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

Financial statements and independent auditor’s report for the year ended 31 December 2018

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Mesaieed Petrochemical Holding Company Q.P.S.C. (the "Company") present fairly, in all material respects, the financial position of the Company as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards .

What we have audited

The Company's financial statements comprise:
- the statement of financial position as at 31 December 2018;
- 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 Matter	*Revenue recognition*

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. 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.

Our audit approach (continued)

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*
REVENUE RECOGNITION	
As disclosed in note 3.ii, the Company's share of the combined results of the joint ventures (QChem, Q-Chem II and QVC) of QR 1,188 million for the year ended 31 December 2018 represents 96% of total revenues of the Company The results of operations of these joint ventures of QR 2,393 million for the year ended 31 December 2018 represent 32% of sales revenue generated by these joint ventures. The majority of the joint ventures' sales are made to one customer "Qatar Chemical and Petrochemical Marketing and Distribution Company" ("Muntajat"). 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 transferred the control of the products to the customer at the point of delivery, where terms of delivery are specified in the contracts governing such supplies. We focused our audit on the sales revenues of the joint ventures because of the large product volumes and consequent high values of individual shipments, as we determined that errors in the timing of revenue recognition at the joint venture company level could result in material misstatements in the financial statements of the Company when it recognises 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: • Reviewing the terms of the offtake agreements with Muntajat. • 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 agreements. • Understanding, evaluating and testing internal controls over revenue recognition at the joint venture level, including the timing of revenue recognition. • Inspecting, on a sample basis, the sales statements received from Muntajat and agreeing them to the joint ventures' accounting records. • 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 the 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 Company's 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 Company's 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.

Auditor’s responsibilities for the audit of the financial statements (Continued)

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 purposes 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 2018.

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 2019

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PRICEWATERHOUSECOOPERS - Qatar Branch
P. O. Box : 6689
Doha, State of Qatar

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

STATEMENT OF FINANCIAL POSITION
As at 31 December

	Notes	2018	2017
ASSETS			
Non-current assets			
Investments in joint ventures	3	**13,161,558**	13,162,384
Current assets			
Other receivables	4	**31,718**	12,518
Tax receivable	17	**169,603**	190,556
Deposits and other bank balances	5.1	**1,735,247**	1,346,714
Cash and cash equivalents	5	**176,417**	50,239
Total current assets		**2,112,985**	1,600,027
Total assets		**15,274,543**	14,762,411
EQUITY AND LIABILITIES			
EQUITY			
Share capital	8	**12,563,175**	12,563,175
Legal reserve	9	**57,600**	37,020
Retained earnings		**2,443,892**	1,984,611
Total equity		**15,064,667**	14,584,806
LIABILITIES			
Current liabilities			
Trade and other payables	7	**201,436**	169,703
Due to a related party	6	**8,440**	7,902
Total liabilities		**209,876**	177,605
Total equity and liabilities		**15,274,543**	14,762,411

The financial statements on pages 1 to 20 were approved and authorised for issue by the Board of Directors on 14 February 2019 were signed on its behalf by:

Mohamed Salem Al-Marri
Vice Chairman

Abdulrahman Ahmad Al-Shaibi
Board Member

(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	2018	2017
Share of results from joint ventures	3	**1,188,347**	971,682
Interest income		**51,120**	30,483
Other income		**4,829**	1,705
Gross profit		**1,244,296**	1,003,870
General and administrative expenses		**(19,476)**	(16,423)
Profit for the year before tax refund		**1,224,820**	987,447
Tax refund	17	**169,316**	100,796
Net profit for the year		**1,394,136**	1,088,243
Other comprehensive income		**-**	-
Total comprehensive income for the year		**1,394,136**	1,088,243
Earnings per share			
Basic and diluted earnings per share (expressed in QR per share)	11	**1.11**	0.87

(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 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 reserve		-	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
Balance at 1 January 2018		**12,563,175**	**37,020**	**1,984,611**	**14,584,806**
Profit for the year		**-**	**-**	**1,394,136**	**1,394,136**
Other comprehensive income for the year		**-**	**-**	**-**	**-**
Total comprehensive income for the year		**-**	**-**	**1,394,136**	**1,394,136**
Social and sports fund contribution	15	**-**	**-**	**(34,853)**	**(34,853)**
Transfers to legal reserve			**20,580**	**(20,580)**	
Transaction with owners in their capacity as owners:					
Dividends declared	10	**-**	**-**	**(879,422)**	**(879,422)**
Balance at 31 December 2018		**12,563,175**	**57,600**	**2,443,892**	**15,064,667**

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

STATEMENT OF CASH FLOWS
For the year ended 31 December

	Notes	2018	2017
Cash flows from operating activities			
Net profit for the year		**1,394,136**	1,088,243
Adjustments for:			
- Tax refund		**(169,316)**	(100,796)
- Interest income		**(51,120)**	(30,483)
- Share of results from joint ventures	3	**(1,188,347)**	(971,682)
		(14,647)	(14,718)
Working capital changes:			
- Due from a related party		**-**	98,098
- Due to a related party		**538**	(264)
- Trade and other payables		**(214)**	(133)
Cash (used in) / generated from operations		**(14,323)**	82,983
Interest received		**31,920**	25,621
Tax refund received		**190,269**	-
Social and sports fund contribution		**(27,206)**	(24,866)
Net cash generated from operating activities		**180,660**	83,738
Cash flows from investing activities			
Dividends received from joint ventures		**1,189,173**	958,463
Placement of fixed term deposits		**(2,907,963)**	(3,150,220)
Maturity of fixed term deposits		**2,543,730**	2,794,410
Net cash generated from investing activities		**824,940**	602,653
Cash flows from financing activities			
Dividends paid to shareholders		**(855,122)**	(727,107)
Movement in unclaimed dividends account		**(24,300)**	(26,684)
Cash used in financing activities		**(879,422)**	(753,791)
Net increase / (decrease) in cash and cash equivalents		**126,178**	(67,400)
Cash and cash equivalents at beginning of year	5	**50,239**	117,639
Cash and cash equivalents at end of year	5	**176,417**	50,239

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

1. CORPORATE INFORMATION AND ACTIVITIES

Mesaieed Petrochemical Holding Company Q.P.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 Commerce and Industry 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 Company commenced commercial activities on 1 September 2013.

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	Qatar	Joint venture	49%
Qatar Chemical Company (II) Limited	Qatar	Joint venture	49%
Qatar Vinyl Company Limited	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 Chevron 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 Private Joint Stock Company (Q.P.J.S.C.) 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 financial statements of the Company for the year ended 31 December 2018 were authorised for issue by the Board of Directors on 14 February 2019.

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, except for the accounting policies relating to the newly adopted accounting standards as disclosed below.

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 Company and its joint ventures for the current reporting period. As explained in more details below, the standards were generally adopted without restating comparative information.

IFRS 9 Financial Instruments- Impact of adoption

This note explains the impact of the adoption of IFRS 9 Financial Instruments on the Company's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods. IFRS 9 replaces the provisions of IAS 39, that relates to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies. In accordance with the transitional provisions in IFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated.

a) Classification and measurement

On 1 January 2018 (the date of initial application of IFRS 9), the Company's management has assessed which business models apply to the financial assets held by the Company and ensured its financial instruments were classified into the appropriate IFRS 9 categories. Other receivables, amounts due from related parties and deposits are debt instruments classified 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 are cash flows solely payments of principal and interest (SPPI) and the Company's business model is to hold and collect the debt instrument. Cash and cash equivalents' definition as per IAS 7 remains unchanged with the application of IFRS 9, short-term investments and time deposits continued to be presented under cash and 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. No reclassification resulted from the implementation of IFRS 9.

b) Impairment of financial assets

The Company has the following financial assets that are subject to IFRS 9's new expected credit loss model:

- Cash and cash equivalents
- Other receivables (excluding non-financial assets)
- Due from related parties
- Deposits and other bank balances

2. Basis of preparation and significant accounting policies (continued)

The Company was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. To measure the expected credit losses, other receivables and due from related parties that are measured at amortised cost are grouped based on shared credit risk characteristics and the days past due. The Company applied the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all other receivables. While cash and cash equivalents and fixed deposits are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

No changes to the statement of profit or loss and other comprehensive income resulted from the adoption of the new standard.

The newly adopted accounting policy from 1 January 2018 is disclosed below.

Investment and other financial assets

a) Classification

From 1 January 2018, the Company classifies its financial assets in the following measurement categories:
• those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
• those to be measured at amortised cost.

The classification depends on the Company’s business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

b) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt Instruments

Subsequent measurement of debt instruments depends on the Company’s business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its debt instruments:

• Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss and other comprehensive income.

• FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss and other comprehensive income.

• FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

As of 31 December 2018, all of the Company’s financial assets were classified and measured at amortised cost.

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

Impairment

From 1 January 2018, the Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For other receivables and due from related parties, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

The Company's joint ventures' applied IFRS 9 Financial Instruments from 1 January 2018, Furthermore there is no significant impact on the Company's financial statements as a result of its joint ventures' applying the new standard.

IFRS 15 Revenue from Contracts with Customers

The IASB has issued a new standard for the recognition of revenue. This has replaced 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.

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's joint ventures' applied IFRS 15 Revenue from Contracts with Customers from 1 January 2018.

There is no significant impact on the Company's financial statements as a result of its joint ventures' applying the new standard.

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 16 Leases

<u>Nature of change</u>

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.

<u>Impact</u>

The standard will affect primarily the accounting for the Company's 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 145 million see note 3 (iv).

However, given that the Company equity accounts for its investment in joint ventures, there will be no significant impact on the Company's financial statements as a result of its joint ventures' applying the new standard.

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

Date of adoption by Company

Mandatory for financial years commencing on or after 1 January 2019. The Company's joint ventures 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) 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 IFRS 9. 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.

Unrealised 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.

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

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.

Financial assets

For the new accounting policies relating to financial assets adopted by the Company effective 1 January 2018, please refer note 2.1. For accounting policies applied until 31 December 2017, refer the below note:

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) Other receivables

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

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

Derecognition of financial assets and liabilities (continued)

- 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 and other comprehensive income.

Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers prior to the end of financial year which are unpaid. Trade and other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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 organised 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.

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

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

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 General Tax Authority, 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).

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 2018**	**31 December 2017**
Balance at beginning of the year	**13,162,384**	13,149,165
Share of results from joint ventures for the year	**1,188,347**	971,682
Less: share of dividends receivable / received from joint ventures	**(1,189,173)**	(958,463)
Balance at end of year	**13,161,558**	13,162,384

The below financial statements present amounts shown in the financial statements of the joint ventures as of 31 December 2018, which are presented in US$'000 and are translated using an exchange rate of 3.64 :

(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

	As at 31 December 2018			
	Q-Chem	**Q-Chem II**	**QVC**	**Total**
Current assets	**1,730,558**	**2,641,475**	**997,265**	**5,369,298**
Non-current assets	**2,104,182**	**5,196,027**	**1,041,852**	**8,342,061**
Current liabilities	**(818,643)**	**(1,260,716)**	**(339,142)**	**(2,418,501)**
Non-current liabilities	**(830,066)**	**(1,467,532)**	**(180,635)**	**(2,478,233)**
Net assets	**2,186,031**	**5,109,254**	**1,519,340**	**8,814,625**
Adjustment for dividends equalisation account	**-**	**-**	**(61,895)**	**(61,895)**
Net assets after adjustment	**2,186,031**	**5,109,254**	**1,457,445**	**8,752,730**
Proportion of the Company's ownership	**49%**	**49%**	**55.2%**	
Company's share of net assets	**1,071,155**	**2,503,534**	**804,510**	**4,379,199**
Goodwill	**3,549,403**	**4,878,711**	**354,245**	**8,782,359**
Investment in joint ventures	**4,620,558**	**7,382,245**	**1,158,755**	**13,161,558**

	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)
Net assets	2,307,327	4,671,446	1,810,558	8,789,331
Adjustment for dividends equalization account	-	-	(70,656)	(70,656)
Net assets 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

ii. Statement of comprehensive income of joint venture entities

	For the year ended 31 December 2018			
	Q-Chem	**Q-Chem II**	**QVC**	**Total**
Revenue	**2,752,979**	**3,100,061**	**1,549,144**	**7,402,184**
Cost of sales	**(1,450,646)**	**(1,601,895)**	**(1,097,118)**	**(4,149,659)**
Other income	**(4,257)**	**(6,621)**	**21,162**	**10,284**
Administrative expenses	**(42,635)**	**(19,827)**	**(90,658)**	**(153,120)**
Finance income / (cost)	**13,941**	**(17,359)**	**11,058**	**7,640**
Profit before tax	**1,269,382**	**1,454,359**	**393,588**	**3,117,329**
Deferred income tax	**46,894**	**(142,946)**	**25,571**	**(70,481)**
Current income tax	**(491,178)**	**-**	**(127,851)**	**(619,029)**
Profit for the year	**825,098**	**1,311,413**	**291,308**	**2,427,819**
Distributions to tax exempt shareholders	**-**	**-**	**(35,046)**	**(35,046)**
Profit for the year net of distributions to tax exempt shareholders	**825,098**	**1,311,413**	**256,262**	**2,392,773**
Proportion of the Company's ownership	**49%**	**49%**	**55.2%**	
Company's share of profit for the year in joint ventures	**404,298**	**642,592**	**141,457**	**1,188,347**

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

3. INVESTMENTS IN JOINT VENTURES (CONTINUED)

	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

iii. Additional disclosures of joint venture entities

	As at 31 December 2018			
	Q-Chem	**Q-Chem II**	**QVC**	**Total**
Cash and cash equivalents	**631,354**	**1,079,133**	**502,851**	**2,213,338**
Depreciation and Amortisation	**241,452**	**336,926**	**133,683**	**712,061**
Interest bearing loans and borrowings	**-**	**934,363**	**-**	**934,363**
Deferred tax liabilities	**522,493**	**1,139,458**	**180,635**	**1,842,586**
Tax payable	**491,178**	***368,139**	**127,848**	**987,165**
Company's share of dividend declared/received	**463,736**	**428,064**	**297,373**	**1,189,173**
Current Financial liabilities (excluding trade and other payables and provisions)	**-**	**607,236**	**91,087**	**698,323**
Non- current financial liabilities (excluding trade and other payables and provisions)	**366,031**	**327,127**	**-**	**693,158**

The initial cost of the investment in the Company's joint ventures amounted to QR 12,553 million.

	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	209,588	821,210
Non- current financial liabilities (excluding trade and other payables and provisions)	300,467	934,363	-	1,234,830

*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.

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

3. INVESTMENTS IN JOINT VENTURES (CONTINUED)

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 2018			
	Q-Chem	**Q-Chem II**	**QVC**	**Total**
Capital commitments	**83,579**	**75,976**	**42,786**	**202,341**
Operating lease commitments:				
Future minimum lease payments:				
Within one year	**8,729**	**5,379**	**494**	**14,602**
After one year but not more than five years	**27,603**	**19,441**	**2,108**	**49,152**
More than five years	**13,136**	**66,787**	**1,724**	**81,647**
Total operating lease commitments	**49,468**	**91,607**	**4,326**	**145,401**
Purchase commitment	**211,283**	**252,445**	**-**	**463,728**
Contingent liabilities	**-**	**-**	**15,849**	**15,849**

	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

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 operation 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.

The financial statements of Q-Chem II is prepared based on an assumption that QP is unlikely to opt for the second option, that is to impose site restoration on the joint venture. Therefore, no provision has been provided for such obligation.

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

4. OTHER RECEIVABLES

Other receivables comprises of the interest receivable on the term deposits made with various banks and prepayments.

5. CASH AND CASH EQUIVALENTS

	2018	2017
Cash and cash equivalents	176,417	50,239

5.1 DEPOSITS AND OTHER BANK BALANCES

	2018	2017
Fixed deposits maturing after 90 days	1,572,783	1,208,550
Bank balances-Dividends account	162,464	138,164
	1,735,247	1,346,714

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 2.50% to 4.55% (2017: 2.85 % to 3.50 %).

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	2018	2017
Dividend income from Q-Chem	463,736	276,458
Dividend income from Q-Chem II	428,064	517,244
Dividend income from QVC	297,373	164,761
Annual service fee to Qatar Petroleum	(8,366)	(7,176)

Qatar Petroleum is the ultimate 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	2018	2017
Amount due to QP	8,440	7,902

(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:

	2018	2017
Key management remuneration	**200**	534
Board of directors' remuneration	**5,900**	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

	2018	2017
Dividends payable	**162,464**	138,164
Social and sports fund contribution payable	**34,853**	27,206
Accruals	**4,119**	4,333
	201,436	169,703

8. SHARE CAPITAL

	2018	2017
Authorised, issued and fully paid:		
1,256,317,500 shares of QR 10 each	**12,563,175**	12,563,175

In 2018 109,511,711 additional shares (2017: 232,179 shares) have been transferred from QP to the Public on account of incentive shares. As of 31 December 2018 Qatar Petroleum holds 822,917,234 shares including 1 special share (2017: 932,428,945 shares including 1 special share) comprising 65.50% (2017: 74.2 %) of total shareholding.

The Board of Directors of Qatar Financial Markets Authority ("QFMA") issued its resolution at its 4th meeting for the year 2018 held on 16 December 2018, to reduce the nominal value of shares of listed companies in Qatar to be (1) one Qatari Riyal, so that each existing share will split into ten (10) shares.

Therefore, the Company is inviting for an Extraordinary General Meeting of Shareholders to approve the share split and amend the Article of Association in accordance with the said resolution.

9. LEGAL RESERVE

The Articles of Association of the Company provides that prior to recommending any dividend distribution to the shareholders, the Board shall ensure proper reserves are established in respect of voluntary and statutory reserves considered by the Board. Such reserves as resolved by the Board, shall be the only reserves the Company is required to establish.

10. DIVIDENDS

The Board of Directors has proposed cash dividend distribution of QR 0.80 per share for the year ended 31 December 2018 (2017: QR 0.70 per share). The proposed final dividend for the year ended 31 December 2018 will be submitted for formal approval at the Annual General Meeting.

On 6 March 2018, the shareholders approved to distribute cash dividends of QR 880 million (2017: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 parent by weighted average number of shares outstanding during the year.

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

	2018	2017
Profit attributable to the equity holders for the year	**1,394,136**	1,088,243
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)	**1.11**	0.87

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.

As disclosed in Note 8 to the financial statements, the Company will invite for an Extraordinary General Meeting of Shareholders to approve a share split with a ratio of 1:10. After the share split is approved, the number of shares will become 12,563,175,000 with a par value of one (1) Qatari Riyal each. Therefore, the earnings per share will become QR 0.11 and QR 0.09 for the years ended 31 December 2018 and 31 December 2017, respectively.

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 2018**	**Increase in basis points**	**Effect on profit 2017**
Term deposits	**+/-25**	**+/- 2,901**	+/- 25	+/- 3,021

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:

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

12. FINANCIAL RISK MANAGEMENT (CONTINUED)

	2018	2017
Interest receivable	**31,718**	12,518
Bank balances	**1,911,664**	1,396,953
	1,943,382	1,409,471

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

Rating	**2018**	2017
A1	**1,227,524**	582,599
A2	**32**	519,116
A3	**589,546**	295,058
Aa3	**94,562**	180
	1,911,664	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 15.07 billion (2017: QR 14.58 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.

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

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. No impairment indicator has been identified during the year.

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 ultimate 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. Therefore, the criteria to recognise provision for restoration obligation is not fully met and no provision has been recognised in these 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 34.85 million (2017: QR 27.21 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.

17. TAX RECEIVABLE

On 26 February 2014, the Company was listed on Qatar Exchange. As at 31 December 2018, the public shareholding in the Company amounted to 34.50%. Subsequent to a receipt of clarification from the General Tax Authority, the Company is eligible for a tax refund. As of 31 December 2018, the Company's tax refund amounted to QR 169.60 million (2017: QR 190.56 million). The statement of profit or loss and other comprehensive income impact for the year amounts to QR 169.32 million (2017: QR 100.79 million).