***Mesaieed Petrochemical Holding Company Q.S.C.***

Financial statements and independent auditor's report for the year ended 31 December 2017

## CONTENTS

# *Independent auditor's report to the shareholders of Mesaieed Petrochemical Holding Company Q.S.C.*

## *REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS*

### *Our opinion*

In our opinion, the financial statements of Mesaieed Petrochemical Holding Company Q.S.C. (the "Company") present fairly, in all material respects, the financial position of the Company as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards .

**What we have audited**

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2017;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

### *Basis for opinion*

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in the State of Qatar. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

### *Our audit approach*

**Overview**

| | |
|---|---|
| *Key Audit Matters* | • Classification of interests in joint arrangements as joint ventures<br>• Revenue recognition |

We were appointed as auditors of the Company for the year ended 31 December 2017 in February 2017. When we are engaged to audit financial statements for the first time, including where the financial statements for the prior period were audited by another firm of auditors, we will not have previously obtained audit evidence in relation to the opening balances. Therefore, we are required by International Standards on Auditing to perform certain procedures on the opening balances in order to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements.

To fulfil this responsibility, we reviewed the working papers of the former auditors, to help familiarise ourselves with the controls on which they relied for the purposes of issuing their opinion, and to understand the evidence they obtained over key judgements.

As part of designing our current year audit, we determined materiality and assessed the risks of material misstatement in the financial statements including those at the joint ventures level. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

## *Key audit matters*

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

| *Key audit matter* | *How our audit addressed the Key audit matter* |
|---|---|
| CLASSIFICATION OF INTERESTS IN JOINT ARRANGEMENTS AS JOINT VENTURES | |
| As disclosed in Note 14 to the financial statements, the Company classifies its interests in Q-Chem, Q-Chem II and QVC as joint ventures accounted for using the equity method with a carrying amount of QR 13.16 million as at 31 December 2017 (which accounts for approximately 89% of the Company's total assets as at that date).<br><br>The classification of joint arrangements as joint ventures under IFRS 11 (as opposed to joint operations) requires the exercise of judgement to conclude that the Company has joint control over the investees. The conclusion on whether an arrangement is a joint venture or a joint operation determines the accounting treatment applicable to each of these interests in the books of the Company.<br><br>As incoming auditors, we determined it to be important to assess the judgment exercised by management in classifying its interests in these investees as joint ventures, as an incorrect classification could give rise to material errors in the financial statements. | • We obtained the documentation relating to the joint arrangements (including Joint Venture Agreements, Articles of Assocaition, and Board of Directors meeintgs minutes) and using this we evaluated the assumptions management had made in support of its classification of its interests in these investees as joint ventures under IFRS 11 "Joint arrangements".<br><br>• We assessed the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, the governance structures of each of the investee companies and, when relevant, other facts and circumstances.<br><br>• We have also assessed the parties' rights and obligations arising from the arrangements.<br><br>• We have assessed that appropriate disclosures have been made in accordance with IFRS 11. |

| *Key audit matter* | *How our audit addressed the Key audit matter* |
|---|---|
| *REVENUE RECOGNITION* | |
| As disclosed in note 3.ii, the Company's share of the combined results of the joint ventures (Q-Chem, Q-Chem II and QVC) of QR 972 million for the year ended 31 December 2017 represents 97% of total revenues of the Company.<br><br>The results of operations of these joint ventures of QR 1,989 million for the year ended 31 December 2017 represent 30% of sales revenue generated by these joint ventures. Majority of the joint ventures' sales are made to one customer "Qatar Chemical and Petrochemical Marketing and Distribution Company" ("Muntajat").<br><br>According to the revenue recognition policy applied by each of the joint venture companies, revenue from sales of products is recognised when the joint venture has delivered products to Muntajat, where terms of delivery are specified in the contracts of each respective Offtake Requirements for Liquid ("ORL") and Offtake Requirements for Solid ("ORS") agreement.<br><br>We focused our audit on the sales revenue of the joint ventures because of the large product volumes and consequent high values of individual shipments, as we determined that errors in revenue recognition at the joint venture company level could result in material misstatements in the financial statements of the Company when it recognised its share of each investee's net income under the equity method of accounting. | Our procedures in relation to revenue recognition from sales made by the individual joint ventures included:<br><br>• Reviewing the terms of the offtake requirements agreements with Muntajat.<br><br>• Evaluating the joint venture companies' accounting policies in relation to revenue recognition to determine whether or not they dealt appropriately with the sales made under offtake requirements<br><br>• Understanding, evaluating and testing internal controls over revenue recognition at the joint venture level, including the timing of revenue recognition.<br><br>• Inspecting, on a sample basis, the sales statements received from Muntajat.<br><br>• Performance of cut-off testing of sales transactions, on a sample basis, to test whether the revenue of each entity had been recognised in the correct period. |

## *Other information*

The management is responsible for the other information. The other information comprises Board of Directors' Report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the complete annual report, which is expected to be made available to us after that date.

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

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

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

When we read the complete annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

## *Responsibilities of management and those charged with governance for the financial statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and with the requirements of the Qatar Commercial Companies Law number 11 of 2015, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

## *Auditor's responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

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

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

## *REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS*

Further, as required by the Qatar Commercial Companies Law number 11 of 2015, we report that:

- We have obtained all the information we considered necessary for the purpose of our audit;
- The Company has maintained proper books of account and the financial statements are in agreement therewith;
- The financial information included in the Board of Directors' report is in agreement with the books and records of the Company; and
- Nothing has come to our attention, which causes us to believe that the Company has breached any of the provisions of the Qatar Commercial Companies Law number 11 of 2015, or of its Articles of Association, which would materially affect the reported results of its operations or its financial position as at 31 December 2017.

## *OTHER MATTER*

The financial statements of the Company for the year ended 31 December 2016 were audited by another firm of auditors whose report, dated 5 February 2017, expressed an unmodified opinion on those financial statements.

For and on behalf of PricewaterhouseCoopers – Qatar Branch
Qatar Financial Market Authority registration number 120155

**Mohamed Elmoataz**

Auditor's registration number 281
Doha, State of Qatar
14 February 2018

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Doha, State of Qatar

*(All amounts expressed in thousands Qatari Riyals unless otherwise stated)*

## STATEMENT OF FINANCIAL POSITION
**As at 31 December**

| | Notes | 2017 | 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investments in joint ventures | 3 | **13,162,384** | 13,149,165 |
| **Current assets** | | | |
| Other receivables | 4 | **12,518** | 7,656 |
| Tax receivable | 17 | **190,556** | 89,760 |
| Due from a related party | 6 | **-** | 98,098 |
| Deposits and other bank balances | 5.1 | **1,346,714** | 964,220 |
| Cash and cash equivalent | 5 | **50,239** | 117,639 |
| **Total current assets** | | **1,600,027** | 1,277,373 |
| **Total assets** | | **14,762,411** | 14,426,538 |
| **EQUITY AND LIABILITIES** | | | |
| **EQUITY** | | | |
| Share capital | 8 | **12,563,175** | 12,563,175 |
| Legal reserve | 9 | **37,020** | 25,364 |
| Retained earnings | | **1,984,611** | 1,689,021 |
| **Total equity** | | **14,584,806** | 14,277,560 |
| **LIABILITES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 7 | **169,703** | 140,812 |
| Due to a related party | 6 | **7,902** | 8,166 |
| **Total liabilities** | | **177,605** | 148,978 |
| **Total equity and liabilities** | | **14,762,411** | 14,426,538 |

The financial statements on pages 1 to 22 were approved and authorised for issue by the Board of Directors on February 14, 2018 and were signed on its behalf by:

**Ahmad Saif Al-Sulaiti**
Chairman

**Mohamed Salem Al-Marri**
Vice Chairman

*(All amounts expressed in thousands Qatari Riyals unless otherwise stated)*

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
**For the year ended 31 December**

| | Notes | 2017 | 2016 |
|---|---|---|---|
| Share of results from joint ventures | 3 | **971,682** | 901,261 |
| Interest income | | **30,483** | 19,779 |
| Other income | | **1,705** | 1,118 |
| | | **1,003,870** | 922,158 |
| General and administrative expenses | | **(16,423)** | (17,270) |
| **Profit for the year before tax refund** | | **987,447** | 904,888 |
| Tax refund | 17 | **100,796** | 89,760 |
| **Net profit for the year** | | **1,088,243** | 994,648 |
| Other comprehensive income | | **-** | - |
| **Total comprehensive income for the year** | | **1,088,243** | 994,648 |
| **Basic and diluted earnings per share (expressed in QR per share)** | 11 | **0.87** | 0.79 |

*(All amounts expressed in thousands Qatari Riyals unless otherwise stated)*

## STATEMENT OF CHANGES IN EQUITY
**For the year ended 31 December**

| | Note | Share Capital | Legal Reserve | Retained Earnings | Total |
|---|---|---|---|---|---|
| **Balance at 1 January 2016** | | 12,563,175 | 25,364 | 1,598,661 | 14,187,200 |
| Profit for the year | | - | - | 994,648 | 994,648 |
| Other comprehensive income for the year | | - | - | - | - |
| Total comprehensive income for the year | | - | - | 994,648 | 994,648 |
| Social and sports fund contribution | 15 | | | (24,866) | (24,866) |
| *Transaction with owners in their capacity as owners:* | | | | | |
| Dividends declared | | - | - | (879,422) | (879,422) |
| **Balance at 31 December 2016** | | 12,563,175 | 25,364 | 1,689,021 | 14,277,560 |
| **Balance at 1 January 2017** | | **12,563,175** | **25,364** | **1,689,021** | **14,277,560** |
| Profit for the year | | **-** | **-** | **1,088,243** | **1,088,243** |
| Other comprehensive income for the year | | **-** | **-** | **-** | **-** |
| Total comprehensive income for the year | | **-** | **-** | **1,088,243** | **1,088,243** |
| Social and sports fund contribution | 15 | **-** | **-** | **(27,206)** | **(27,206)** |
| Transfers to legal reserves | | **-** | **11,656** | **(11,656)** | **-** |
| *Transaction with owners in their capacity as owners:* | | | | | |
| Dividends declared | 10 | **-** | **-** | **(753,791)** | **(753,791)** |
| **Balance at 31 December 2017** | | **12,563,175** | **37,020** | **1,984,611** | **14,584,806** |

*(All amounts expressed in thousands Qatari Riyals unless otherwise stated)*

## STATEMENT OF CASH FLOWS
**For the year ended 31 December**

| | Notes | 2017 | 2016 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net profit for the year | | **1,088,243** | 994,648 |
| Adjustments for: | | | |
| - Tax refund | | **(100,796)** | (89,760) |
| - Interest income | | **(30,483)** | (19,779) |
| - Share of results from joint ventures | 3 | **(971,682)** | (901,261) |
| | | **(14,718)** | (16,152) |
| Working capital changes: | | | |
| - Due from a related party | | **98,098** | 57 |
| - Due to a related party | | **(264)** | 985 |
| - Trade and other payables | | **(133)** | (548) |
| **Cash generated from operations** | | **82,983** | (15,658) |
| Interest received | | **25,621** | 17,605 |
| Tax refund received | | **-** | 99,368 |
| Social and sports fund contribution | | **(24,866)** | (27,177) |
| **Net cash generated from operating activities** | | **83,738** | 74,138 |
| **Cash flows from investing activities** | | | |
| Dividends received from joint ventures | | **958,463** | 935,618 |
| Placement of fixed term deposits | | **(3,150,220)** | (1,894,817) |
| Maturity of fixed term deposits | | **2,794,410** | 1,707,195 |
| **Net cash generated from investing activities** | | **602,653** | 747,996 |
| **Cash flows from financing activities** | | | |
| Dividends paid to shareholders | | **(727,107)** | (854,120) |
| Movement in unclaimed dividends account | | **(26,684)** | (25,302) |
| **Cash used in financing activities** | | **(753,791)** | (879,422) |
| **Net decrease in cash and cash equivalents** | | **(67,400)** | (57,288) |
| Cash and cash equivalents at beginning of year | 5 | **117,639** | 174,927 |
| **Cash and cash equivalents at end of year** | 5 | **50,239** | 117,639 |

*(All amounts expressed in thousands Qatari Riyals unless otherwise stated)*

## 1. CORPORATE INFORMATION AND ACTIVITIES

Mesaieed Petrochemical Holding Company Q.S.C. (the "Company" or "MPHC") is registered and incorporated in Qatar under commercial registration number 60843 as a Qatari Shareholding Company by its founding shareholder, Qatar Petroleum ("QP"). The Company was incorporated under the Qatar Commercial Companies' Law No. 5 of 2002 (replaced by the new Qatar Commercial Companies' Law No. 11 of 2015). The Company was incorporated on 29 May 2013 for an initial period of 99 years, following the decision of H.E. the Minister of Economy and Commerce No. 22 of 2013, issued on 21 May 2013. The registered address of the Company is P.O. Box 3212, Doha, State of Qatar. The Company is listed on the Qatar Exchange and is a subsidiary of QP.

The principal activity of the Company is to establish, manage, own and/or hold shares, assets and interests in companies (and their subsidiaries and/or associated undertakings) engaged in all manner of processing and/or manufacturing of petrochemical products, together with any other company or undertaking which the Company deems beneficial to its business, diversification or expansion from time to time.

The joint ventures of the Company, included in the financial statements are as follows:

| Entity Name | Country of incorporation | Relationship | Ownership interest |
|---|---|---|---|
| Qatar Chemical Company Limited (Q-Chem) | Qatar | Joint venture | 49% |
| Qatar Chemical Company (II) Limited (Q-Chem II) | Qatar | Joint venture | 49% |
| Qatar Vinyl Company Limited (QVC) | Qatar | Joint venture | 55.2% |

**Qatar Chemical Company Limited ("Q-Chem"),** is a Qatari Shareholding Company incorporated in the State of Qatar and is a jointly controlled entity among QP, MPHC and Chevrons Phillips Chemical International Qatar Holdings L.L.C. ("CPCIQH"). Q-Chem is engaged in the production, storage and sale of polyethylene, 1-hexene and other petrochemical products.

**Qatar Chemical Company II Limited ("Q-Chem II")**, is a Qatari Shareholding Company incorporated in the State of Qatar and is a jointly controlled entity among QP, MPHC and CPCIQH. Q-Chem II is engaged in the production, storage and sale of polyethylene, normal alpha olefins, other ethylene derivatives and other petrochemical products.

**Qatar Vinyl Company Limited ("QVC")**, is a Qatari Shareholding Company incorporated in the State of Qatar and is a jointly controlled entity among QP, MPHC and Qatar Petrochemical Company Limited ("QAPCO"). QVC is engaged in the production and sale of petrochemical products such as caustic soda, ethylene dichloride and vinyl chloride monomer.

The Company commenced commercial activities on 1 September 2013.

The financial statements of the Company for the year ended 31 December 2017 were authorised for issue by the Board of Directors on February 14, 2018.

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB). The financial statements also comply with the Company Articles of Association and the applicable provisions of Qatar Commercial Companies Law.

The financial statements have been prepared on a historical cost basis, and the accounting policies adopted are consistent with those of the previous financial year.

The financial statements are prepared in Qatari Riyals ("QR"), which is the Company's functional and presentation currency and all values are rounded to the nearest thousands (QR'000), except otherwise indicated.

*i. New and amended standards adopted by the Company*

A number of new or amended standards became applicable for the current reporting year. However, the Company did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

*ii. New standards and interpretations not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for the current reporting period and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations are set out below.

**IFRS 9 Financial Instruments**

<u>Nature of change</u>

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

<u>Impact</u>

The Company has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

The Company's financial assets compromise of the following:

Trade and other receivables (excluding prepayments and advances)
Due from related parties
Cash and Cash equivalents

Trade receivables and Due from related parties are debt instruments currently classified as loans and receivables which are measured at amortised cost under IAS 39. The Company assessed that they meet the conditions for classification at amortised cost (AC) under IFRS 9 since they represent cash flows from solely payments of principal and interest (SPPI) and the Company's business model is to hold and collect these debt instruments.

Cash and Cash equivalents definition as per IAS 7 remains unchanged with the application of IFRS 9, short term investments and time deposits will continue to be presented under cash & cash equivalents, being highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

There will be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The Company does not have any hedge relationships and thus there will be no impact on the Company's financial statements upon the adoption of IFRS 9.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Company does not expect the application of new impairment model to result in a significant change in the current loss allowance for related financials assets.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Furthermore, the Company does not expect any impact on the financial statements if its joint ventures applied IFRS 9.

<u>Date of adoption by Company</u>

The standard must be applied for financial years commencing on or after 1 January 2018. The Company will apply the new rules retrospectively from 1 January 2018 to the extent of applicability, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

**IFRS 15 Revenue from Contracts with Customers**

<u>Nature of change</u>

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

<u>Impact</u>

The Standard does not apply to the Company's financial statements as its only stream of revenue is income from investments in joint ventures which falls within the scope of IAS 28-Investments in associates and joint ventures.

The Company has assessed the impact on the financial statements if its joint ventures applied IFRS 15 and has identified that the recognition and measurement of revenue for all the joint ventures' current ongoing contracts particular with Muntajat for sale of regulated products under IFRS 15 five-step model will not change as currently recognized under IAS 18, except in the case of QVC, where currently the revenue billed to customer is recognised on a gross basis in the income statement and the corresponding charge paid against these revenues is recognised as selling and marketing expenditure. However, IFRS 15 defines transaction price as the expected inflow from transfer of goods and services. In line with aforementioned, management will be recognising revenue on a net basis from the adoption date (1st January 2018) of the standard. However this will have no impact on the Company's financial statements as the Company recognises its share of the joint ventures results using the equity method.

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption by the Company

Mandatory for financial years commencing on or after 1 January 2018. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Company intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings ,if applicable as of 1 January 2018 and that comparatives will not be restated.

**IFRS 16 Leases**

Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Company and its joint ventures operating leases. As at the reporting date, the Company's share in its joint ventures has non-cancellable operating lease commitments accumulated to QR 126,057 see note 3 (iv).

However, the Company has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Company's profit or loss and classification of cash flows going forward.

Date of adoption by Company

Mandatory for financial years commencing on or after 1 January 2019.

The Company intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

## 2.2 Significant accounting policies

Interest in joint venture

The results, assets and liabilities of joint ventures are incorporated in these financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in a joint venture is initially recognised in the statement of financial position at cost and adjusted thereafter to recognise the Company's share of the profit or loss of the joint venture.

When the Company's share of losses of a joint venture exceeds the Company's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Company's net investment in the joint venture),

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest in joint venture (continued)

the Company discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Company's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount.

The Company discontinues the use of the equity method from the date when the investment ceases to be a joint venture, or when the investment is classified as held for sale. When the Company retains an interest in the former joint venture and the retained interest is a financial asset, the Company measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the joint venture is included in the determination of the gain or loss on disposal of the joint venture. If a gain or loss previously recognised in other comprehensive income by that joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, then the Company also reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

Unrealized gains and losses resulting from transactions between the Company and the joint venture are eliminated to the extent of the interest in the joint venture.

Current versus non-current classification

The Company presents assets and liabilities based on current/non-current classification.

An asset is current when:
- It is expected to be realised or intended to sold or consumed in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is expected to be realised within twelve months after the reporting period; or
- It is cash or a cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:
- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

### *(a) Trade and other receivables*

Trade and other receivables are carried at original invoiced amount less impairment for non-collectability of these receivables. An allowance for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

### *(b) Cash and cash equivalents*

Cash and cash equivalents in the statement of cash flows comprise of bank balances and fixed term deposits with an original maturity of less than three months.

### *(c) Impairment of financial assets*

Financial assets are assessed for impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:
(i) significant financial difficulty of the issuer or counterparty; or
(ii) default or delinquency in interest or principal payments; or
(iii) it is becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
(iv) the disappearance of an active market for that financial asset because of financial difficulties.

### *(d) Derecognition of financial assets and liabilities*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

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

Financial liabilities

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

Trade and other payables

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Foreign currency translation

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except as otherwise stated in the Standards.

Fair values

The fair value of financial investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities at the close of business at the end of the reporting period.

For financial instruments where there is no active market, the fair value is determined by using valuation techniques. Such techniques include using recent arm's length transactions, reference to the current market value of another instrument which is substantially the same and/or discounted cash flow analysis. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument.

If the fair values cannot be measured reliably, these financial instruments are measured at cost.

Dividend distributions

Dividend distributions are at the discretion of the shareholders. A dividend distribution to the Company's shareholders is accounted for as a deduction from retained earnings. A declared dividend is recognised as a liability in the period in which it is approved at the Annual General Assembly.

Social and Sports Fund Contribution

Pursuant to the Qatar Law No. 13 of 2008 and the related clarifications issued in 2011, which is applicable for all Qatari listed shareholding companies with publicly traded shares, the Company has made an appropriation of 2.5% of its net profit to a state social fund.

Tax receivable

On 26 February 2014, the Company was listed on Qatar Exchange. Subsequent to a receipt of clarification from the Public Revenue and Tax Department, the Company is eligible for a tax refund in virtue of tax exemption status of its public shareholding interest in the joint ventures. (Note 17).

*(All amounts expressed in thousands Qatari Riyals unless otherwise stated)*

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the effect of any dilutive potential ordinary shares.

## 3. INVESTMENTS IN JOINT VENTURES

The carrying amount of the investments in joint ventures has changed as follows:

| *For the year ended* | **31 December 2017** | **31 December 2016** |
|---|---|---|
| Balance at beginning of the year | **13,149,165** | 13,138,932 |
| Share of results from joint ventures for the year | **971,682** | 901,261 |
| Less: share of dividends receivable / received from joint ventures | **(958,463)** | (891,028) |
| **Balance at end of the year** | **13,162,384** | 13,149,165 |

The financial statements below present amounts shown in the financial statements of the joint ventures as of 31 December 2017, which are presented in US$'000 and are translated using an exchange rate of 3.64 in the below table:

### *i. Statement of financial position of joint venture entities*

| | **As at 31 December 2017** | | | |
|---|---|---|---|---|
| | **Q-Chem** | **Q-Chem II** | **QVC** | **Total** |
| Current assets | **1,512,511** | **2,287,888** | **1,319,282** | **5,119,681** |
| Non-current assets | **2,294,732** | **5,446,869** | **1,120,894** | **8,862,495** |
| Current liabilities | **(630,062)** | **(1,131,607)** | **(423,412)** | **(2,185,081)** |
| Non-current liabilities | **(869,854)** | **(1,931,704)** | **(206,206)** | **(3,007,764)** |
| **Equity** | **2,307,327** | **4,671,446** | **1,810,558** | **8,789,331** |
| Adjustment for dividends equalisation account | **-** | **-** | **(70,656)** | **(70,656)** |
| **Equity after adjustment** | **2,307,327** | **4,671,446** | **1,739,902** | **8,718,675** |
| **Proportion of the Company's ownership** | **49%** | **49%** | **55.2%** | |
| Company's share of net assets | **1,130,590** | **2,289,009** | **960,426** | **4,380,025** |
| Goodwill | **3,549,403** | **4,878,711** | **354,245** | **8,782,359** |
| **Investment in joint ventures** | **4,679,993** | **7,167,720** | **1,314,671** | **13,162,384** |

| | **As at 31 December 2016** | | | |
|---|---|---|---|---|
| | **Q-Chem** *(Restated)** | **Q-Chem II** *(Restated)** | **QVC** *(Restated)** | **Total** |
| Current assets | 1,807,777 | 2,347,434 | 1,057,848 | 5,213,059 |
| Non-current assets | 2,241,787 | 5,725,831 | 1,245,896 | 9,213,514 |
| Current liabilities | (894,972) | (1,046,425) | (184,686) | (2,126,083) |
| Non-current liabilities | (873,156) | (2,406,186) | (257,799) | (3,537,141) |
| **Equity** | 2,281,436 | 4,620,654 | 1,861,259 | 8,763,349 |
| Adjustment for dividends equalization account | - | - | (77,234) | (77,234) |
| **Equity after adjustment** | 2,281,436 | 4,620,654 | 1,784,025 | 8,686,115 |
| **Proportion of the Company's ownership** | 49% | 49% | 55.2% | |
| Company's share of net assets | 1,117,904 | 2,264,120 | 984,782 | 4,366,806 |
| Goodwill | 3,549,403 | 4,878,711 | 354,245 | 8,782,359 |
| **Investment in joint ventures** | 4,667,307 | 7,142,831 | 1,339,027 | 13,149,165 |

*(All amounts expressed in thousands Qatari Riyals unless otherwise stated)*

## 3. INVESTMENTS IN JOINT VENTURES (CONTINUED)

### *i. Statement of financial position of joint venture entities (continued)*

*RESTATEMENT

### Offsetting arrangement – Q-chem and Q-chem II

The receivables under finance leases (presented within non-current assets), the loan due to related party (presented within non-current liabilities) for Q-Chem, the obligation under finance leases (presented within non-current liabilities) and the loan receivable from related party (presented within non-current assets) for Q-Chem II, were previously presented on gross basis in the statement of financial position. During the current year, it has been determined that finance leases and related party loan meet the offsetting criteria as per IAS 32"Financial Instruments: Presentation". Accordingly, the finance leases and the related party loan are presented on a net basis in the statement of financial position of both ventures.

The above adjustment has resulted in the restatement of comparative amounts in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". The above adjustment did not have any impact on the Company's investment in joint ventures.

In addition, certain reclassifications have been made to prior year's financial statements of both ventures to enhance comparability with the current year's financial statements.

The impact of such adjustments on the comparative financial statements of the two ventures is as follows:

| | As at 31 December 2016 | | |
|---|---|---|---|
| **Q-Chem statement of financial position** | **Previously reported** | **Adjustments** | **Restated** |
| Current assets | 1,816,777 | (9,000) | 1,807,777 |
| Non-current assets | 2,487,323 | (245,536) | 2,241,787 |
| Current liabilities | (903,972) | 9,000 | (894,972) |
| Non-current liability | (1,118,692) | 245,536 | (873,156) |

| | As at 31 December 2016 | | |
|---|---|---|---|
| **Q-Chem II statement of financial position** | **Previously reported** | **Adjustments** | **Restated** |
| Current assets | 2,356,434 | (9,000) | 2,347,434 |
| Non-current assets | 5,971,367 | (245,536) | 5,725,831 |
| Current liabilities | (1,055,425) | 9,000 | (1,046,425) |
| Non-current liability | (2,651,722) | 245,536 | (2,406,186) |

The restatement only affected the said joint ventures' statement of financial position as of 31 December 2016. The restatement did not affect the statements of changes in equity, comprehensive income, and cash flows during the year ended 31 December 2016.

### Deferred tax liability - QVC

QVC has reversed the deferred tax liability on the non-taxable shareholding (25.52%) as it was not in line with IAS 12. As the amount was built up as a deferred tax liability through statement of changes in equity, it has been reversed to equity. Future dividends will be payable to the tax exempt shareholder by virtue of this deferred tax liability. Accordingly, this has been recognised as a component of equity and classified as Dividend equalisation reserve to allow tracking of the amounts with QVC.

*(All amounts expressed in thousands Qatari Riyals unless otherwise stated)*

## 3. INVESTMENTS IN JOINT VENTURES (CONTINUED)

### i. *Statement of financial position of joint venture entities (continued)*

The amounts have been corrected by restating each of the affected financial statement line items for the prior periods as follows:

| | As at 31 December 2016 | | |
|---|---|---|---|
| **QVC statement of financial position** | **Previously reported** | **Adjustments** | **Restated** |
| Deferred tax liability | 302,637 | (77,234) | 225,403 |
| Dividend equalisation reserve | - | 77,234 | 77,234 |
| Net assets | 1,784,025 | 77,234 | 1,861,259 |
| Retained earnings | 777,668 | - | 777,668 |
| Total equity | 1,784,025 | 77,234 | 1,861,259 |

### ii. *Statement of comprehensive income of joint venture entities*

| | For the year ended 31 December 2017 | | | |
|---|---|---|---|---|
| | **Q-Chem** | **Q-Chem II** | **QVC** | **Total** |
| Revenue | 2,208,876 | 2,737,382 | 1,626,192 | 6,572,450 |
| Cost of sales | (1,287,475) | (1,545,344) | (1,109,257) | (3,942,076) |
| Other income | 5,598 | 94,778 | 16,209 | 116,585 |
| Administrative expenses | (35,865) | (17,035) | (141,075) | (193,975) |
| Finance income / (cost) | 10,152 | (26,372) | 10,298 | (5,922) |
| **Profit before tax** | 901,286 | 1,243,409 | 402,367 | 2,547,062 |
| Deferred income tax | 45,489 | (137,021) | 19,197 | (72,335) |
| Current income tax | (356,680) | - | (129,391) | (486,071) |
| **Profit for the year** | 590,095 | 1,106,388 | 292,173 | 1,988,656 |
| Distributions to tax exempt shareholders | - | - | (37,816) | (37,816) |
| **Profit for the year net of distributions to tax exempt shareholders** | 590,095 | 1,106,388 | 254,357 | 1,950,840 |
| **Proportion of the Company's ownership** | 49% | 49% | 55.2% | |
| **Company's share of profit for the year in joint ventures** | 289,147 | 542,130 | 140,405 | 971,682 |

*(All amounts expressed in thousands Qatari Riyals unless otherwise stated)*

## 3. INVESTMENTS IN JOINT VENTURES (CONTINUED)

### ii. *Statement of comprehensive income of joint venture entities (continued)*

| | For the year ended 31 December 2016 | | | |
|---|---|---|---|---|
| | **Q-Chem** | **Q-Chem II** | **QVC** | **Total** |
| Revenue | 2,260,884 | 2,657,490 | 1,442,130 | 6,360,504 |
| Cost of sales | (1,220,972) | (1,450,036) | (1,077,902) | (3,748,910) |
| Other income / (expense) | 564 | (10,192) | 337 | (9,291) |
| Administrative expenses | (34,009) | (18,495) | (140,358) | (192,862) |
| Finance income / (cost) | 12,591 | (26,732) | 7,356 | (6,785) |
| **Profit before tax** | 1,019,058 | 1,152,035 | 231,563 | 2,402,656 |
| Deferred income tax | 38,144 | (139,008) | (18,735) | (119,599) |
| Current income tax | (399,388) | - | (42,348) | (441,736) |
| **Profit for the year** | 657,814 | 1,013,027 | 170,480 | 1,841,321 |
| Distributions to tax exempt shareholders | - | - | (20,935) | (20,935) |
| **Profit for the year net of distributions to tax exempt shareholders** | 657,814 | 1,013,027 | 149,545 | 1,820,386 |
| **Proportion of the Company's ownership** | 49% | 49% | 55.2% | |
| **Company's share of profit for the year in joint ventures** | 322,329 | 496,383 | 82,549 | 901,261 |

### iii. *Additional disclosures of joint venture entities*

| | As at 31 December 2017 | | | |
|---|---|---|---|---|
| | **Q-Chem** | **Q-Chem II** | **QVC** | **Total** |
| Cash and cash equivalents | **564,804** | **910,735** | **671,671** | **2,147,210** |
| Depreciation and Amortisation | **222,721** | **335,495** | **140,064** | **698,280** |
| Interest bearing loans and borrowings | **-** | **1,545,984** | **-** | **1,545,984** |
| Deferred tax liabilities | **569,387** | **996,512** | **206,206** | **1,772,105** |
| Tax payable | **356,407** | **296,030** | **174,010** | **826,447** |
| Company's share of dividend declared/received | **276,458** | **517,244** | **164,761** | **958,463** |
| Current Financial liabilities (excluding trade and other payables and provisions) | **-** | **611,622** | **-** | **611,622** |
| Non- current financial liabilities (excluding trade and other payables and provisions) | **300,467** | **934,363** | **-** | **1,234,830** |

| | As at 31 December 2016 | | | |
|---|---|---|---|---|
| | **Q-Chem** | **Q-Chem II** | **QVC** | **Total** |
| Cash and cash equivalents | 851,658 | 1,005,019 | 475,282 | 2,331,959 |
| Depreciation and Amortisation | 183,773 | 334,145 | 139,470 | 657,388 |
| Interest bearing loans and borrowings | - | 2,099,548 | - | 2,099,548 |
| Deferred tax liabilities | 614,876 | 859,491 | 302,633 | 1,777,000 |
| Tax payable | 399,370 | 263,958* | 27,835 | 427,205 |
| Company's share of dividend declared/received | 285,376 | 517,244 | 88,408 | 891,028 |
| Current Financial liabilities (excluding trade and other payables and provisions) | - | 553,568 | - | 553,568 |
| Non- current financial liabilities (excluding trade and other payables and provisions) | 154,281 | 1,545,981 | - | 1,700,262 |

*(All amounts expressed in thousands Qatari Riyals unless otherwise stated)*

## 3. INVESTMENTS IN JOINT VENTURES (CONTINUED)

*Q-Chem II's income tax liability will be undertaken and settled by QP or an entity owned by QP for the first 10 years from the commercial operations date of Q-Chem II.

### *iv. Capital commitments and contingent liabilities*

The Company's share in the joint ventures' commitments and contingent liabilities is as follows:

| | As at 31 December 2017 | | | |
|---|---|---|---|---|
| | **Q-Chem** | **Q-Chem II** | **QVC** | **Total** |
| **Capital commitments** | **62,726** | **60,138** | **-** | **122,864** |
| **Operating lease commitments:** | | | | |
| *Future minimum lease payments:* | | | | |
| Within one year | **6,558** | **4,004** | **8,694** | **19,256** |
| After one year but not more than five years | **24,958** | **16,937** | **2,805** | **44,700** |
| More than five years | **18,854** | **40,966** | **2,281** | **62,101** |
| **Total operating lease commitments** | **50,370** | **61,907** | **13,780** | **126,057** |
| **Purchase commitment** | **200,958** | **191,762** | **-** | **392,720** |
| **Contingent liabilities** | **1,591** | **-** | **-** | **1,591** |

| | As at 31 December 2016 | | | |
|---|---|---|---|---|
| | **Q-Chem** | **Q-Chem II** | **QVC** | **Total** |
| **Capital commitments** | 90,043 | 41,160 | - | 131,203 |
| **Operating lease commitments:** | | | | |
| *Future minimum lease payments:* | | | | |
| Within one year | 6,444 | 14,301 | 10,077 | 30,822 |
| After one year but not more than five years | 16,325 | 59,483 | 13,553 | 89,361 |
| More than five years | 10,974 | 142,032 | 2,803 | 155,809 |
| **Total** | 33,743 | 215,816 | 26,433 | 275,992 |
| **Contingent liabilities** | - | 1,459 | - | 1,459 |

The joint ventures have purchase commitments that consist primarily of major agreements for procuring of gas from QP. The joint ventures also have a number of agreements for electricity, industrial gases and manpower.

### Other contingent liabilities

*Site restoration obligations*

Ras Laffan Olefins Company Limited Q.S.C. (a joint venture of Qchem-II) has entered into a land lease agreement with the Government of Qatar represented by QP for the purpose of construction of the plant facilities.

Under the original and revised lease agreement, the lessor has the right, upon termination or expiration of the lease term, to notify the joint venture that it requires to either:

- transfer all the facilities to the lessor or a transferee nominated by the lessor, against a price acceptable by the joint venture, or;
- remove the facilities and all the other property from the land and restore it to at least the condition in which it was delivered to the joint venture, at the joint venture's cost and expense, unless otherwise is agreed with the lessor.

As at 31 December 2017, no provision has been recognised for site restoration obligations. The estimated useful lives of the assets are expected to continue well beyond the term of land lease agreement, such that management believes that the lessor is unlikely to require site restoration at the end of the land lease agreement.

*(All amounts expressed in thousands Qatari Riyals unless otherwise stated)*

## 4. OTHER RECIEVABLES

Other receivables comprises of the interest receivable on the Term Deposits made with various banks.

## 5. CASH AND CASH EQUIVALENTS

| | 2017 | 2016 |
|---|---|---|
| Cash and cash equivalent | **50,239** | 117,639 |

## 5.1 DEPOSITS AND OTHER BANK BALANCES

| | 2017 | 2016 |
|---|---|---|
| Fixed deposits maturing after 90 days | **1,208,550** | 852,740 |
| Bank balances-Dividends account | **138,164** | 111,480 |
| | **1,346,714** | 964,220 |

Cash at banks earn interest at fixed rates. Term deposits are made for varying periods of between three months and one year depending on the immediate cash requirements of the Company at interest varying between of 2.85 % to 3.50 % (2016: 3.0% to 3.4%).

## 6. RELATED PARTIES

Related parties, as defined in International Accounting Standard 24: Related Party Disclosures, include associate companies, major shareholders, directors and other key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties.

Related party transactions

Transactions with related parties included in the statement of profit or loss and other comprehensive income for the year ended are as follows:

| *For the year ended* | 2017 | 2016 |
|---|---|---|
| Dividend income from Q-Chem | **276,458** | 285,376 |
| Dividend income from Q-Chem II | **517,244** | 517,244 |
| Dividend income from QVC | **164,761** | 88,408 |
| Annual service fee to Qatar Petroleum | **(7,176)** | (7,913) |

Qatar Petroleum is the parent company, which is state-owned public corporation established by Emiri Decree No. 10 in 1974.

Related party balances

Balances with related parties included in the statement of financial position are as follows:

| *As at* | 2017 | 2016 |
|---|---|---|
| Dividend due from Q-Chem | **-** | 98,098 |
| Amount due to QP | **7,902** | 8,166 |

*(All amounts expressed in thousands Qatari Riyals unless otherwise stated)*

## 6. RELATED PARTIES (CONTINUED)

Compensation of key management personnel

The remuneration of key management personnel during the year was as follows:

| | 2017 | 2016 |
|---|---|---|
| Key management remuneration | **534** | 500 |
| Board of directors' remuneration | **3,800** | 3,800 |

The Company has established a remuneration policy for its Board of Directors. This policy is comprised of two components; a fixed component and a variable component. The variable component is related to the financial performance of the Company. The total Directors' remuneration is within the limit prescribed by the Qatar Commercial Companies' Law.

## 7. TRADE AND OTHER PAYABLES

| | 2017 | 2016 |
|---|---|---|
| Dividends payable | **138,164** | 111,480 |
| Social and sports fund contribution payable | **27,206** | 24,866 |
| Accruals | **4,333** | 4,466 |
| | **169,703** | 140,812 |

## 8. SHARE CAPITAL

| | 2017 | 2016 |
|---|---|---|
| Authorised, issued and fully paid: | | |
| 1,256,317,500 shares of QR 10 each | **12,563,175** | 12,563,175 |

In 2017, 232,179 additional shares (2016: 217,631 shares) have been transferred from QP to the Public on account of incentive shares transferred due to death of original shareholder(s). As of the closing date, QP holds 932,428,945 shares including 1 special share (2016: 932,661,124 shares including 1 special share) comprising 74.219 % (2016: 74.238%) of total shareholding.

## 9. LEGAL RESERVE

The Articles of Association of the Company states that prior to recommending any dividend for distribution to Shareholders, the Board shall ensure proper reserves are established in respect of any voluntary or statutory reserves considered by the Board to be necessary or appropriate. Such reserves as resolved by the Board shall be the only reserves the Company is required to have.

## 10. DIVIDENDS

The Board of Directors has proposed cash dividend distribution of QR 0.70 per share for the year ended 31 December 2017 (2016: QR 0.6 per share). The proposed final dividend for the year ended 31 December 2017 will be submitted for formal approval at the Annual General Meeting.

On 6 March 2017, the shareholders approved to distribute cash dividends of QR 754 million.

## 11. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share (EPS) are calculated by dividing the profit for the year attributable to equity holders of the Company by weighted average number of shares outstanding during the year.

## 11. BASIC AND DILUTED EARNINGS PER SHARE (CONTINUED)

The following reflects the income and share data used in basic and diluted earnings per share computation:

| | 2017 | 2016 |
|---|---|---|
| Profit attributable to the equity holders for the year | **1,088,243** | 994,648 |
| Weighted average number of shares outstanding during the year (in thousands) | **1,256,317** | 1,256,317 |
| Basic and diluted earnings per share (expressed in QR per share) | **0.87** | 0.79 |

The figures for basic and diluted earnings per share are the same, as the Company has not issued any instruments that would impact the earnings per share when exercised.

## 12. FINANCIAL RISK MANAGEMENT

The Company's principal financial liabilities, comprise trade accounts payable and due to a related party. The Company has various financial assets, namely, amounts due from a related party, interest receivable and bank balances, which arise directly from its operations.

The main risks arising from the Company's financial instruments are interest rate risk, credit risk, liquidity risk and foreign currency risk. The management reviews and agrees policies for managing each of these risks which are summarized below:

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The following table demonstrates the sensitivity of the statement of profit or loss and other comprehensive income to reasonably possible changes in interest rates, with all other variables held constant.

| | Increase in basis points | Effect on profit 2017 | Increase in basis points | Effect on profit 2016 |
|---|---|---|---|---|
| Term deposits | **+/- 25** | **+/- 3,021** | +/- 25 | +/-2,131 |

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's exposure to credit risk is as indicated by the carrying amount of its financial assets which consist principally of amounts due from a related party and bank balances, as follows:

| | 2017 | 2016 |
|---|---|---|
| Amounts due from a related party | **-** | 98,098 |
| Interest receivable | **12,518** | 7,656 |
| Bank balances | **1,396,953** | 1,081,859 |
| | **1,409,471** | 1,187,613 |

*(All amounts expressed in thousands Qatari Riyals unless otherwise stated)*

## 12. FINANCIAL RISK MANAGEMENT (CONTINUED)

The tables below show the distribution of bank balances at the date on which the financial statements are issued:

| Rating | Bank balance |
|---|---|
| A-1 | **582,599** |
| A-2 | **519,116** |
| A-3 | **295,058** |
| Aa3 | **180** |
| | **1,396,953** |

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation and is to maintain a balance between continuity of funding and flexibility through the use of bank facilities. All financial liabilities will mature within 12 months from the end of the reporting period.

Capital management

The Company manages its capital structure and makes adjustments to it, in light of changes in economic and business conditions and shareholders' expectation. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issue new shares. Capital comprises share capital and retained earnings and is measured at QR 14.58 billion (2016: QR 14.25 billion).

## 13. FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Bank balances, interest receivable, amounts due from a related parties, trade payables, and amounts due to a related party approximate their carrying amounts largely due to the short-term maturities of these instruments.

## 14. CRITICAL JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities 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 recognised 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.

Classification of the investments as joint ventures

Management evaluated the Company's interest in Q-Chem, Q-Chem II and QVC (together "the Entities"), and concluded that the joint arrangements are joint ventures where the Entities are jointly controlled. Hence, Management accounted for these investments under the equity method.

Impairment of investment in joint ventures

The Company assesses the impairment of non-financial assets, particularly its investment in joint ventures, whenever events or changes in circumstances indicate that the carrying amount of the non-financial asset may not be recoverable.

## 14. CRITICAL JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Impairment testing is an area involving management judgment, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, management applied the following significant assumptions:

- Discount rates: 10% for all ventures
- Earnings before Interest and Tax (EBITA): 25.4%, 34.9% and 41.8% for QVC, Q-Chem and Q-Chem II, respectively
- Terminal period growth rate: 4% for all ventures

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

Recoverable amounts are estimated for individual assets or investments or, if it is not possible, for the CGU to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Company is required to make estimates and assumptions that can materially affect the financial statements. As of the year ended 31 December 2017 the company did not recognise any losses due to impairment in its joint ventures.

Site restoration obligations

As required by IAS 37 - Provisions, Contingent Liabilities and Contingent Assets", the Company assess whether the following criteria is met to recognise provisions:

- whether the Company has a present obligation as a result of a past event,
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and;
- a reliable estimate can be made of the amount of the obligation.

As explained in Note 3 (iv), the Company may be required under a lease agreement entered into by its joint venture Q-Chem-II, to make payments for site restoration at the option of the parent (QP). It has been assessed that the optionality given to QP makes it more likely to acquire the plant from the joint venture rather than restoring the site at the cost of the joint venture given the estimated useful lives of the assets are expected to continue well beyond the term of land lease agreement. Therefore, no provision has been made in the financial statements.

## 15. SOCIAL AND SPORTS FUND CONTRIBUTION

In accordance with Law No. 13 of 2008, the Company made an appropriation of profit of QR 27.21 million (2016: 24.87 million) equivalent to 2.5% of the net income for the year for the support of sports, cultural, social and charitable activities.

## 16. SEGMENT INFORMATION

For management purposes, the Company is organized into business units based on their products and services, and has one reportable operating segment which is the petrochemical segment from its interest in joint ventures, which produce and sell polyethylene, 1-hexene, normal alpha olefins, other ethylene derivatives, caustic soda, ethylene dichloride and vinyl chloride monomer and other petrochemical products.

Geographically, the Company only operates in the State of Qatar.

*(All amounts expressed in thousands Qatari Riyals unless otherwise stated)*

## 17. TAX REFUND

On 26 February 2014, the Company was listed on Qatar Exchange. As at 31 December 2017, the public shareholding in the Company amounted to 25.781%. Subsequent to a receipt of clarification from the Public Revenue and Tax Department, the Company is eligible for a tax refund. As of 31 December 2017, the Company's tax refund amounted to QR 190.56 million (2016: QR 89.76 million). The statement of profit or loss impact for the year amounts to QR 100.79 million (2016: QR 89.76 million).

## 18. COMPARATIVE FIGURES

Comparative figures of prior year have been reclassified in order to conform to the presentation in the current year's financial statements. The impacts of such reclassifications on the comparative financial statements are as follows:

| **31 December 2016** | **Previously reported** | **Reclassification** | **Restated** |
|---|---|---|---|
| **Statement of financial position** *(extract)* | | | |
| **Current assets** | | | |
| Prepayments and other debit balances | **97,416** | **(97,416)** | **-** |
| Other receivables | **-** | **7,656** | **7,656** |
| Tax receivable | **-** | **89,760** | **89,760** |
| Bank balances | **1,081,859** | **(1,081,859)** | **-** |
| Deposits and other bank balances | **-** | **964,220** | **964,220** |
| Cash and cash equivalent | **-** | **117,639** | **117,639** |

Other reclassifications relate to cash flow presentation and do not affect the previously reported profit or net assets.