 7 February 2019

The Kuwait Olefins Company K.S.C.C.
State of Kuwait

Statement of financial position
as at 31 December 2018

	Note	US$ '000 2018	US$ '000 2017
Assets			
Property, plant and equipment	*4*	666,604	712,516
Intangible assets	*5*	215,579	237,037
Non-current assets		882,183	949,553
Inventories	*6*	10,384	29,022
Due from related parties	*14*	117,926	95,101
Trade receivables		-	159
Prepayments and other receivables		1,639	2,080
Notes receivables	*14*	361,769	-
Cash and bank balances	*7*	15,101	332,978
Current assets		506,819	459,340
Total assets		1,389,002	1,408,893
Equity			
Share capital	*8*	380,417	380,417
Statutory reserve	*8*	190,208	190,208
Retained earnings		528,984	359,519
Total equity		1,099,609	930,144
Liabilities			
Loans and borrowings	*14*	79,391	234,101
Non-current liabilities		79,391	234,101
Loans and borrowings	*14*	155,878	147,294
Accruals and other liabilities		12,138	9,196
Due to related parties	*14*	41,732	87,728
Trade payables		254	430
Current liabilities		210,002	244,648
Total liabilities		289,393	478,749
Total equity and liabilities		1,389,002	1,408,893

The attached notes on pages 8 to 30 form an integral part of these financial statements.

Waleed Al-Bader
Chairman

Ramesh Ramachandran
President & Chief Executive Officer

Statement of profit or loss and other comprehensive income
for the year ended 31 December 2018

	Note	US$' 000 2018	US$' 000 2017
Sales		918,438	747,205
Cost of sales	*9*	(371,220)	(371,801)
Gross profit		547,218	375,404
General, administrative and selling expenses	*10*	(4,629)	(4,948)
Loss on sale of property, plant and equipment		(88)	(170)
Foreign exchange gain		1,189	1,421
Profit from operation		543,690	371,707
Finance income		5,017	4,123
Finance costs	*11*	(11,076)	(10,474)
Profit before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) and Zakat and Board of Directors' remuneration		537,631	365,356
Contribution to KFAS	*12*	(5,440)	(3,656)
Contribution to Zakat	*13*	(3,128)	(2,102)
Board of Directors' remuneration		(79)	(79)
Net profit for the year		528,984	359,519
Other comprehensive income		-	-
Total comprehensive income for the year		528,984	359,519

The attached notes on pages 8 to 30 form an integral part of these financial statements.

Statement of changes in equity
for the year ended 31 December 2018

	US$ '000			
	Share capital	**Statutory reserve**	**Retained earnings**	**Total**
Balance as at 1 January 2017	380,417	190,208	264,425	835,050
Net profit for the year	-	-	359,519	359,519
Total comprehensive income for the year	-	-	359,519	359,519
Dividend paid (Note 8)	-	-	(264,425)	(264,425)
Balance as at 31 December 2017	380,417	190,208	359,519	930,144
Balance as at 1 January 2018	380,417	190,208	359,519	930,144
Net profit for the year	-	-	528,984	528,984
Total comprehensive income for the year	-	-	528,984	528,984
Dividend paid (Note 8)	-	-	(359,519)	(359,519)
Balance as at 31 December 2018	380,417	190,208	528,984	1,099,609

The attached notes on pages 8 to 30 form an integral part of these financial statements.

Statement of cash flows
for the year ended 31 December 2018

	Notes	US$ '000 2018	US$ '000 2017
Cash flows from operating activities			
Net profit for the year		528,984	359,519
Adjustments for:			
Depreciation and amortization	*4 & 5*	97,246	80,831
Loss on sale of property, plant and equipment		88	170
Finance costs		11,076	10,474
Finance income		(5,017)	(4,123)
Provision for KFAS and Zakat		8,568	5,758
		640,945	452,629
Changes in:			
- inventories		18,638	(20,856)
- due from related parties		(22,825)	71,797
- trade receivables		159	299
- prepayments and other receivables		1,321	20,043
- due to related parties		(45,996)	57,741
- accruals and other liabilities		(5,952)	(21,367)
- trade payables		(176)	(1,211)
Net cash from operating activities		586,114	559,075
Cash flows from investing activities			
Acquisition of property, plant and equipment	*4*	(29,768)	(82,418)
Acquisition of intangible assets		(196)	-
Proceeds from sale of property, plant and equipment		-	423
Investment in note receivables	*14*	(361,769)	-
Matured time deposits	*7*	190,177	(5,322)
Finance income received		4,137	3,986
Net cash from / (used in) investing activities		(197,419)	(83,331)
Cash flows from financing activities			
Repayment of loans and borrowings	*14*	(147,294)	(139,527)
Finance costs paid		(9,582)	(9,724)
Dividend paid	*8*	(359,519)	(264,425)
Net cash used in financing activities		(516,395)	(413,676)
Net (decrease) / increase in cash and bank balances		(127,700)	62,068
Cash and bank balances at 1 January		142,801	80,733
Cash and bank balances at 31 December	*7*	15,101	142,801

The attached notes on pages 8 to 30 form an integral part of these financial statements.

1. Reporting entity

The Kuwait Olefins Company K.S.C.C. ("the Company") is a Closed Kuwaiti Shareholding Company incorporated in the State of Kuwait on 10 October 2004. The Company is registered in the commercial register under number 103722 dated 10 October 2004.

The Company is owned by DOW Europe Holding B.V. ("DEH"), Petrochemical Industries Company K.S.C.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 Company is engaged in the manufacture and sale of ethylene and ethylene glycol ("EG").

These financial statements were approved for issue by Board of Directors on 29 January 2019 and are subject to approval of shareholders at the annual general meeting.

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

2. Basis of preparation

a) Statement of Compliance

The 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.

This is the first set of the Company's annual financial statements in which IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* have been applied. Changes to significant accounting policies are described in Note 2 (e).

b) Basis of measurement

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

c) Functional and presentation Currency

These financial statements are presented in United States Dollars ("US$") which is the functional currency of the Company. The Company's functional currency is not the currency of the country in which it is domiciled as majority of the transactions of the Company are denominated in US$. All financial information presented in US$ has been rounded to the nearest thousand. 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 IFRSs require management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying value of assets and liabilities that are not readily apparent from other sources.

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

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

e) Changes in accounting policies

The Company has adopted the following new standards and amendments to the standards effective current year:

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments ("IFRS 9") that replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project i.e. classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company has not restated comparative information for 2017 as permitted by the transitional provisions of the standard. Therefore, the information presented for 2017 does not reflect the requirements of IFRS 9 and is not comparable to the information presented for 2018.

The key changes to the Company's accounting policies resulting from the adoption of IFRS 9 are summarised below:

Classification of financial assets

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVTPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

(1) Debt instruments measured at amortised cost;
(2) Debt instruments measured at fair value through other comprehensive income (FVOCI) with gains or losses recycled to statement of income on derecognition.
(3) Equity instruments at FVOCI with no recycling of gains or losses to statement of income on derecognition; and
(4) Financial assets carried at fair value through profit or loss (FVTPL)

IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVTPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the statement of income.

The accounting for financial liabilities will be to large extent the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements will be presented in OCI with no subsequent reclassification to the statement of profit or loss, unless an accounting mismatch in profit or loss would arise.

Impairment of financial assets:

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Company have opted for retrospective method for the adoption without change in comparative financial information presented.

Other minor improvements and amendments to IFRSs which are effective for annual accounting period starting from 1 January 2018 are as below:

- Annual Improvements to IFRSs 2014–2016 Cycle – various standards; and
- Disclosure Initiative (Amendments to IAS 7).

These improvements and amendments did not have any material impact on the accounting policies, financial position or performance of the Company.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements except as disclosed in 2(e) above:

a) Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, FVOCI, or FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of deposits and due from a related party that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments),
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments),
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments),
- Financial assets at FVTPL.

Financial assets at amortised cost (debt instruments)

The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Company's financial assets at amortised cost includes due from related parties, trade and other receivables and bank balances.

(a) Business model assessment

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel; and
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

(b) The SPPI test

As a second step of its classification process, the Company assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

Principal for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of profit within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the profit rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and profit on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL. Further, financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Income from loans and advances, foreign exchange gains and losses and impairment are recognised in the statement of income. Any gain or loss on derecognition is recognised in the statement of income.

Financial assets at FVOCI (debt instruments)

The Company measures debt instruments at FVOCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss. The Company does not carry any debt instruments at fair value through OCI.

Financial assets designated at FVOCI (equity instruments)

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment. The Company does not carry any equity instrument designated at fair value through OCI.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. The Company does not carry any financial assets at FVTPL.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Company has established a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Under the general approach of ECL, the Company determines whether the financial asset is in one of the three stages in order to determine the amount of ECL to recognize:

Stage 1: 12 months ECL
For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognised.

Stage 2: Lifetime ECL – not credit impaired
For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Stage 3: Lifetime ECL – credit impaired
Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under IAS 39, the Group methodology for specific provisions remains largely unchanged.

Lifetime ECL are recorded on financial assets that is credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

For trade and other receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company has elected to measure loss allowances at an amount equal to 12 month ECLs for the cash and bank balances, notes receivables and due from related parties, for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. The Company has established a provision matrix based on quantitative and qualitative information and analysis, Company's historical credit loss experience, adjusted for forward-looking factors considering the country ratings specific to the receivables and the economic environment.

The Company evaluates the probability of default considering the period of past due receivables. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Company's financial liabilities include loans and borrowings, due to related parties, trade payables and accruals and other liabilities.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Company has not designated any financial liability as at fair value through profit or loss.

Derecognition

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

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

b) Property, plant and equipment

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

Depreciation is calculated based on the estimated useful lives of the applicable assets on a straight-line basis commencing when the assets are ready for their intended use, at the following annual rates:

Buildings and roads	5%
Plant and equipment	5%
Office furniture and equipment	20%
Catalysts	50%

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 Company'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 Company. The Company 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 statement of profit or loss.

The Company has reclassified catalysts from inventory to be part of property, plant and equipment from the current year as the Management determined that the life of the catalysts are estimated to be more than one year.

c) Intangible assets

Intangible assets consist of technology and licences for the manufacture of ethylene and ethylene glycol, and reservation right fees for the right of use of the new utilities and infrastructure facilities developed by Equate Petrochemical Company K.S.C.C. ("EQUATE") under the Olefins II Projects (Note 14). Intangibles are measured at cost less accumulated amortisation and any accumulated impairment losses.

Costs that are directly associated with identifiable non-monetary assets controlled by the Company and that will probably generate economic benefits exceeding cost beyond one year are recognised as intangible assets.

The intangible assets are amortised from the date of commencement of commercial production on a straight-line basis over twenty years. 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.

d) Impairment of tangible and intangible assets

The carrying amounts of tangible and intangible assets are reviewed at each financial position date to determine whether there is any indication of impairment. If any such indication exists, an impairment loss is recognized in the statement of comprehensive income, being the difference between carrying value and the asset's recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

An asset is impaired if its carrying amount exceeds its estimated recoverable amount. The recoverable amount of an asset is the higher of an asset's fair value less cost to sell and value in use. Fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

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) Cash and bank balances

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.

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

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.

g) Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognized revenue when it transfers control over a good or service to a customer. Revenue is measured at a fair value of the consideration received or receivable, taking into account defined terms of payment in a contract and net of applicable discounts.

Revenue from sale of products:

Revenue from the sale of ethylene, ethylene glycol and other products is recognised when a customer obtains control of those products, which normally is when title passes at point of delivery, based on the contractual terms of the agreements i.e., FOB ("Free On Board") shipping point. The transfer of the control occurs when the product is delivered to the freight carrier. The Company's terms of sale are included in its contracts of sale, order confirmation documents and invoices. Each such sale normally represents a single performance obligation. The Company satisfies its performance obligations at a point in time.

Variable pricing – preliminary pricing

Certain products in certain markets may be sold with variable pricing arrangements. Such arrangements determine that a preliminary price is charged to the customer at the time of transfer of the control of products, while the price of products can only be determined by reference to a time period ending after that time. In such cases, and irrespective of the formula used for determining preliminary and final prices, revenue is recorded at the time of transfer of control of products at an amount representing the expected final amount of consideration that the Company receives. Where the Company records receivable for the preliminary price, subsequent changes in the estimated final price will not be recorded as revenue until such point in time at which the final price is determined.

Interest income

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.

h) Provisions for liabilities

A provision is recognised if, as a result of a past event, the Company 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.

i) 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 Company 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 statement of profit or loss using the effective interest method in the period in which they are incurred.

j) Accounting for leases

Where the company is the lessee

Operating leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under operating leases are charged to the statement of comprehensive income on a straight line basis over the lease term.

k) Foreign currencies transactions.

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 in a foreign currency 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.

l) Critical accounting judgements and key sources of estimation uncertainty

The following are the critical accounting judgements, apart 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 financial statements.

Determination of functional currency

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

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:

Measurement of fair values of financial instruments

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.

Measurement of ECLs

The measurement of ECLs on financial assets involves complex estimations. ECLs are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective profit rate of the financial instrument. Cash shortfall represent the difference between cashflows due to the Company in accordance with the contract and the cashflows that the Company expects to receive. The key elements in the measurement of ECL include probability of default, loss given default and exposure at default.

The Probability of Default ("PD") is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the financial asset has not been previously derecognized and is still in the portfolio.

The Exposure at Default ("EAD") is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities.

The Loss Given Default ("LGD") is an estimate of the loss arising in the case where a default occurs at a given time.

Impairment of tangible and intangible assets and useful lives

The Company'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 Company reviewed the estimated useful life over which its tangible assets are depreciated and intangible assets are amortised. The Company'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.

m) **Standards issued but not yet effective**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below:

IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition 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.*

I. Leases in which the Company is a lessee

The Company will recognise new assets and liabilities for its operating leases. The nature of expenses related to those leases will now change because the Company will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

In addition, the Company will no longer recognise provisions for operating leases that it assesses to be onerous contracts. Instead, the Company will include the payments due under the lease in its lease liability.

No significant impact is expected for the Company's finance leases.

II. Leases in which the Company is a lessor

As at the reporting date, the Company has not entered into any contracts in which the Company is a lessor.

III. Transition

The Company plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, if required, with no restatement of comparative information.

The Company plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

IFRS 16 may have significant impact on amounts reported and disclosures made in the Company's financial statements in respect to the operating leases. Additional disclosures will be made in the financial statements when these standards, revisions and amendments become effective. However, currently it is not practicable to provide a reasonable estimate of effects of the application of these standards until the Company performs a detailed review.

Other standards

The following amended standards and interpretations, which are issued but not yet effective, are not expected to have a significant impact on the financial statements.

- IFRIC 23 Uncertainty over Tax Treatments.
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards.
- Amendments to References to Conceptual Framework in IFRS Standards

4. Property, plant and equipment

	US$ '000					
Cost	**Buildings and roads**	**Plant and equipment**	**Office furniture and equipment**	**Catalysts**	**Assets under construction**	**Total**
Balance as at 1 January 2017	9,641	1,132,791	22,135	-	6,196	1,170,763
Additions	-	50,177	-	-	32,241	82,418
Transfers	-	4,513	281	-	(4,794)	-
Disposals	-	(1,008)	-	-	-	(1,008)
Balance as at 31 December 2017	9,641	1,186,473	22,416	-	33,643	1,252,173
Additions	-	1,120	-	18,923	9,725	29,768
Transfers	-	22,130	-	-	(22,130)	-
Disposals	-	(178)	-	-	-	(178)
Balance as at 31 December 2018	9,641	1,209,545	22,416	18,923	21,238	1,281,763
Accumulated depreciation and impairment losses						
Balance as at 1 January 2017	3,896	454,860	22,135	-	-	480,891
Charge for the year	482	58,643	56	-	-	59,181
Depreciation related to disposals	-	(415)	-	-	-	(415)
Balance as at 31 December 2017	4,378	513,088	22,191	-	-	539,657
Charge for the year	482	65,592	56	9,462	-	75,592
Depreciation related to disposals	-	(90)	-	-	-	(90)
Balance as at 31 December 2018	4,860	578,590	22,247	9,462	-	615,159
Carrying amounts						
As at 31 December 2017	5,263	673,385	225	-	33,643	712,516
As at 31 December 2018	4,781	630,955	169	9,461	21,238	666,604

Depreciation is allocated to cost of sales as it entirely relates to the Olefins Plant. The Company's plant was constructed on a land leased from Government of Kuwait and this renewable lease is valid until May 2031.

5. Intangible assets

	US$ '000	
	2018	**2017**
Cost		
Licence fees paid to Technip USA Corporation ("TECHNIP")	2,210	2,210
Licence fees paid to "Union Carbide Chemicals & Plastics Tech Corporation"	31,472	31,472
Licence fees paid to "Dow Europe Holding B.V."	58,884	58,688
Licence fees paid to UOP Limited	364	364
Reservation right fees paid to EQUATE	340,255	340,255
As at 31 December	433,185	432,989
Accumulated amortisation and impairment losses		
As at 1 January	195,952	174,302
Charge for the year	21,654	21,650
As at 31 December	217,606	195,952
Carrying amounts	215,579	237,037

Licence fees paid to TECHNIP and to UOP Limited represent the amounts incurred for the acquisition of Ethylene technology. Licence fees paid to Union Carbide Chemicals & Plastics Tech Corporation and Dow Europe Holding B.V. represent the amount incurred for acquisition of Glycol technology. Licence fees are being amortised over 20 years. Amortisation of intangible assets is allocated to cost of sales.

Reservation right fees represent the Company's share of the total costs incurred on the Utilities and Infrastructure facilities developed and owned by EQUATE (Note 14).

6. Inventories

	US$ '000	
	2018	**2017**
Raw materials and consumables	8,203	27,927
Finished goods	2,181	1,095
	10,384	29,022

7. Cash and bank balances

	US$ '000	
	2018	**2017**
Bank balances	15,101	15,014
Time deposits with original maturity of three months or less	-	127,787
Cash and bank balances	15,101	142,801
Add: Time deposits with original maturity period exceeding three months	-	190,177
Cash and cash balances for the statement of cash flows	15,101	332,978

There are no time deposits as at 31 December 2018. The average effective interest rate on time deposits as at 31 December 2017 was 1.64% per annum.

8. Share capital

As at 31 December 2018 and 2017, the authorised share capital of the Company comprises 1,060 million authorised, issued and fully paid up shares of 100 Fils each.

Statutory reserve

In accordance with the Companies Law No. 1 of 2016, as amended and the Company's articles of association, 10% of the net profit for the year is required to be transferred to statutory reserve, until the reserve totals 50% of the paid-up share capital. The reserve is not available for distribution except for payment of a dividend of 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividends.

During 2013, the shareholders in the AGM resolved to discontinue the transfer to statutory reserve as the reserve reached 50% of the Company's paid up share capital. Accordingly, there are no transfers to the statutory reserve during the year.

Proposed dividend

The Board of Directors proposed a cash dividend of US$ 528,984 thousand for the year ended 31 December 2018 (2017: US$ 359,519 thousand) which is subject to the approval of shareholders at the Annual General Assembly.
This dividend has not been recorded in the accompanying financial statement and will be recorded after approval of the shareholders. On 18 March 2018, the shareholders approved the dividend for the year ended 31 December 2017 and accordingly US$ 359,519 thousand, representing 33.91 cents per share was paid by the Company.

9. Cost of sales

	US$ '000	
	2018	**2017**
Materials	182,373	151,088
Distribution expenses	7,890	7,159
Service cost	83,711	132,723
Depreciation and amortisation	97,246	80,831
	371,220	371,801

10. General, administrative and selling expenses

	US$ '000	
	2018	2017
Marketing and sales	864	1,167
Administration	3,765	3,781
	4,629	4,948

11. Finance cost

This represents interest expenses on term loan facility taken from EQUATE at an effective interest rate of 2.75% (2017: 2.75%) as disclosed in Note 14.

12. 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.

13. 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.

14. Related party transactions

In the normal course of business, the Company enters into transactions with its shareholders PIC (wholly owned by Kuwait Petroleum Corporation ("KPC")), BPC, QPIC, DOW and its affiliates.

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 consists of the EQUATE expansion project, the incorporation and development of the Company and The Kuwait Styrene Company ("TKSC").

On 2 December 2004, the Company signed a Materials and Utilities Supply Agreement ("MUSA") with EQUATE. Under the terms of the MUSA, the Company contributed reservation right fees to EQUATE that represent 45.32% of the capital construction costs incurred by EQUATE on the new utilities and infrastructure facilities developed and owned by EQUATE. The percentage contribution of reservation right fee is based on the usage percentage of the new utilities and infrastructure facilities by the Company.

On 2 December 2004, the Company signed an Operations, Maintenance and Services Agreement ("OMSA") with EQUATE. Under the terms of the OMSA, the Company receives various services from EQUATE in respect of the Olefins II operations.

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

During 2005, Services Agreements were signed between the Company, DOW, PIC and EQUATE for the provision of various services to the Company during the development of the Plant under construction. Since then the plant has been constructed and it is fully operational.

On 17 April 2006, the Company signed a distribution agreement with MEGlobal International FZE Dubai (part of MEGlobal group, "MEGlobal") as distributor for EG produced by the Company. MEGlobal is a 100% owned subsidiary of EQUATE, a company owned by the shareholders.

On 31 May 2006, the Company signed term loan agreements with EQUATE, under which the Company was provided a USD 1.5 billion term loan by EQUATE. 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.

Operational Facility – Under the cash management services provided by MEG B.V, EQUATE Group entities and TKOC have an overnight cash sweeping facility with MEG B.V. Under this arrangement, the subsidiaries in EQUATE Group and TKOC sweeps selected bank accounts with MEG B.V. This allows EQUATE Group and TKOC either invest or borrow funds on an overnight basis. Under the terms of the agreement, the subsidiaries and TKOC can borrow or deposit with MEG B.V at interest rate of LIBOR plus a positive spread set by the Management. The spread is determined taking into consideration of economic factors such as the creditworthiness of counterpart, characteristics of the debt financing arrangement etc. Amounts outstanding as at 31 December 2018 under these arrangements were a net asset of USD 361,769 thousands. These are indefinite arrangements subject to termination by either party of which the interest is accrued monthly.

All transactions with related parties are carried out on a negotiated contract basis. Details of significant related party transactions and balances are as follows:

	US$ '000	
	2018	**2017**
Notes receivables		
Working capital loan with ME Global B.V.	361,769	-
	361,769	-
Due from related parties		
Due from EQUATE	9,068	9,810
Due from PIC	2,324	1,429
Due from TKSC	4,291	1,055
Due from ME Global International FZE	101,932	82,805
Due from Kuwait Paraxylene Production Company K.S.C.C. ("KPPC")	311	2
	117,926	95,101
Loans and borrowings (from EQUATE)		
Non-current portion of loans and borrowings	79,391	234,101
Current portion of loans and borrowings	155,878	147,294
	235,269	381,395
Movement in loans and borrowings (from EQUATE)		
Balance at 1 January	381,395	519,656
Payment during the year	(147,294)	(139,527)
Loan origination fees	1,168	1,266
Balance at 31 December	235,269	381,395
Due to related parties		
Due to EQUATE	16,990	68,884
Due to PIC	1,000	1,268
Due to KPPC	341	46
Due to KPC	21,080	15,295
Due to Kuwait Oil Company K.S.C. ("KOC")	2,268	1,566
Due to DOW	53	53
Due to ME Global International FZE	-	616
	41,732	87,728
Sales		
Sales of EG to MEGlobal	772,303	634,307
Sales to EQUATE, KPPC, TKSC and PIC	146,135	110,858
Expenses		
Feed gas purchased from KPC	134,027	83,725
Catalysts and other raw materials purchased from DOW	-	20,109
Olefins II plant management fees to EQUATE	2,393	3,057
Purchase of Ethylene from EQUATE	-	3,275
Toggling fees payments to KOC	7,436	6,304
Operating and utility cost reimbursed to EQUATE for running the Olefins II plant	122,605	132,619

Board of Directors' remuneration

The provision for the Board of Directors' remuneration was made according to Article 198 of the Companies Law No.1 of 2016, as amended and its Executive Regulations and is subject to the approval of Annual General Meeting.

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

The Company continuously reviews its risk exposures and takes measures to limit it to acceptable levels. Risk management is carried out by the senior management under policies approved by the board of directors. Senior management identifies and evaluates financial risks in close co-operation with the operating units.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

The significant financial risks that the Company is exposed to are discussed below:

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and the equity prices will affect the Company'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 Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

Foreign currency risk

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

The Company deals in forward exchange contracts within approved limits to manage its foreign currency positions and cash flows. The notional value of the contracts (off balance sheet exposure) as at 31 December 2018:

	US$ '000	
	2018	**2017**
Short position		
Euro	130,000	22,000
Long position		
Euro	65,000	18,750

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 2 in fair value hierarchy.

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

31 December 2018 (US$' 000)	Euro	Kuwaiti Dinar	Total
Assets	77,554	22	77,576
Liabilities	-	(12,071)	(12,071)
Net long / (short) exposure	77,554	(12,049)	65,505

31 December 2017 (US$' 000)	Euro	Kuwaiti Dinar	Total
Assets	10,628	2,974	13,602
Liabilities	-	(7,527)	(7,527)
Net long / (short) exposure	10,628	(4,553)	6,075

The following exchange rates were applied to translate monetary assets and liabilities at 31 December 2018:

(US$)	Reporting date Mid-spot rate	
	2018	2017
Euro	0.880	0.837
Kuwaiti Dinar	0.303	0.302

Foreign currency sensitivity analysis

As at 31 December 2018, if the US$ had weakened/strengthened by 5% against the Euro and Kuwaiti Dinar with all other variables held constant, profit for the year would have been higher / lower by US$ 3,275 thousand (2017: US$ 304 thousand).

Interest rate risk

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

Interest rate sensitivity analysis

At 31 December 2018, if interest rates on US$ denominated borrowings had been 10 basis points higher/ lower with all other variables held constant, profit for the year would have been US$ 235 thousand (2017: US$ 381 thousand) lower/ higher. The Company's exposures to interest rates on financial assets and financial liabilities are detailed in note 14.

Equity price risk

Equity price risk is the risk that value of the instrument will fluctuate as a result of changes in equity market prices, whether caused by factors specific to an individual investment, issuer or all factors affecting all instruments traded in the market. The Company is not exposed to any equity price risk.

Credit risk

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

Exposure to credit risk

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

	US$ '000	
	2018	**2017**
Trade receivables	-	159
Notes receivables	361,769	-
Due from related parties	117,926	95,101
Other receivables	552	1,715
Bank balances and time deposits	15,101	332,978
	495,348	429,953

Trade and other receivables

The average credit period on sales is 60 days (2017: 60 days). As at the statement of financial position date, there are no trade receivables.

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

The Company'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.

The balances are neither due nor impaired.

Due from related parties and note receivables

The Company sells all its products to related parties. Transactions with related parties are carried out on a negotiated contract basis. While, note receivable represents balances on account of cash sweeping arrangement with a related party as disclosed in note 14.

The related parties are with high credit rating and repute in the market. Impairment on the due from a related party and deposits have been measured on the basis of lifetime expected credit losses. The Company considers that these have low credit risk based on historical experiences, available press information and experienced credit judgment. As on 31 December 2018, these are neither impaired nor due.

Bank balances and time deposits

Bank balances and time deposits are held with bank and financial institution counterparties, which are highly rated. Impairment on bank balances has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Company considers that its bank balances have low credit risk based on the external credit ratings of the counterparties. The 12 month ECL computed on the bank balances and term deposits are insignificant.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company'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 Company'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 Company's short, medium and long-term funding and liquidity management requirements. The Company 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 Company's non-derivative financial liabilities based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months approximate their carrying balances as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total	Carrying amount
As at 31 December 2018					
Trade payables	254	-	-	254	254
Due to related parties	41,732	-	-	41,732	41,732
Accruals and other liabilities	12,138	-	-	12,138	12,138
Loans and borrowings	155,883	80,495	-	236,378	235,269
Total	210,007	80,495	-	290,502	289,393
As at 31 December 2017					
Trade payables	430	-	-	430	430
Due to related parties	87,728	-	-	87,728	87,728
Accruals and other liabilities	9,196	-	-	9,196	9,196
Loans and borrowings	154,077	159,723	81,844	395,644	381,395
Total	251,431	159,723	81,844	492,998	478,749

Fair value

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 Company 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) 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). All other financial instruments are classified as Level III.

16. Capital management

The Company 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 Company's approach to capital management during the year.

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.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt to adjusted capital. Net debt is calculated as total borrowings (including current and non- current portion) of long term loan from related parties less cash and bank balances.

Gearing ratio

The gearing ratio at 31 December was as follows:

	US$ '000	
	2018	**2017**
Debt	235,269	381,395
Less: Cash and bank balances and note receivables	(15,101)	(332,978)
Less: Note receivables	(361,179)	-
Net debt	(141,011)	48,417
Equity	-	930,144
Net debt to equity ratio	-	5.21%

17. Commitments and contingencies

The Company has a fixed gas purchase commitment with a related party of approximately US$ 372,572 (2017: US$ 281,143) per day until the agreement is cancelled in writing by both parties.

Pursuant to master loan agreement signed on 23 June 2016 which was amended on 13 December 2018, the EQUATE Group entered into a US$ 3 billion long term loan agreement ("Term Loan") with a consortium of banks. The Term Loan consisted of US $ 2 billion Tranche A 7-year bullet facility and USD 1 billion 5 year revolving credit facility. The Company is jointly and severally a guarantor along with EQUATE Group for the Term Loan and the credit facilities include customary covenants.

On 3 November 2016, the EQUATE Group established a US$ 4 billion Global Medium Term Note Programme (the "Programme") and issued notes amounting to US$ 2.25 billion (the "Notes"). The payments of all amounts due in respect of the Notes is unconditionally and irrevocably guaranteed, jointly and severally by the Company and EQUATE Group. The Notes are listed on Irish Stock Exchange ("ISE").

In December 2016, the EQUATE Group established a US$ 2 billion Sukuk programme (the "Sukuk") and issued Sukuk amounting to US$ 500 million on 21 February 2017. The Sukuk is guaranteed by the Company and is listed on ISE.

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

	US$ '000	
	2018	**2017**
Capital commitments	3,130	2,752

18. Operating leases

	US$ '000	
	2018	**2017**
Less than one year	92	92
Between one and five years	367	367
More than five years	643	735
	1,102	1,194