Combined condensed interim financial information
of
EQUATE Petrochemical Company K.S.C.C. and subsidiaries
("EQUATE Group")
and
The Kuwait Olefins Company K.S.C.C. ("TKOC")

Combined condensed interim financial information of
EQUATE Group and TKOC
State of Kuwait

Contents

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Independent auditor's report on review of combined condensed interim financial information

The Shareholders
EQUATE Petrochemical Company K.S.C.C. and The Kuwait Olefins Company K.S.C.C.
State of Kuwait

Introduction

We have reviewed the accompanying combined condensed interim financial information of EQUATE Petrochemical Company K.S.C.C. ("EQUATE") and its subsidiaries (together "EQUATE Group") and The Kuwait Olefins Company K.S.C.C. ("TKOC") (together referred to as "the Reporting Entity"), which comprises the combined condensed statement of financial position as at 30 June 2018, the combined condensed statement of profit or loss and other comprehensive income, changes in equity and cash flows for the six month period then ended, and notes to the combined condensed interim financial information. Management is responsible for the preparation and presentation of this combined condensed interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this combined condensed interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying combined condensed interim financial information as at and for the six months ended 30 June 2018 are not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

Emphasis of matter – Basis of preparation

We draw attention to Note 1 and 2 to the combined condensed interim financial information, which describes their basis of preparation, including the approach to and the purpose of preparing them. The combined condensed interim financial information of the Reporting Entity were prepared for presentation to lenders of EQUATE Group. Our conclusion is not modified in respect of this matter.

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

Kuwait:5 August 2018

Combined condensed statement of financial position of
EQUATE Group and TKOC
State of Kuwait

as at 30 June 2018

	Note	USD million 30 June 2018	USD million 31 December 2017 (Audited)
Assets			
Property, plant and equipment		2,767	2,564
Goodwill		1,689	1,689
Intangible assets		412	434
Deferred tax assets		63	48
Deferred charges and other assets		607	591
Non-current assets		5,538	5,326
Inventories		251	261
Due from related parties	7	28	89
Trade and other receivables		828	776
Deferred charges and other assets		1	25
Cash and bank balances	5	1,642	2,107
Current assets		2,750	3,258
Total assets		8,288	8,584
Equity			
Share capital		1,080	1,080
Treasury shares		(450)	(450)
Statutory reserve		540	540
Retained earnings		862	1,131
Remeasurement of retirement benefit obligation		(59)	(59)
Foreign currency translation reserve		49	45
Total equity		2,022	2,287
Liabilities			
Loans and borrowings	6	4,701	4,715
Deferred income		177	177
Deferred tax liabilities		230	230
Retirement benefit obligation		413	416
Long term incentives		4	4
Non-current liabilities		5,525	5,542
Long term incentives		5	5
Deferred income		15	15
Due to related parties	7	149	124
Trade and other payables		572	611
Current liabilities		741	755
Total liabilities		6,266	6,297
Total equity and liabilities		8,288	8,584

The attached notes on pages 7 to 24 form an integral part of this combined condensed interim financial information.

Ramesh Ramachandran
President & Chief Executive Officer of
EQUATE and TKOC

P.T.

Combined condensed statement of profit or loss and other comprehensive income of EQUATE Group and TKOC
State of Kuwait

for the six month period ended 30 June 2018

	USD million	
	2018	**2017**
Sales	2,505	1,971
Cost of sales	(1,462)	(1,262)
Gross profit	1,043	709
Management fee	2	2
Reservation right fees	9	8
General, administrative and selling expenses	(46)	(44)
Other income	1	4
Foreign exchange loss	(5)	(2)
Profit from operations	1,004	677
Finance income	17	18
Finance costs	(95)	(106)
Profit before contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), Zakat, tax on subsidiaries and Board of Directors' remuneration	926	589
Contribution to KFAS	(9)	(6)
Contribution to Zakat	(4)	(3)
Tax on subsidiaries	(51)	(29)
Board of Directors' remuneration	(0)	(0)
Net profit for the period	862	551
Other comprehensive income		
Items that are or may be reclassified subsequently to profit or loss		
Foreign currency translation differences	4	-
Other comprehensive income for the period	4	-
Total comprehensive income for the period	866	551

The attached notes on pages 7 to 24 form an integral part of this combined condensed interim financial information.

Combined condensed statement of changes in equity of
EQUATE Group and TKOC
State of Kuwait

for the six month period ended 30 June 2018

	USD million						
	Share capital	**Treasury shares**	**Statutory reserve**	**Retained earnings**	**Remeasurement of retirement benefit obligation**	**Foreign currency translation reserve**	**Total**
Balances as at 1 January 2017	1,080	(450)	540	679	(52)	6	1,803
Net profit for the period	-	-	-	551	-	-	551
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	551	-	-	551
Dividends paid	-	-	-	(679)	-	-	(679)
Balance as at 30 June 2017	1,080	(450)	540	551	(52)	6	1,675
Balances as at 1 January 2018 (audited)	1,080	(450)	540	1,131	(59)	45	2,287
Adjustment on initial application of IFRS 9 (Note 3)	-	-	-	0	-	-	0
Balance as at 1 January 2018 after IFRS 9 transition	1,080	(450)	540	1,131	(59)	45	2,287
Net profit for the period	-	-	-	862	-	-	862
Other comprehensive income	-	-	-	-	-	4	4
Total comprehensive income for the period	-	-	-	862	-	4	866
Dividends paid	-	-	-	(1,131)	-	-	(1,131)
Balance as at 30 June 2018	1,080	(450)	540	862	(59)	49	2,022

The attached notes on pages 7 to 24 form an integral part of this combined condensed interim financial information.

Combined condensed statement of cash flows of
EQUATE Group and TKOC
State of Kuwait

for the six month period ended 30 June 2018

	Note	USD million 2018	2017
Cash flows from operating activities			
Net profit for the period		862	551
Adjustments for:			
Depreciation		146	178
Amortisation of intangibles and deferred assets		6	8
Reservation right fees		(9)	(8)
Deferred income tax		(15)	(5)
Finance costs		95	106
Finance income		(17)	(18)
Provision for doubtful receivables		12	-
Provision for retirement benefit obligation		24	21
Foreign exchange loss on retirement benefit obligations		(3)	0
Provision for long term incentives		3	3
		1,104	836
Changes in:			
Inventories		10	(37)
Due from related parties		61	23
Trade and other receivables		(64)	35
Deferred charges and other assets		(10)	3
Due to related parties		25	37
Trade and other payables		(33)	(93)
Retirement benefit obligation paid		(21)	(7)
Long term incentives paid		(5)	(6)
Net cash from operating activities		1,067	791
Cash flows from investing activities			
Purchase of property, plant and equipment	*4*	(328)	(108)
Investment in staff saving scheme		(2)	(3)
Matured/(placement) of short term deposits		301	681
Finance income received		24	26
Net cash (used in) / from investing activities		(5)	596
Cash flows from financing activities			
Repayment of long term loan	*6*	-	(500)
Proceeds from issue of Sukuk	*6*	-	500
Loan origination fees paid		-	(5)
Finance costs paid		(97)	(89)
Dividends paid		(1,131)	(679)
Net cash used in financing activities		(1,228)	(773)
Net (decrease) / increase in cash and cash equivalents		(166)	614
Cash and cash equivalents at beginning of the period		999	310
Cash and cash equivalents at end of the period	*5*	833	924

The attached notes on pages 7 to 24 form an integral part of this combined condensed interim financial information.

1. Reporting entity

EQUATE Petrochemical Company K.S.C.C. ("EQUATE") is a closed Kuwaiti Shareholding Company incorporated in the State of Kuwait on 20 November 1995. EQUATE is primarily engaged in manufacturing and sale of Ethylene Glycol ("EG"), polyethylene ("PE") and polyethylene terephthalate ("PET"). EQUATE also operates and maintains Olefins II, Styrene, Aromatics and Polypropylene plants on behalf of its related entities in Kuwait.

The Kuwait Olefins Company K.S.C.C. ("TKOC") is a closed Kuwaiti Shareholding Company incorporated in the State of Kuwait on 10 October 2004 and is primarily engaged in the manufacturing and sale of Ethylene and Ethylene Glycol ("EG"). TKOC is owned by EQUATE's shareholders and is managed by EQUATE's management. Additionally, the manufacturing plants of both EQUATE and TKOC are integrated and operated and managed by EQUATE's management under various agreements.

EQUATE and TKOC are owned by Dow Europe Holding B.V. ("DEH"), Petrochemical Industries Company K.S.C. ("PIC"), Boubyan Petrochemical Company K.S.C. ("BPC") and Al-Qurain Petrochemical Industries Company K.S.C. ("QPIC"). The shareholding of both the companies are identical and they are under common control. The registered address of both the companies is East Ahmadi, Block 9, Kuwait.

DEH is a subsidiary of the "The Dow Chemical Company". The word "Dow" further mentioned in this report refers to the "The Dow Chemical Company and its subsidiaries as a group".

EQUATE and its subsidiaries set out below, together referred as "EQUATE Group" and EQUATE Group and TKOC together referred as "the Reporting Entity".

The combined condensed interim financial information, which is the responsibility of the management of the Reporting Entity, is being presented with the sole purpose of providing, in a single set of financial information related to the combined financial position and combined financial performance of the Reporting Entity. The combined condensed interim financial information is being prepared by and at the level of the common shareholders of EQUATE and TKOC. This combined condensed interim financial information of the Reporting Entity were prepared for presentation to lenders of EQUATE Group.

The combined condensed interim financial information as at and for the period ended 30 June 2018 comprises of the condensed consolidated interim financial information of EQUATE Group and condensed interim financial information of TKOC. List of directly and indirectly owned subsidiaries of EQUATE is as follows:

Name of entity	Country of incorporation	Principal business	Percentage of holdings 30 June 2018	31 December 2017
Equate Petrochemical B.V. ("EQUATE BV")	Netherlands	Holding Company	100%	100%
MEGlobal Canada ULC ("MEGC")	Canada	Manufacturing and sales of EG	100%	100%
EQUATE Sukuk SPC Limited	UAE	Special Purpose Company	100%	-
Held through EQUATE BV				
MEGlobal B.V ("MEG B.V.")	Netherlands	Holding Company	100%	100%
MEGlobal Americas Inc	USA	Marketing and distribution of EG	100%	100%
MEGlobal Asia Limited	China	Marketing and distribution of EG	100%	100%
MEGlobal International FZE	UAE	Marketing and distribution of EG	100%	100%
MEGlobal Mexico S.A. de C.V.	Mexico	Marketing and distribution of EG	100%	100%
MEGlobal Trading Group	China	Marketing and distribution of EG	100%	100%
MEGlobal Europe GmbH	Switzerland	Marketing and distribution of EG	100%	100%
MEGlobal Comercio Do Brasil Ltda	Brazil	Marketing and distribution of EG	100%	100%
Equipolymers GmbH	Germany	Manufacturing and sales of PET	100%	100%
Equipolymers Srl	Italy	Marketing of PET	100%	100%
Held through MEGC				
Alberta & Orient Glycol Company ULC	Canada	Manufacturing and sales of EG	100%	100%

The Management is evaluating scenarios of a potential future combination of TKOC and EQUATE. This project is still in a feasibility study stage and not yet approved by the Board of Directors.

This combined condensed interim financial information was authorised for issue by President and Chief Executive Officer of the Reporting Entity on 5 August 2018.

2. Basis of preparation

a) Statement of compliance

This combined condensed interim financial information has been prepared in accordance with IAS 34 *Interim Financial Reporting,* and should be read in conjunction with last audited combined financial statements of the Reporting Entity for the year ended 31 December 2017 ("last annual financial statements").This does not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the combined financial position and performance of the Reporting Entity since the last audited combined financial statements of the Reporting Entity. Operating results for the six month period ended 30 June 2018 are not necessary indicative of the results that may be expected for the financial year ending 31 December 2018.

This is the first set of the Reporting entity's combined financial information where IFRS 15 and IFRS 9 have been applied. Changes to significant accounting policies are described in Note 3.

b) Basis of combination

This combined condensed financial information has been prepared by combining condensed consolidated interim financial information of EQUATE Group and condensed interim financial information of TKOC for the six month period ended 30 June 2018, prepared in accordance with IAS 34 *Interim Financial Reporting.*

This combined condensed interim financial information has been prepared as following:

- Financial information is combined on a line-by-line basis by adding together assets, liabilities, income and expenses;
- Share capital and reserves are aggregated;
- Inter-company transactions and balances are eliminated; and
- Taxes have been determined based on the tax charges recorded by individual entities.

c) Judgments and estimates

In preparing this combined condensed interim financial information, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Reporting Entity's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the combined financial statements as at and for the year ended 31 December 2017, except for the new significant judgements and key sources of estimation uncertainty related to application of IFRS 15 and IFRS 9, which is described in Note 3.

3. Significant accounting policies

Except as described below, the accounting policies applied in the preparation of this combined condensed interim financial information are consistent with those used in the preparation of the combined financial statements as at and for the year ended 31 December 2017.

The changes in accounting policies are also expected to be reflected in the Reporting Entity's combined financial statements as at and for the year ending 31 December 2018.

The Reporting Entity has adopted IFRS 9 '*Financial Instruments*' ("IFRS 9"), IFRS 15 '*Revenue from Contracts with Customers*' ("IFRS 15") and the amendments and annual improvements to IFRSs, which are relevant to the Reporting Entity, on their effective date on 1 January 2018. IFRS 9 replaces IAS 39 '*Financial Instruments: Recognition and Measurement*' ("IAS 39") bringing together all three aspects of the accounting for financial instruments; classification and measurement, impairment and hedge accounting. IFRS 15 replaces IAS 18 '*Revenue*' ("IAS 18") which covers revenue arising from the sale of goods and the rendering of services. The accounting policies affected by these new standards are disclosed below. The adoption of the amendments and annual improvements to IFRSs, relevant to the Reporting Entity, did not result in any material impact on the accounting policies, combined financial position or performance of the Reporting Entity.

A. *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 supersedes IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. IFRS 15 requires identification of the performance obligations for the transfer of goods and services in each contract with customers. The Reporting Entity recognised revenue upon satisfaction of the performance obligations for the amounts that reflect the consideration to which the Reporting Entity expects to be entitled in exchange for those goods and services. Under IFRS 15, revenue from the sale of polyethylene, ethylene glycol and other products is recognised when a customer obtains control of those products, which normally is when title passes at point of delivery, based on the contractual terms of the agreements. Each such sale normally represents a single performance obligation. The Reporting Entity satisfies its performance obligations at a point in time.

Service revenue

The Company also derives revenue from Materials and Utility services provided to its related entities. Under the terms of the agreement with the related entities, the Company receives a fixed management fees over and above the actual operating cost. Revenue is recognised as per the terms of the agreement and which normally represents a single performance obligation.

Variable pricing – preliminary pricing

Certain products in certain markets may be sold with variable pricing arrangements. Such arrangements determine that a preliminary price is charged to the customer at the time of transfer of the control of products, while the price of products can only be determined by reference to a time period ending after that time. In such cases, and irrespective of the formula used for determining preliminary and final prices, revenue is recorded at the time of transfer of control of products at an amount representing the expected final amount of consideration that the Reporting Entity receives.

The Reporting Entity has applied the new standard as of the date of the initial application, with no restatement of the comparative period amounts. It records the cumulative effect of applying the new standard, which affects revenue and cost as an adjustment to the opening balance of equity at the date of the initial application. Specific recognition criteria described below is met before revenue is recognized.

B. *IFRS 9 Financial Instruments*

The Reporting Entity has adopted IFRS 9 *Financial Instruments* effective from 1 January 2018. IFRS 9 sets out the requirements for recognising and measuring financial assets and financial liabilities, impairment of financial assets and hedge accounting. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

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

Differences in the carrying amount of financial assets resulting from the adoption of IFRS 9 are adjusted in retained earnings as at 1 January 2018.

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

i. *Classification and measurement of financial assets and financial liabilities*

IFRS 9 retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, there are significant changes in classification and measurement of financial assets. The new standard eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

The Reporting Entity classifies its financial assets upon initial recognition into the following categories:

- Financial assets carried at amortised cost;
- Financial assets carried at fair value through other comprehensive income (FVOCI); and
- Financial assets carried at fair value through profit or loss (FVTPL)

Financial assets carried at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as FVTPL:

(a) The asset is held within a "business model" whose objective is to hold assets to collect contractual cash flows; and

(b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

The details of these conditions are outlined below. Cash and cash equivalents assets, trade receivables and due from related parties are classified as financial assets carried at amortised cost.

(a) Business model assessment

The Reporting Entity determines its business model at the level that best reflects how it manages group of financial assets to achieve its business objective.

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

(b) The SPPI test

As a second step of its classification process, the Reporting Entity assesses the contractual terms of financial asset to identify whether they meet the SPPI test. Principal for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

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

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Further, financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest rate method. The amortised cost is reduced by impairment losses. Income from loans and advances, foreign exchange gains and losses and impairment are recognised in the statement of condensed combined profit or loss and other comprehensive income. Any gain or loss on derecognition is recognised in the statement of condensed combined profit or loss and other comprehensive income.

Financial assets carried at fair value through other comprehensive income (FVOCI)

Upon initial recognition, the Reporting Entity makes an irrevocable election to classify its equity investments as equity investments at FVOCI if they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis. Equity investments at FVOCI are subsequently measured at fair value. Changes in fair values including foreign exchange component are recognized in other comprehensive income and presented in the cumulative changes in fair values as part of equity. Cumulative gains and losses previously recognized in other comprehensive income are transferred to retained earnings on de-recognition and are not recognized in the combined condensed statement of profit or loss and other comprehensive income.

Financial assets carried at fair value through profit or loss (FVTPL)

Financial assets in this category are those assets which have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management designates an instrument at FVTPL that would otherwise meet the requirements to be measured at amortised cost or at FVOCI only if it eliminates, or significantly reduces, an accounting mismatch that would otherwise arise. Financial assets with contractual cash flows not representing solely payment of principal and interest are mandatorily required to be measured at FVTPL. Financial assets at FVTPL are subsequently measured at fair value. Changes in fair value are recognised in the combined condensed interim statement of profit or loss and other comprehensive income. Dividend income from equity investments measured at FVTPL is recognised in the combined condensed interim statement of profit or loss and other comprehensive income when the right to the payment has been established.

The following table illustrates the classification and measurement of financial assets under IFRS 9 and IAS 39:

	Original measurement and classification under IAS39	New classification and measurement under IFRS 9
1 January 2018		
Due from related parties	Loans and receivables, carried at amortised cost	Financial assets carried at amortised cost
Trade and other receivables	Loans and receivables, carried at amortised cost	Financial assets carried at amortised cost
Cash on hand and at banks	Loans and receivables, carried at amortised cost	Financial assets carried at amortised cost

Impairment of financial assets

The adoption of IFRS 9 has fundamentally changed the Reporting Entity's accounting of impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The new impairment model applies to financial assets measured at amortized costs and to financial assets recorded at FVOCI. Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default over the expected lifetime of a financial instrument.

For cash and banks balances, the Reporting Entity measures loss allowances at an amount equal to 12 months ECLs since credit risk on these assets have not been increased significantly since its initial recognition. The Reporting Entity has elected to measure loss allowances for trade and other receivables and due from related parties at an amount equal to lifetime ECLs.

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

The Reporting Entity considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Reporting Entity may also consider a financial asset to be in default when internal or external information indicates that the Reporting Entity is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Reporting Entity. The adoption of the ECL requirements of IFRS 9 did not result in any significant effect on the Reporting Entity's combined condensed interim financial information for the period.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except for the restatement of comparative periods. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2017 under IFRS 9.

Impact of adopting IFRS 9 and classification of financial assets on the date of initial application

The impact of change in accounting policy as at 1 January 2018 is set out below:

	Retained earnings USD million
Closing balance under IAS 39 as at 31 December 2017	1,131
Opening balance impact on reclassification and re-measurement:	
Due from related parties	0
Trade and other receivables	0
Cash and bank balances	0
Total transition adjustment on adoption of IFRS 9 as at 1 January 2018	0
Opening balance under IFRS 9 as at 1 January 2018	1,131

Classification of financial assets on the date of initial application of IFRS 9

The following table shows reconciliation of original measurement categories and carrying value in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Reporting Entity's financial assets as at 1 January 2018.

	Original classification under IAS 39	**New classification under IFRS 9**	**Original carrying amount under IAS 39 USD million**	**Re-measurement USD million**	**New carrying amount under IFRS 9 USD million**
Financial assets					
Due from related parties	Loans and receivables	Amortised cost	89	0	89
Trade and other receivables	Loans and receivables	Amortised cost	776	0	776
Cash and bank balances	Loans and receivables	Amortised cost	2,107	0	2,107
Total financial assets			2,972	0	2,972

The Reporting Entity evaluates the probability of default considering the period of past due receivables as well as when internal or external information indicates that the Reporting Entity is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Reporting Entity. The adoption of the ECL requirements of IFRS 9 did not result in any significant effect on the Reporting Entity's combined condensed interim financial information. Financial information are rounded to nearest millions and hence, no impairment allowances were recognized in the opening balance as at 1 January 2018.

Impact of adopting IFRS 9 and classification of financial liabilities on the date of initial application

For financial liabilities, the Reporting Entity concluded no impact on accounting under IFRS 9 as compared to requirements of IAS 39.

4. Property, plant and equipment

Assets under construction comprise of improvement projects for the existing plant. Such assets are not subject to depreciation until the improvements are tested, available and ready for use. It also includes costs incurred on the development of a new Ethylene Glycol plant in the Gulf Coast of the United States of America ("USGC project"), which is scheduled to be operational in 2019. During the six month period ended 30 June 2018, the Reporting Entity spent USD 328 million for assets under construction (31 December 2017: USD 278 million, 30 June 2017: USD 108 million), which includes USD 232 million (31 December 2017: USD 184 million, 30 June 2017: USD 54 million) on the USGC project.

5. Cash and bank balances

	USD million	
	30 June 2018	**31 December 2017**
Cash balances	0	0
Bank balances	433	89
Term deposits	1,209	2,018
Total cash and bank balances	1,642	2,107
Less: Deposits with original maturity of more than 3 months	(762)	(1,063)
Less: Amount reserved relating to staff saving scheme	(47)	(45)
Cash and cash equivalents for the statement of cash flows	833	999

The effective interest rate on time deposits as at 30 June 2018 was 2.366 % (as at 31 December 2017: 1.52%) per annum.

6. Loans and borrowings

	USD million	
	30 June 2018	**31 December 2017**
Non-current portion		
Medium term notes	2,225	2,233
Sukuk	496	495
Long term loan	1,980	1,987
	4,701	4,715

The movement in the Loans and borrowings are as follows:

	USD million	
	30 June 2018	**30 June 2017**
Balance at 1 January	4,715	4,672
Long term loan	-	(500)
Loan origination fee	(14)	9
Issue of Sukuk	-	500
Balance at 30 June	4,701	4,681

Long term loan

On 23 June 2016, the EQUATE Group entered into a USD 5 billion long term loan agreement ("Term Loan") with a consortium of banks. The Term Loan consisted of USD 2 billion Tranche A 5-year bullet facility, USD 2 billion Tranche B 3-year bullet facility, and USD 1 billion 3 year revolving credit facility. The EQUATE Group is jointly and severally a guarantor along with TKOC for the Term Loan and the credit facilities include customary covenants. On 23 June 2016 and on 30 November 2016, the Group drewdown USD 2 billion from Tranche A facility and USD 0.5 billion from Tranche B facility, respectively. Tranche A facility will mature on 23 June 2021.

On 28 February 2017, the EQUATE Group early settled Tranche B 3-year bullet facility amounting to USD 500 million of which USD 47 million pertaining to Islamic financing and USD 453 million pertaining to conventional financing facility. This facility had the original maturity date on 30 November 2019. Further undrawn available facility of Tranche B has been cancelled in February 2017.

At 30 June 2018, the details of the Term Loan are as follows:

	Term Loan		
	Total Facility	Tranche A	Revolving credit facility
Islamic financing	282	188	94
Conventional financing	2,718	1,812	906
Total	3,000	2,000	1,000

Drawn/Outstanding as at 30 June 2018 is as follows:

			USD million	
		Repayment terms	**30 June 2018**	**31 December 2017**
Islamic financing	Tranche A	Bullet repayment on 5th year	188	188
Conventional financing	Tranche A	Bullet repayment on 5th year	1,812	1,812
			2,000	2,000

The effective interest rate as at 30 June 2018 for Tranche A Term Loan is 4.01 % (31 December 2017: 3.47%).
At the reporting date, the Reporting Entity had available for its utilization, USD 1 billion of undrawn committed revolving credit facility.

Medium term notes

In 2016, the EQUATE Group established a USD 4 billion Global Medium Term Note Programme (the "Programme"), and on 3 November 2016 EQUATE B.V. (the "Issuer") issued notes (the "Notes"). The payments of amounts due in respect of the Notes is unconditionally and irrevocably guaranteed, jointly and severally, and not severally, by EQUATE and TKOC. The Notes are listed on Irish Stock Exchange ("ISE") and the proceeds are used to repay existing loan facilities. At the reporting date, the Issuer had following Notes.

	USD million	
	30 June 2018	**31 December 2017**
i) Fixed interest rate Notes amounting to USD 1,000 million, having a term of 5 years, maturing in 2022, with an effective interest rate of 3.338% and carrying a coupon rate of 3% per annum payable on a semi-annual basis.	983	983
ii) Fixed interest rate Notes amounting to USD 1,250, million having a term of 10 years ,maturing in 2026, with an effective interest rate of 4.402% and carrying a coupon rate of 4.25% per annum payable on a semi-annual basis.	1,235	1,235
	2,218	2,218

As at 30 June 2018, 5 year and 10 year medium term notes are quoted at 95.810 and 97.224 respectively (31 December 2017: 5 year and 10 year medium term notes are quoted at 98.7629 and 101.7701 respectively), based on level 1 inputs.

Sukuk programme

In December 2016, the EQUATE Group established a USD 2 billion Sukuk programme (the "Sukuk") and issued Sukuk amounting to USD 500 million on 21 February 2017 having a term of 7 years, maturing in February 2024, with a profit rate of 3.944% per annum payable on a semi-annual basis. The Sukuk is guaranteed by the EQUATE and TKOC and is listed on ISE. As at 30 June 2018, Sukuk are quoted at 97.815, based on level 1 inputs.

7. Related party transactions

In the normal course of business, the Reporting Entity enters into transactions with its shareholders PIC (directly owned by Kuwait Petroleum Corporation ("KPC")), BPC, QPIC and DEH's part of DOW.

EQUATE Marketing Company EC, Bahrain ("EMC"), which is owned by PIC and DEH, is the exclusive sales agent in certain territories for the marketing of PE produced by the EQUATE. EQUATE reimburses all the actual expenses incurred by EMC.

During 2004, Dow and PIC initiated a number of joint venture petrochemical projects ("Olefins II projects") in Kuwait to manufacture polyethylene, ethylene glycol and styrene monomer. The Olefins II projects consist of the EQUATE expansion project, and the incorporation and development of TKOC, The Kuwait Styrene Company K.S.C.C. ("TKSC") and Kuwait Aromatics Company K.S.C.C. ("KARO"). TKSC is a joint venture of DEH (42.5%) and KARO (57.5%). KARO is owned by PIC (40%), Kuwait National Petroleum Company K.S.C. ("KNPC") (40%) and QPIC (20%).

On 2 December 2004, EQUATE signed a Materials and Utility Supply Agreement ("MUSA") with TKOC, TKSC, KARO and PIC. Under the terms of the MUSA, EQUATE receives a reservation right fee from the above entities that equals the total capital construction costs incurred by EQUATE on the new utilities and infrastructure facilities under the Olefins II projects.

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

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

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

An agreement to amend MUSA and service agreements ("primary agreements") was signed between the parties to the primary agreements on 8 February 2006 releasing KARO from its obligations and liabilities under the primary agreements and appointing Kuwait Paraxylene Production Company K.S.C.C. ("KPPC") in place of KARO to assume and perform all obligations of KARO as if KPPC were and had been a party to the primary agreements. KPPC is a 100% owned subsidiary of KARO.

On 31 May 2006, EQUATE signed term loan agreements with TKSC, under which EQUATE provided USD 497 million term loan to TKSC. During 2016, TKSC fully prepaid the loan.

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

All transactions with related parties are carried out on a negotiated contract basis.

The following is a description of significant related party agreements and transactions, other than described above:

a) Supply by Union Carbide Corporation ("UCC") of technology and licences relating to manufacture of PE and EG
b) Feed gas and fuel agreement with PIC
c) Supply by the EQUATE Group of certain materials and services required by PIC to operate and maintain the polypropylene plant
d) Excess EG Marketing Agreement
e) General Services Agreement
f) Secrecy Agreement
g) Long Term Land Lease Agreement
h) Site Services Agreement
i) Employee Seconding Agreement
j) Catalyst License Agreement
k) Binding Term sheet – Gulf Coast
l) Other Assignment and Assumption Agreements
m) Ethylene supply agreement by MEGC with Dow
n) Feedstock supply agreement by MEGC with Dow for the USGC Project
o) Master service agreement with Dow
p) Ethylene Oxide (EO)/EG Swap Agreement (MEGC)
q) Technology License Intellectual Property (IP) Agreement (MEGC)
r) Catalyst Supply Agreement (MEGC)
s) Storage Sublease (MEGC)
t) Ground Lease (MEGC)
u) Utilities Services Agreements (MEGC)
v) Technical Services Agreement (MEGC)

Details of significant related party transactions are disclosed below:

	USD million	
	2018	**2017**
a) Sales and management fee		
Polypropylene plant management fees from PIC	0	0
Styrene plant management fees from TKSC	1	1
Aromatics Plant management fees from KPPC	1	1
Sale of utilities and services to KPPC, TKSC and PIC	28	27
Operating cost reimbursed by PIC for running of Polypropylene plant	19	17
Operating and utility cost reimbursed by TKSC for running of Styrene plant	22	20
Operating and utility cost reimbursed by KPPC for running of Aromatics plant	40	35

	USD million	
	30 June 2018	**30 June 2018**
b) Purchases and expenses		
Feed gas and fuel gas purchased from KPC	188	225
Catalyst purchased from Dow	11	-
Ethylene Purchase from Dow	87	110
Service cost reimbursed to Dow	7	32
Glycol purchase from Dow	58	103
Catalyst purchased from UNIVATION	6	-
Operating costs reimbursed to EMC	2	2
Staff secondment costs reimbursed to Dow	2	1
Tugging fees payments to KOC	4	3
c) Key management compensation		
Salaries, short term and terminal benefits	4	3

	USD million	
	30 June 2018	**31 December 2017**
d) Due from related parties		
Due from PIC	12	11
Due from UCC	0	0
Due from DOW	-	6
Due from TKSC	6	14
Due from KPPC	8	56
Due from KNPC	2	2
Due from KARO	0	0
Due from KPC	0	0
Due from SADARA	0	0
Due from others	0	0
	28	89

	USD million	
	30 June 2018	31 December 2017
e) Due to related parties		
Due to KPC	91	84
Due to PIC	16	8
Due to Kuwait Oil Company K.S.C.	3	2
Due to DOW	34	26
Due to KNPC	0	-
Due to KPPC	2	2
Due to UNIVATION	-	1
Due to TKSC	3	1
	149	124

8. Additional Business and Geographical Information

Basis for segmentation

The Reporting Entity have one significant business segment i.e; Performance Materials & Chemicals ("PMC"), which is the reportable segment. This business segment manufactures and markets different types of basic petrochemical products (refer note 1 for more details).

Equate Management Team ("EMT"), a committee comprises of certain board members of EQUATE Group and TKOC and key members of management, reviews the internal management reports of segments to monitor the performance and allocate capital. Earnings before Interest, Tax, Depreciation and Amortization ("EBITDA") is the key measure used to monitor the performance of business because management believes that this information is the most relevant in evaluating the results of the business relative to other entities that operate in the similar industries. In addition to PMC business, EQUATE is engaged in managing operations of petrochemical plants of certain related parties, which did not meet the quantitative threshold for reportable segment.

Information about reportable segments

	USD million					
	2018			2017		
	PMC	Others	Total	PMC	Others	Total
External segment revenue	2,396	109	2,505	1,872	99	1,971
EBITDA	1,119	28	1,147	833	22	855
Net profit for the period	846	16	862	541	10	551
Interest income	(16)	(1)	(17)	(17)	(1)	(18)
Interest expenses	92	3	95	104	2	106
Depreciation, amortization and reservation rights	133	10	143	168	10	178
Income tax /KFAS / Zakat	64	0	64	37	1	38

Geographical information

PMC business is managed on a worldwide basis, but operate manufacturing facilities and sales offices primarily in Kuwait, Canada, Germany, Dubai, Hong Kong and Singapore. The geographical information analyses the Reporting Entity's revenue by the Company's country of domicile and other countries. In presenting the geographical information, the segment revenue has been based on geographic location of customers.

	USD million				
Revenue by product/ services and geography	**EG**	**PE**	**PET**	**Others**	**Total**
30 June 2018					
Americas	320	-	-	-	320
North Asia	844	215	-	-	1,059
India sub-continental	253	34	-	-	287
Europe	188	51	210	-	449
Rest of the World*	96	185	-	109	390
External revenue	1,701	485	210	109	2,505
30 June 2017					
Americas	264	-	-	-	264
North Asia	512	142	-	-	654
India sub-continental	270	28	-	-	298
Europe	177	43	168	-	388
Rest of the World*	102	166	-	99	367
External revenue	1,325	379	168	99	1,971

* Rest of the World includes revenue from Kuwait of USD 41 million (2017: USD 32 million)

	USD million				
EBITDA by product line	**EG**	**PE**	**PET**	**Others**	**Total**
30 June 2018	834	269	16	28	1,147
30 June 2017	638	190	5	22	855

9. Financial instruments - fair value measurement and risk management

Fair value measurement

The fair value of the financial instrument is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction.

When measuring the fair value of an asset or a liability, the Reporting Entity uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

The fair values of all financial instruments carried by the Reporting Entity as at 30 June 2018, that are not carried at fair value, are not materially different from their carrying values.

Financial risk management

All aspects of the Reporting Entity's financial risk management objectives and policies are consistent with those disclosed in the combined financial statements of EQUATE Group and financial statements of TKOC for the year ended 31 December 2017.

10. Commitments and contingent liabilities

The Reporting Entity has a fixed gas purchase commitment with a related party of approximately USD 1.34 million (31 December 2017: USD 1.28 million) per day until the agreement is cancelled in writing by the parties.

The Reporting Entity under the excess EG marketing agreement has a commitment to purchase from Dow an annual volume for a term to 2024.

The EQUATE Group under the Ethylene Supply Agreement has a commitment to purchase and obligates DCC ULC to supply a contract quantity of ethylene each year through 2024 with an additional two five year extensions through to 2034.

In addition to the above, the Reporting Entity had the following commitments and contingent liabilities outstanding as at 30 June 2018:

	USD million	
	30 June 2018	**31 December 2017**
Letters of credit and letters of guarantee	39	291
Capital commitments	828	107
Ethylene reservation fees	315	315
License-Gulf coast	2	5

MEGlobal Americas entered into agreement with various parties related to the development of a new Ethylene Glycol plant in the Gulf Coast of the United States of America ("USGC project"). The plant is scheduled to come on stream in 2019.

Forward foreign exchange contracts

Foreign currency exposure risks are managed by dealing in forward contracts within the pre-approved limits. The EQUATE Group deals in forward foreign exchange contracts to manage its foreign currency positions and cash flows. The net notional value of the forward exchange contracts (off Balance Sheet exposure) as at 30 June 2018 is as follows:

	USD million	
	30 June 2018	**31 December 2017**
Long position		
KD	761	812
CAD	134	497
Euro	245	92
Others	31	102
Short position		
CAD	255	51
KD	413	365
Euro	337	140
Others	61	115

The fair value of forward foreign exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk free interest rate. These are classified as Level II.

11. Operating lease

	USD million	
	30 June 2018	**31 December 2017**
Less than one year	21	29
Between one and five years	29	40
More than five years	32	43
	82	112