



MEGlobal Canada ULC and its subsidiary

Consolidated Financial Statements and
Independent Auditors' Report for the year
ended 31 December 2019

everything **EG**



Table of Contents

	Page
Independent auditors' report	2-7
Consolidated statement of financial position	8-9
Consolidated statement of profit or loss and other comprehensive income	10
Consolidated statement of changes in equity	11
Consolidated statement of cash flows	12
Notes to the consolidated financial statements	13-39



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Independent Auditors' Report

To the Shareholder of MEGlobal Canada ULC

Report on the Audit of Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of MEGlobal Canada ULC ("the Company") and its subsidiary (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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 *Auditors' 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) together with the ethical requirements that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Other matter

The comparative financial information of the Group presented as at and for the year ended 31 December 2018 ("special purpose consolidated financial statements") was prepared in accordance with International Financial Reporting Standards reporting framework for the information of the Directors of the Company. These special purpose consolidated financial statements were audited in accordance with ISA 800 (Revised), *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*. An unmodified opinion on the aforesaid special purpose consolidated financial statements was issued on 6 February 2019.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters are 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.

1. Impairment assessment of carrying value of goodwill

Refer notes 2.3 and 4 of the consolidated financial statements

The Group has significant goodwill arising from the acquisition of a business. The Group's annual impairment testing on goodwill requires the Group to identify the cash generating unit in accordance with IAS 36 – Impairment of Assets. Impairment testing is then performed using free cash flow projections based on financial forecasts estimated by the Group's management. Due to the inherent uncertainty involved in forecasting future cash flows, which forms the basis of the assessment of recoverability, along with the judgemental aspects of the assessment of appropriate discount rate, these are the key areas that our audit concentrated on.

Our response to address the key audit matter:

Our procedures included:

In respect of the assessment of CGUs: We challenged the identification of CGUs by reference to the Group's operating and management structure, our understanding of the business and requirements of IAS 36 – *Impairment of Assets*.



Key Audit Matters (continued)

1. Impairment assessment of carrying value of goodwill *(continued)*

In respect of the cash flows: We considered the Group's procedures used to develop the forecasts and the principles and integrity of the Group's discounted cash flow model and re-performed the calculations of the model results to test their mathematical accuracy. To challenge the reasonableness of those cash flow estimates, we assessed the historical accuracy of the Group's forecasting activities and corroborated the forecasts with reference to publicly available information and other evidence that has been made available during the course of the audit. We conducted our own assessments to challenge other key inputs, such as the projected growth rate and terminal value growth rate.

In respect of the discount rates: We used our valuation specialists to assist us in assessing the reasonableness of the significant assumptions used in arriving at the discount rates.

In respect of the sensitivity to key assumptions: We assessed the impact to the calculated recoverable amount of the CGUs by changing discount rates and forecast future cash flows.

We assessed the adequacy of the Group's disclosure in these respects.

2. Taxation

Refer notes 2.3 and 13 of the consolidated financial statements

The calculation of the tax expense is a complex process that involves subjective judgments and uncertainties, and requires specific knowledge and competencies. The nature of the Group's operations and related transactions can give rise to uncertain tax treatments, thereby requiring the use of estimates and assumptions which may be subsequently challenged by the relevant tax authorities. This requires special audit consideration because of the likelihood and potential magnitude of misstatements to the accuracy of the tax expense.

Our response to address the key audit matter:

Our procedures included:

Assessed the appropriateness of the current income tax computation for the current year, according to the tax laws applicable in the jurisdiction; We reviewed the treatment adopted and amounts recognised in relation to taxation and reviewed whether management's provisioning methodology includes a reasonable consideration of all uncertain positions.



Key Audit Matters (continued)

2. Taxation *(continued)*

We involved our internal tax specialists to evaluate and test management's assumptions in respect of these tax related provisions, including claims from tax authorities and review of supporting documentation. In assessing the provisions we have considered the outcome of past settlements and the status of matters being discussed with tax authorities. Our tax specialists reviewed correspondence with tax authorities and external tax opinions on tax related matters which management has considered in assessing the income tax provision.

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 International Financial Reporting Standards, 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.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



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

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

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



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

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

KPMG

KPMG Lower Gulf Limited
Dubai, United Arab Emirates
Date: 19 FEB 2020

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

	Notes	2019	2018
Assets			
Non-current assets			
Property, plant and equipment (net of accumulated depreciation)	3	483	512
Goodwill	4	1,461	1,461
Intangible assets (net of accumulated amortization)	4	6	7
Deferred income taxes	13	4	7
Deferred charges and other assets	5	274	199
Total non-current assets		2,228	2,186
Current assets			
Cash and cash equivalents		-	1
Accounts and other receivables			
Trade receivables (net of allowance for doubtful accounts of US\$ 0; 2018: US\$ 0)		2	3
Related parties	12	104	159
Others receivables		53	7
Notes receivable	6,12	277	240
Inventories	7	8	12
Deferred charges and other assets	5	21	24
Total current assets		465	446
Total assets		2,693	2,632
Equity and liabilities			
Equity			
Class A – authorized, unlimited shares; Issued 200,000,100 shares in 2015	8	-	-
Class B – authorized, unlimited shares; Issued 0 shares in 2015		-	-
Additional paid-in-capital		200	200
Retained earnings		610	591
Pension plans reserve		(18)	(5)
Foreign currency translation reserve		5	(5)
Total stockholders' equity		797	781
Non-current liabilities			
Long term debt	9	1,457	1,457
Deferred income tax	13	141	166
Pension and other post-retirement benefits	15	36	23
Total non-current liabilities		1,634	1,646
Current liabilities			
Notes payable	6,12	205	131
Accounts and other payables			
Trade payables		31	34
Related parties	12	9	12
Income taxes payable		5	7
Accrued and other current liabilities		12	21
Total current liabilities		262	205
Total liabilities		1,896	1,851
Total equity and liabilities		2,693	2,632

The accompanying notes on pages 13 to 39 form an integral part of these consolidated financial statements.

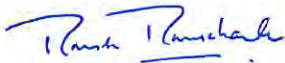
Consolidated statement of financial position (continued)
(all amounts in US\$ million, except share data)

The independent auditors' report is set on pages 2 to 7.

These consolidated financial statements were authorized for issue on behalf of the Board of Directors on **19 February 2020** and signed on their behalf by:



Naser Aldousari
Director



Ramesh Ramachandran
Director

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

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Net sales	16	541	882
Cost of sales		(483)	(486)
Operating profit		58	396
Interest expense		(62)	(75)
Interest income		3	4
(Loss)/profit before income taxes		(1)	325
Taxation	13	20	(93)
Net profit for the year		<u>19</u>	<u>232</u>
Other comprehensive income			
<i>Items that will be reclassified subsequently to profit or loss</i>			
Exchange differences on translating foreign operations		10	(28)
Pension and other post-retirement benefits		(13)	1
Other comprehensive income for the year, net of tax		(3)	(27)
Total comprehensive income for the year		<u>16</u>	<u>205</u>
Net profit attributable to:			
Stockholders of the Company		<u>19</u>	<u>232</u>
Total comprehensive income attributable to:			
Stockholders of the Company		<u>16</u>	<u>205</u>

The accompanying notes on pages 13 to 39 form an integral part of these consolidated financial statements.

The independent auditors' report is set on pages 2 to 7.

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

	Attributable to stockholders of the Company				Total
	Additional paid in capital	Retained earnings	Foreign currency translation reserve	Pension plan reserve	
Balance at 1 January 2018	200	359	23	(6)	576
Net profit for the year	-	232	-	-	232
Other comprehensive income for the year	-	-	(28)	1	(27)
Total comprehensive income for the year	-	232	(28)	1	205
Balance at 31 December 2018	200	591	(5)	(5)	781
Balance as at 1 January 2019	200	591	(5)	(5)	781
Net profit for the year	-	19	-	-	19
Other comprehensive income for the year	-	-	10	(13)	(3)
Total comprehensive income for the year	-	19	10	(13)	16
Balance at 31 December 2019	200	610	5	(18)	797

The accompanying notes on pages 13 to 39 form an integral part of these consolidated financial statements.

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

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Cash flows from operating activities			
Net profit for the year		19	232
Adjustments:			
Depreciation of property, plant and equipment	3	65	71
Amortization of intangible and deferred assets		19	14
Taxation	13	(20)	93
Changes in:			
Accounts and other receivable		53	2
Inventories		4	(1)
Accounts and other payable		(6)	2
Other assets and liabilities		(3)	1
		<u>131</u>	<u>414</u>
Income taxes paid	13	(47)	(138)
Net cash from operating activities		<u>84</u>	<u>276</u>
Cash flows from investing activities			
Acquisition of property, plant and equipment		(26)	(42)
Movement in deferred charges		(96)	-
Receipts from MEGlobal BV (notes payable)		74	60
Lending to MEGlobal BV (notes receivables)		(37)	(149)
Net cash used in investing activities		<u>(85)</u>	<u>(131)</u>
Cash flows from financing activities			
Repayments of loans and borrowings	11	-	(144)
Net cash used in financing activities		<u>-</u>	<u>(144)</u>
Net (decrease)/increase in cash and cash equivalents		(1)	1
Cash and cash equivalents at the beginning of the year		1	-
Cash and cash equivalents at the end of the year		<u>-</u>	<u>1</u>

The accompanying notes on pages 13 to 39 form an integral part of these consolidated financial statements.

The independent auditors' report is set on pages 2 to 7.

Notes to the consolidated financial statements*(all amounts in US\$ million, except share data)*

1. REPORTING ENTITY

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

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

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

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

2. BASIS OF PREPARATION**2.1 Statement of Compliance**

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

2.2. Changes in accounting policies

The Group has initially applied IFRS 16 *Leases* with effect from 1 January 2019. A number of other new standards and interpretations are also effective 1 January 2019 but they do not have a material effect on the Group’s consolidated financial statements.

The Group has adopted IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in the retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not restated - i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

A. Definition of a lease

Previously, the Group has determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the Group has elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group has applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

Notes to the consolidated financial statements (continued)
 (all amounts in US\$ million, except share data)

B. As a lessee

As a lessee, the Group leases many assets including property, production equipment and IT equipment. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset of the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most of these leases - i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of property the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

C. Impact on transition

On transition to IFRS 16, the Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment);
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

Refer to note 11.2 for list of operating leases. On transition to IFRS 16, there were no leases which qualified for recognition of right of use asset on transition to the new standard.

2. 3 Significant Accounting Policies

The accounting policies as outlined below and used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the consolidated financial statements for the year ended 31 December 2019 except those mentioned in section 2.2 above. The Group has adopted amendments and annual improvements to IFRSs, relevant to the Group which are effective for annual reporting period starting from 1 January 2019. These did not result in any material impact on the accounting policies, financial position or performance of the Group.

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

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

IFRS 9 - Financial Instruments: Classification and Measurement

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.

Notes to the consolidated financial statements (continued)
 (all amounts in US\$ million, except share data)

IFRS 9 - Financial Instruments: Classification and Measurement (continued)

i) Financial assets (continued)

Initial recognition and measurement (continued)

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group'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 Group has applied the practical expedient, the Group 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 FVTOCI, 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 Group 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 FVTOCI with recycling of cumulative gains and losses (debt instruments),
- Financial assets designated at FVTOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments),
- Financial assets at FVTPL.

Financial assets at amortised cost

The Group 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 Group's financial assets at amortised cost includes loan to related party, due from related parties, trade and other receivables and bank balances.

(a) Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group'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;

Notes to the consolidated financial statements (continued)
(all amounts in US\$ million, except share data)

IFRS 9 - Financial Instruments: Classification and Measurement (continued)

(b) Business model assessment (continued)

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 Group's original expectations, the Group 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.

(c) The SPPI test

As a second step of its classification process, the Group 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 Group 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 minimum 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 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 FVTOCI, 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 Group does not carry any financial assets at FVTPL.

Notes to the consolidated financial statements (continued)
(all amounts in US\$ million, except share data)

IFRS 9 - Financial Instruments: Classification and Measurement (continued)

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 Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group 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 Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group 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 Group 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 Group could be required to repay.

Impairment of financial assets

The Group 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 Group 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 Group 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 lifetime ECL, the Group 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.

Notes to the consolidated financial statements (continued)
(all amounts in US\$ million, except share data)

IFRS 9 - Financial Instruments: Classification and Measurement (continued)

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 Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

The Group allocates each exposure to a credit risk grade based on the data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information about customers) and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default.

Exposures within each credit risk grade are segmented by geographic region and industry classification and an ECL rate is calculated for each segment based on delinquency status and actual credit loss experience over the past four years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group’s view of economic conditions over the expected lives of the receivables.

The Group has elected to measure loss allowances at an amount equal to 12 month ECLs for the bank balances, loans to a related party 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 Group considers reasonable and supportable information that is relevant and available without undue cost or effort. The Group has established a provision matrix based on quantitative and qualitative information and analysis, Group’s historical credit loss experience, adjusted for forward-looking factors considering the country ratings specific to the receivables and the economic environment.

The Group evaluates the probability of default considering the period of past due receivables. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. 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 **Group’s** financial liabilities include loans and borrowings, due to related parties, trade payables and accruals and other liabilities.

Notes to the consolidated financial statements (continued)
(all amounts in US\$ million, except share data)

IFRS 9 - Financial Instruments: Classification and Measurement (continued)

Subsequent measurement

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in 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 Group 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 derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated 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.

Cash and Cash Equivalents – Cash and cash equivalents consist of cash at banks and deposits with an original maturity of three months or less.

Inventories – Inventories comprise of finished goods and raw materials. Inventories are stated at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost. In the case of manufactured inventories, cost includes an appropriate share of production overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business less estimated cost of completion and selling expenses.

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

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

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

Property, plant and equipment (continued)

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

Notes to the consolidated financial statements (continued)
 (all amounts in US\$ million, except share data)

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

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

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

Impairment

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

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

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

Fair values

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

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

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

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

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

Notes to the consolidated financial statements (continued)
(all amounts in US\$ million, except share data)

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

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

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

IFRS 15 – Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer. The Group 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 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. The Group determines that the customer obtains control of the goods based on the following factors:

- The Group's right to reclaim/ call back once the goods are on board;
- The Group's right to divert/ sell the goods once on board; and
- The primary beneficiary in the event of losses from the insurance company.

Revenue from shipping and handling services

The shipping and handling occurs after a customer obtains control of the goods, the Group considered shipping and handling services to be a distinct service, in which the Group allocates a portion of the transaction price to the shipping and handling. Revenue allocated to the goods is recognized when control of the goods transfers to the customer i.e. point in time. Revenue allocated to the shipping and handling is recognized as the shipping and handling performance obligation is satisfied i.e. over the time. The related costs are generally expensed as incurred. As a practical expedient, if an entity has a right to consideration (ie a right to an invoice) from a customer in an amount that corresponds directly to the value transferred to the customer to date, the entity may recognize revenue in that amount in line with IFRS 15.

Notes to the consolidated financial statements (continued)
(all amounts in US\$ million, except share data)

IFRS 15 – Revenue recognition (continued)

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 Group receives.

Where the Group 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.

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

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

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

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

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

Notes to the consolidated financial statements (continued)
(all amounts in US\$ million, except share data)

Employee benefits

i. Defined contribution plans

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

ii. Defined benefit plans

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

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

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

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

iii. Other long-term employee benefits

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

Recent Accounting Pronouncements – A number of new standards, amendments to standards are effective for annual periods beginning after 1 January 2019 and early adoption is permitted; however the Group has not early adopted the following new or amended standards in preparing these consolidated financial statements. Of particular relevance to the Group are:

Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

Notes to the consolidated financial statements (continued)
(all amounts in US\$ million, except share data)

Leases (continued)

As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Notes to the consolidated financial statements (continued)
 (all amounts in US\$ million, except share data)

Leases (continued)

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
 - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
 - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
 - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

As a lessee

In the comparative period, as a lessee the Group leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

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

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

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

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

Impairment of goodwill and other intangible assets with indefinite useful lives – Determining whether an intangible asset with indefinite useful life is impaired requires an estimation of the value in use of the cash-generating units to which that asset 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.

Notes to the consolidated financial statements (continued)
(all amounts in US\$ million, except share data)

Critical Accounting Judgments and Key Sources of Estimation Uncertainty (continued)

Impairment of loans and receivables – The Group reviews its receivables to assess impairment at least on an annual basis. The Group’s credit risk is primarily attributable to its receivables. In determining whether impairment losses should be recognised in profit and loss, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. Accordingly, an allowance for impairment is made in accordance with ‘expected credit loss’ (ECL) model. This will require considerable judgment about how the changes in economic factors affect ECLs, which are determined on a probability-weighted basis.

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

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

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 judgements and estimates based on taxable profits and expectations of future income. Projections of future profitability used for the purpose of assessing usage of tax assets is consistent with considerations elsewhere, such as in impairment analyses.

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

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

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

- Note 9 – Long term debt; and
- Note 10 – Derivative instruments and hedging.

Notes to the consolidated financial statements (continued)
 (all amounts in US\$ million, except share data)

3. PROPERTY, PLANT AND EQUIPMENT

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

	Land & Waterway Improvements	Buildings	Machinery & Equipment	Construction & in Progress	Total
Cost					
As at 1 January 2018	8	48	606	9	671
Additions	-	-	14	28	42
Transfers	-	-	8	(8)	-
Transfer from inventories (refer note below)	-	-	18	-	18
Foreign currency translation	-	(3)	(32)	-	(35)
As at 31 December 2018	8	45	614	29	696
Accumulated depreciation					
As at 1 January 2018	1	4	110	-	115
Depreciation expense	-	2	69	-	71
Foreign currency translation	-	-	(2)	-	(2)
As at 31 December 2018	1	6	177	-	184
Carrying amounts					
As at 31 December 2018	7	39	437	29	512
Cost					
As at 1 January 2019	8	45	614	29	696
Additions	-	2	7	17	26
Transfers	-	2	24	(26)	-
Foreign currency translation	-	-	13	-	13
As at 31 December 2019	8	49	658	20	735
Accumulated depreciation					
As at 1 January 2018	1	6	177	-	184
Depreciation expense	-	2	63	-	65
Foreign currency translation	-	-	3	-	3
As at 31 December 2019	1	8	243	-	252
Carrying amounts					
As at 31 December 2019	7	41	415	20	483

Note: During the previous year, the Group has reclassified catalyst from inventories to property, plant and equipment to ensure consistency with the Group accounting policies.

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

Waterways improvements	2 to 25 years
Buildings	5 to 40 years
Machinery and equipment	2 to 25 years

Notes to the consolidated financial statements (continued)
 (all amounts in US\$ million, except share data)

3. PROPERTY, PLANT AND EQUIPMENT (continued)

During 2019, the Group has reassessed the useful lives of its property, plant and equipment. The assessment resulted into:

(a) useful life of 2 to 20 years for machinery and equipment (excluding turnaround costs, catalysts, and furniture and fixtures), does not properly reflect the pattern in which the asset's economic benefits are consumed and therefore concluded to increase the useful life by 5 years; and

(b) useful life of certain turnaround assets of 10 years does not properly reflect the pattern in which the asset's economic benefits are consumed and therefore concluded to reduce the useful life to 3 to 8 years.

The effect of these changes on expected depreciation expense, included in 'cost of sales', is as follows:

In US\$ millions	2020	2021	2022	2023	2024
(Decrease) / increase in depreciation expense	(12)	(18)	(18)	(18)	(18)

4. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	Goodwill	Intellectual Property	Software	Total
Cost				
As at 1 January 2018	1,461	10	1	1,472
Addition	-	-	-	-
As at 31 December 2018	1,461	10	1	1,472
Accumulated Amortization				
As at 1 January 2018	-	2	-	2
Amortisation expense for the year	-	1	1	2
As at 31 December 2018	-	3	1	4
Carrying Amounts				
As at 31 December 2018	1,461	7	-	1,468
Cost				
As at 1 January 2019	1,461	10	1	1,472
Addition	-	-	-	-
As at 31 December 2019	1,461	10	-	1,472
Accumulated Amortization				
As at 1 January 2019	-	3	1	4
Amortization expense for the year	-	1	-	1
As at 31 December 2019	-	4	-	5
Carrying Amounts				
As at 31 December 2019	1,461	6	-	1,467

Notes to the consolidated financial statements (continued)
 (all amounts in US\$ million, except share data)

4. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

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

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

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

5. DEFERRED CHARGES AND OTHER ASSETS

	<u>2019</u>			<u>2018</u>		
	<u>Current</u>	<u>Non-current</u>	<u>Total</u>	<u>Current</u>	<u>Non-current</u>	<u>Total</u>
Ethylene supply agreement	13	171	184	13	184	197
Financing costs – Bank	6	6	12	5	12	17
Ethylene storage cavern	1	2	3	1	3	4
Others	1	95	96	5	-	5
	<u>21</u>	<u>274</u>	<u>295</u>	<u>24</u>	<u>199</u>	<u>223</u>

6. NOTES

	<u>2019</u>		<u>2018</u>	
	<u>Notes Receivable</u>	<u>Notes Payable</u>	<u>Notes Receivable</u>	<u>Notes Payable</u>
MEGlobal B.V.	<u>277</u>	<u>205</u>	<u>240</u>	<u>131</u>

MEGlobal B.V. Revolving Credit Facility – The Group has a multi-currency revolving credit facility in place with MEGlobal B.V., for working capital financing up to a maximum of US\$500 (2018: US\$500) at an interest rate of LIBOR + 0.43% (2018: 0.41%). The facility can also be used to deposit excess funds. As of 31 December, the Group had lent MEGlobal B.V. US\$72 (2018: US\$109) in various currencies with rates ranging from 2.12% to 2.38% (2018: 2.85% to 3.07%). The facility does not have a specific tenure and is repayable on demand. Interest is accrued monthly.

Notes to the consolidated financial statements (continued)
 (all amounts in US\$ million, except share data)

7. INVENTORIES

Details of inventory at 31 December are as follows:

	<u>2019</u>	<u>2018</u>
Finished goods	4	8
Raw materials and supplies	4	4
Total	<u>8</u>	<u>12</u>

8. COMMON STOCK

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

Class A Shares:

Authorized: unlimited shares

Issued and outstanding: 200,000,100 shares

Stockholder: EQUATE Petrochemical Company K.S.C.C

Class B Shares:

Authorized: unlimited shares

Issued and outstanding: 0 shares

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

9. LONG TERM DEBT

On 23 June 2016, the Group entered into a US\$ 5,000 long term loan agreement (“Term Loan”) with a consortium of banks. The Term Loan consisted of US\$ 2,000 Tranche A 5-year bullet facility, US\$ 2,000 Tranche B 3-year bullet facility, and US\$ 1,000 3 year revolving credit facility. The Group is jointly and severally a guarantor along with TKOC for the Term Loan and the credit facilities include customary covenants. On 23 June 2016 and on 30 November 2016, the Group drewdown US\$ 2,000 from Tranche A facility and US\$ 500 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 US\$ 500 of which US\$ 47 was pertaining to Islamic financing and US\$ 453 was 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.

On 13 December 2018, the Group completed the extension of the Term Loan facility until 23 June 2023 and Revolver Credit Facility until 23 June 2022, and the amendment of the Term Loan Margin from 195 bps to 120 bps and the Revolver Credit Facility margin from 140 bps to 70 bps. As part of the amendment and extension, the Group repaid an amount of US\$ 100, reducing the facility balance to US\$1,900.

At 31 December 2019, the details of the Term Loan facility are as follows:

<u>2019</u>	<u>Tranche A</u>	<u>Revolving credit facility</u>	<u>Total</u>
Islamic Financing	188	94	282
Conventional Financing	1,712	906	2,618
Total	<u>1,900</u>	<u>1,000</u>	<u>2,900</u>

Notes to the consolidated financial statements (continued)
(all amounts in US\$ million, except share data)

9. LONG TERM DEBT (continued)

2018	Tranche A	Revolving credit facility	Total
Islamic Financing	188	94	282
Conventional Financing	1,712	906	2,618
Total	1,900	1,000	2,900

The group has borrowed US\$ 1,457 (2018: US\$ 1,457) under Tranche A of the facility. The interest/profit rate payable on the facility is LIBOR+1.20% (2.99% as on 31 December 2019) (2018: LIBOR+1.20% [3.63% as on 31 December 2018]). Interest/profit on the above facility amounted to US\$ 50 (2018: US\$ 63).

10. DERIVATIVES INSTRUMENTS AND HEDGING

The Group's operations require active participation in foreign exchange markets. The Group enters into foreign exchange forward contracts to hedge various currency exposures. Exposures primarily relate to assets and liabilities denominated in foreign currencies. The primary business objective of the activity is to optimize the U.S. dollar value of the Group's assets and liabilities with respect to exchange rate fluctuations. Assets and liabilities denominated in the same foreign currency are netted, and only the net exposure is hedged. At 31 December 2019, the Group had forward contracts to buy, sell or exchange foreign currencies. These contracts had various expiry dates and are with MEGlobal BV.

	<u>2019</u>		<u>2018</u>	
	Gain	Loss	Gain	Loss
Derivatives relating to				
Foreign currency mark to market impact on profit or loss	-	(2)	-	(14)

As at 31 December, the Group had the following net notional forward exchange contracts (amounts in millions of respective currency):

	<u>2019</u>		<u>2018</u>	
	CAD\$	US\$	CAD\$	US\$
Long Position	471	158	599	307
Short Position	231	77	415	446

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

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

The net mark to market loss on the above currencies amounting to US\$2 (2018: US\$14) as at 31 December 2019 is shown under level 3 inputs.

Notes to the consolidated financial statements (continued)
(all amounts in US\$ million, except share data)

11. CONTINGENCIES AND COMMITMENTS

11.1 Contingent liabilities

In December 2018, the Company received a Corporation Income Tax Assessment from the Canadian Revenue Agency (CRA) for a transfer pricing adjustment amounting to CAD\$ 62 (US\$ 45) resulting in additional tax impact of CAD\$ 13 (US\$ 9) relating to tax year 2013. In November 2019, ME Global Canada ULC received a Corporation Income Tax Assessment from the Canadian Revenue Agency (CRA) for an additional tax impact CAD\$ 14.4 million (USD 11.07 million) relating to tax year 2014. This assessment is issued subsequent to the final audit report completed for the tax years 2013, 2014 and 2015 by the CRA. The Management intends to file a notice of objection for the 2014 assessment within the stipulated period as it did for the 2013 assessment in March 2019. The management is confident that it can defend their submitted inter-company transfer price and get the assessment reversed through the appeal process, similar to prior years and is of the view that no additional tax liability is required for this assessment. The Company has not received the final Corporation Tax Assessment for the tax year 2015.

11.2 Lease commitments

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

Minimum lease commitment	2018
Less than one year	<u>1</u>
Total	<u><u>1</u></u>

11.3. Other commitments

MEGlobal International FZE (“the related party”) has entered into short term arrangements to obtain the right to use 6,151,350 troy ounces (2018: 5,409,646 troy ounces) of silver worth US\$102 (2018: US\$83) with a number of banks. The title and ownership of the silver rests with banks. These arrangements matures over various dates in 2020. The related party pays service fees for these arrangements which are expensed over the terms of such arrangements. The related party also bears the risk of loss of silver resulting from usage. The related party assigned the right to use silver to MEGlobal Canada ULC and its wholly owned subsidiary Alberta & Orient Glycol Company ULC for utilization in its manufacturing operations on similar terms.

11.4. Capital commitments

MEGlobal Canada ULC has entered into an agreement for replacement of catalyst with an affiliate for its production facility at Fort Saskatchewan and Prentiss. The capital commitments relating to this replacement amounts to \$24 (2018: \$95).

Notes to the consolidated financial statements (continued)
(all amounts in US\$ million, except share data)

12. RELATED PARTY TRANSACTIONS

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

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

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

	<u>2019</u>			<u>2018</u>		
	Dow Consolidated Companies	EQUATE Petrochemical BV	EQUATE Petrochemical K.S.C.C.	Dow Consolidated Companies	EQUATE Petrochemical BV	EQUATE Petrochemical K.S.C.C.
Purchase						
Ethylene	190	-	-	252	-	-
Services	75	3	-	32	4	-
Inventories				-	1	-
Sales						
Inventories	7	478	-	3	845	-
Services	8	2	-	4	-	-
Interest expenses	-	6	-	-	2	-
Interest income	-	3	-	-	4	-
Included in the December 31 Statement of Financial Position						
Accounts receivable	2	102	-	3	156	-
Accounts payable	4	5	-	4	6	2
Notes receivable	-	277	-	-	240	-
Notes payable	-	205	-	-	131	-

Notes to the consolidated financial statements (continued)
(all amounts in US\$ million, except share data)

12. RELATED PARTY TRANSACTIONS (continued)

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

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

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

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

The Ethylene Supply Agreement commits the Group to purchase and obligates DCC ULC to supply a contract quantity of ethylene each year through 2024 with additional two five-year extensions through to 2034, on a predetermined contract pricing formula. The provisions of the agreement allow for certain cost adjustments based on contractual formulas and raw material inputs and are generally settled in conjunction with the monthly related Group settlement and reconciliation process. Management believes that the impacts of these settlements are not significant. The Company has no key managerial personnel employed.

13. TAXATION

The provision for income taxes consists of the following:

	<u>2019</u>	<u>2018</u>
Current	6	100
Deferred	(26)	(7)
Total	<u>(20)</u>	<u>93</u>

Tax rate reconciliation:

	<u>2019</u>	<u>2018</u>
(Loss)/profit before income taxes	(1)	325
Tax at the Canadian statutory rate	27% -	27% 88
Impact of changes in future enacted tax rates	(17)	-
Other	(3)	5
Tax expense and effective tax rate for the year	<u>- (20)</u>	<u>29% 93</u>

Net income taxes paid in 2019 were US\$47 (2018: US\$53).

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

	<u>2019</u>	<u>2018</u>
Deferred Income Tax Assets:		
Post-retirement benefit obligations	4	6
Other Assets	-	1
Total	<u>4</u>	<u>7</u>
Deferred Income Tax Liabilities:		
Property	92	112
Other Assets and intangibles	49	54
Total	<u>141</u>	<u>166</u>
Net Deferred Income Tax Liabilities	<u>137</u>	<u>159</u>

Notes to the consolidated financial statements (continued)
 (all amounts in US\$ million, except share data)

14. EMPLOYEE BENEFIT PROGRAMS

Benefit program cost which include compensation and all Group benefit programs totaled US\$33 in 2019 (US\$33 in 2018). Employees of the Group maintained their participation in all DCC ULC sponsored health and welfare benefit programs for the year ended 2019. The Group pays for the costs incurred under these plans. The employee savings and pension plans are in the name of the Group.

15. PENSION AND OTHER POST-RETIREMENT BENEFITS

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

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out on December 31, 2018 in 2019. These valuations reflect the past service costs and asset transfers of the Union Carbide Canada and the DCCI Salaried Employees Pension plans to the Plan. The Plan's liabilities were assessed by utilizing the Projected Unit Credit actuarial method.

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

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

Actuarial assumptions:

	Defined Benefit Pension Plans		Other Post-Retirement Benefits	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Valuations at:				
Discount Rate	3.14%	3.95%	3.15%	3.97%
Salary Increases – Current	5.00%	3.50%	3.50%	3.50%
Salary Increases – Subsequent Year	3.50%	3.50%	-	-
Salary Increase – Thereafter	3.50%	3.50%	-	-
Inflation	2.00%	2.00%	-	-

Health Care Trend Rates:

Drugs – Initial	-	-	5.50%	5.75%
Drugs – Ultimate Trend	-	-	4.50%	4.50%
Drugs - Year Ultimate Trend Rate Reached	-	-	2026	2025
Other Health Care	-	-	4.00%	4.00%

Notes to the consolidated financial statements (continued)
 (all amounts in US\$ million, except share data)

15. PENSION AND OTHER POST-RETIREMENT BENEFITS (continued)

<u>Defined benefit cost:</u>	Defined Benefit Pension Plans		Other Post-Retirement Benefits	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Profit & loss (P&L)				
Current services costs	3	3	-	-
Net interest cost	1	1	-	-
Cost recognized in P&L	<u>4</u>	<u>4</u>	<u>-</u>	<u>-</u>
Other comprehensive income (OCI)				
Actuarial loss due to:				
- Liability experience	3	-	-	1
- Liability assumption changes	15	(8)	1	-
Actuarial loss / (gain) arising during year	<u>18</u>	<u>(8)</u>	<u>1</u>	<u>1</u>
Return on plan assets (greater)/less than discount rate	(5)	3	-	-
Remeasurement effects recognized in OCI before tax	13	(5)	1	1
Defined benefit cost	<u>17</u>	<u>(1)</u>	<u>1</u>	<u>1</u>

<u>Net financial position:</u>	Defined Benefit Pension Plans		Other Post-Retirement Benefits	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Development of Net Financial Position				
Defined benefit obligation	(106)	(80)	(7)	(7)
Fair value of assets	<u>77</u>	<u>64</u>	<u>-</u>	<u>-</u>
Net Defined Benefit Liability	<u>(29)</u>	<u>(16)</u>	<u>(7)</u>	<u>(7)</u>

<u>Reconciliation of Benefit Obligation:</u>	Defined Benefit Pension Plans		Other Post-Retirement Benefits	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Acquired in a Business Combination		-		-
Benefit Liability at January 1	80	87	7	5
Current services cost	3	3	-	-
Interest cost	1	3	-	-
Actuarial (gain)/losses arising from:				
- Demographic assumptions				-
- Financial assumptions	15	(8)	-	-
- Experience assumptions	3	-	-	1
Benefits paid	-	(1)	-	-
Gain/(loss) due to exchange rate movements	4	(4)	-	1
Benefit liability at December 31	<u>106</u>	<u>80</u>	<u>7</u>	<u>7</u>

Notes to the consolidated financial statements (continued)
(all amounts in US\$ million, except share data)

15. PENSION AND OTHER POST-RETIREMENT BENEFITS (continued)

Reconciliation of Fair Value of Plan Assets:

	Defined Benefit Pension Plans	
	<u>2019</u>	<u>2018</u>
Fair value of plan assets at 1 January	64	62
Company contributions	5	5
Benefits paid	(1)	(1)
Interest income on plan assets	3	2
Return on plan assets greater than discount rate	5	(3)
Loss / (gain) due to exchange rate movements	1	(1)
Fair value of plan assets at 31 December	<u>77</u>	<u>64</u>

The Fair Value of Plan Assets is analyzed as follows:

	Defined Benefit Pension Plans	
	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	14	10
Bonds	24	22
Equity	39	32
Total	<u>77</u>	<u>64</u>

The Group's 2020 funding requirements for the defined benefit pension plans is expected to be US\$3 (2018: US\$6).

Contributions to the defined contribution plan for other post-retirement benefits were immaterial in 2019 and will remain so in 2020.

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

A 1% percentage point increase in the discount rate would have an impact of US\$22 (2018: US\$15) on the defined benefit obligation of the pension plans and a US\$2 (2018: US\$1) impact on the defined benefit obligation of other post-retirement obligations.

The plan assets do not include any of the Group's financial instruments, or property occupied by, or other assets used by the Group.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

Sales by Customer:	<u>2019</u>	<u>2018</u>
EQUATE B.V.	478	845
Other	63	37
Total	<u>541</u>	<u>882</u>
Geographic Region:	<u>2019</u>	<u>2018</u>
Americas	504	845
North Asia	37	37
Total	<u>541</u>	<u>882</u>

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Notes to the consolidated financial statements (continued)
 (all amounts in US\$ million, except share data)

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

Trade accounts receivable including related parties aging analysis:

	<u>2019</u>	<u>2018</u>
Current	106	162
Total	106	162

The management considers the notes receivables to be fully recoverable.

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

Geographic Region:	<u>2019</u>		<u>2018</u>	
	Assets	Liabilities	Assets	Liabilities
North America	2,416	234	2,335	263
Middle East	-	1,457	57	1,457
Europe	277	205	240	131

Interest – The Group is exposed to interest rate risk on all interest/profit bearing deposits and borrowings. The Group's long-term debt via the EQUATE facility carries interest/profit at cost of funds plus margin (effective rate 3.52% on 31 December 2019). The sensitivity analysis shows that an increase of 1% in the interest/profit rate has US\$16 impact on the statement of profit or loss and other comprehensive income.

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

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

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

	<u>2019</u>				<u>2018</u>			
	0 to 3 months	3 to 12 months	>1 year	Total	0 to 3 months	3 to 12 months	>1 year	Total
Accounts payables and accruals	57	-	-	57	74	-	-	74
Long term debt	9	34	1,565	1,608	16	49	1,646	1,711
Notes payable	205	-	-	205	131	-	-	131
Total Liabilities	271	34	1,565	1,870	221	49	1,646	1,916

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

Notes to the consolidated financial statements (continued)
 (all amounts in US\$ million, except share data)

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

	<u>Average rates</u>		<u>Period-end rates</u>	
			December 31	
	2019	2018	2019	2018
	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>
1 CAD\$ (Canadian Dollar)	0.756	0.767	0.769	0.735

The Group's estimate of the fair value of these financial instruments approximates their carrying amounts as of 31 December 2019 except for derivative financial instruments. The estimated fair value amounts have been determined by the Group using available market information and valuation methodologies.