

**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**

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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 statement of financial position 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") as at 30 June 2017, the combined condensed statements 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 ("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 30 June 2017 is not prepared, in all material respects, in accordance with IAS 34, Interim Financial Reporting.



*Emphasis of matters – 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 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: 14 August 2017**

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

as at 30 June 2017

	Note	USD million*	
		30 June 2017	31 December 2016 (Audited)
<b>Assets</b>			
Property, plant and equipment		2,419	2,452
Goodwill		1,689	1,689
Intangible assets		462	490
Deferred tax assets		40	33
Deferred charges and other assets		281	297
<b>Non-current assets</b>		<b>4,891</b>	<b>4,961</b>
Inventories		274	237
Due from related parties	7	54	79
Trade and other receivables		675	710
Deferred charges and other assets		22	23
Cash and bank balances	5	1,744	1,808
<b>Current assets</b>		<b>2,769</b>	<b>2,857</b>
<b>Total assets</b>		<b>7,660</b>	<b>7,818</b>
<b>Equity</b>			
Share capital		1,080	1,080
Treasury shares		(450)	(450)
Statutory reserve		540	540
Retained earnings		551	679
Remeasurement of retirement benefit obligation		(52)	(52)
Foreign currency translation reserve		6	6
<b>Total equity</b>		<b>1,675</b>	<b>1,803</b>
<b>Liabilities</b>			
Loans and borrowings	6	4,681	4,672
Deferred income		177	195
Deferred tax liabilities		253	252
Retirement benefit obligation		321	310
Long term incentives		4	4
<b>Non-current liabilities</b>		<b>5,436</b>	<b>5,433</b>
Long term incentives		5	5
Deferred income		15	15
Due to related parties	7	208	171
Trade and other payables		321	391
<b>Current liabilities</b>		<b>549</b>	<b>582</b>
<b>Total liabilities</b>		<b>5,985</b>	<b>6,015</b>
<b>Total equity and liabilities</b>		<b>7,660</b>	<b>7,818</b>

The attached notes on pages 7 to 19 form an integral part of these combined condensed interim financial information.



P.T.  
Mohammad Ahmed Husain  
President & Chief Executive Officer of  
EQUATE and TKOC

**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 2017*

	<b>USD million</b>	
	<b>2017</b>	<b>2016</b>
Sales	1,971	1,704
Cost of sales	(1,262)	(1,344)
<b>Gross profit</b>	<b>709</b>	<b>360</b>
Management fee	2	4
Reservation right fees	8	9
General, administrative and selling expenses	(44)	(43)
Other income	4	0
Foreign exchange loss	(2)	(3)
<b>Profit from operations</b>	<b>677</b>	<b>327</b>
Finance income	18	19
Finance costs	(106)	(53)
<b>Profit before contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), Zakat, tax on subsidiaries and Board of Directors' remuneration</b>	<b>589</b>	<b>293</b>
Contribution to KFAS	(6)	(3)
Contribution to Zakat	(3)	(2)
Tax on subsidiaries	(29)	(10)
Board of Directors' remuneration	(0)	(0)
<b>Net profit for the period</b>	<b>551</b>	<b>278</b>
<b>Other comprehensive income</b>		
<i>Items that are or may be reclassified subsequently to profit or loss</i>		
Foreign currency translation differences	-	2
<b>Other comprehensive income for the period</b>	<b>-</b>	<b>2</b>
<b>Total comprehensive income for the period</b>	<b>551</b>	<b>280</b>

The attached notes on pages 7 to 19 form an integral part of these 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 2017

	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 2016	1,080	(450)	540	736	(44)	5	1,867
Net profit for the period	-	-	-	278	-	-	278
Other comprehensive income	-	-	-	-	-	2	2
<b>Total comprehensive income for the period</b>	-	-	-	278	-	2	280
Dividends paid	-	-	-	(736)	-	-	(736)
<b>Balance as at 30 June 2016</b>	<b>1,080</b>	<b>(450)</b>	<b>540</b>	<b>278</b>	<b>(44)</b>	<b>7</b>	<b>1,411</b>
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	-	-	-	-	-	-	-
<b>Total comprehensive income for the period</b>	-	-	-	551	-	-	551
Dividends paid	-	-	-	(679)	-	-	(679)
<b>Balance as at 30 June 2017</b>	<b>1,080</b>	<b>(450)</b>	<b>540</b>	<b>551</b>	<b>(52)</b>	<b>6</b>	<b>1,675</b>

The attached notes on pages 7 to 19 form an integral part of these 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 2017*

	Note	USD million	
		2017	2016
<b>Cash flows from operating activities</b>			
Net profit for the period		551	278
<i>Adjustments for:</i>			
Depreciation		178	194
Amortisation of intangibles and deferred assets		8	9
Reservation right fees		(8)	(9)
Deferred income tax		(5)	(19)
Finance costs		106	53
Finance income		(18)	(19)
Provision for retirement benefit obligation		21	16
Foreign exchange loss on retirement benefit obligations		0	2
Provision for long term incentives		3	3
		<u>836</u>	<u>508</u>
<i>Changes in:</i>			
Inventories		(37)	(9)
Due from related parties		23	4
Trade and other receivables		35	(58)
Deferred charges and other assets		3	(38)
Due to related parties		37	56
Trade and other payables		(93)	15
Retirement benefit obligation paid		(7)	(2)
Long term incentives paid		(6)	(4)
<b>Net cash from operating activities</b>		<u>791</u>	<u>472</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(108)	(82)
Purchase of intangible assets		-	0
Investment in staff saving scheme		(3)	(2)
Matured/(placement) of short term deposits		681	(34)
Long term loan repaid by related party		-	253
Finance income received		26	16
<b>Net cash from investing activities</b>		<u>596</u>	<u>151</u>
<b>Cash flows from financing activities</b>			
Repayment of bridge loan	6	-	(2,000)
Repayment/ borrowal of long term loan	6	(500)	2,000
Proceeds from issue of Sukuk	6	500	-
Loan origination fees paid		(5)	(42)
Finance costs paid		(89)	(47)
Dividends paid		(679)	(736)
<b>Net cash used in financing activities</b>		<u>(773)</u>	<u>(825)</u>
Net increase/ (decrease) in cash and cash equivalents		614	(202)
Cash and cash equivalents at beginning of the period		310	1,079
<b>Cash and cash equivalents at end of the period</b>	5	<u>924</u>	<u>877</u>

The attached notes on pages 7 to 19 form an integral part of these combined condensed interim financial information.



**Notes to the combined condensed interim financial information of  
EQUATE Group and TKOC  
State of Kuwait**

*for the six month period ended 30 June 2017*

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**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. These 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 2017 comprise 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 are as follows:

**Notes to the combined condensed interim financial information of  
EQUATE Group and TKOC  
State of Kuwait**

*for the six month period ended 30 June 2017*

Name of entity	Country of incorporation	Principal business	Percentage of holdings	
			30 June 2017	31 December 2016
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%	-
<b>Held through EQUATE BV</b>				
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%
<b>Held through MEGC</b>				
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.

These combined condensed interim financial information were authorised for issue by President and Chief Executive Officer of the Reporting Entity on 14 August 2017.

**2. Basis of preparation**

a) Statement of compliance

These combined condensed interim financial information have 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 2016. They do 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 2017 are not necessary indicative of the results that may be expected for the financial year ending 31 December 2017.

**Notes to the combined condensed interim financial information of  
EQUATE Group and TKOC  
State of Kuwait**

*for the six month period ended 30 June 2017*

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b) Basis of combination

These combined condensed financial information have 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 2017, prepared in accordance with IAS 34 *Interim Financial Reporting*.

These combined condensed interim financial information have been prepared as following:

- Financial information are 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 combined 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 2016.

**3. Significant accounting policies**

The accounting policies used in the preparation of these combined condensed interim financial information are consistent with those used in the preparation of the combined financial statements for the year ended 31 December 2016. Additionally, the Reporting Entity also adopted amendments and annual improvements to IFRSs, relevant to the Reporting Entity which are effective for annual reporting period starting from 1 January 2017. These did not result in any material impact on the account policies, financial position or performance of the Reporting Entity. In the current period, the Reporting Entity has not early adopted any standards, interpretations or amendments to standards that have been issued but not yet effective.

**4. Property, plant and equipment**

During the six month period ended 30 June 2017, the Reporting Entity spent USD 108 million in capital expenditure (31 December 2016: USD 164 million, 30 June 2016: USD 82 million), including capital expenditure of USD 54 million on the development of a new Ethylene Glycol plant in the Gulf Coast of the United States of America ("USGC"), which is scheduled to be operational in 2019.

**Notes to the combined condensed interim financial information of  
EQUATE Group and TKOC  
State of Kuwait**

*for the six month period ended 30 June 2017*

**5. Cash and bank balances**

	<b>USD million</b>	
	<b>30 June 2017</b>	<b>31 December 2016</b>
Cash balances	0	0
Bank balances	192	149
Term deposits	1,552	1,659
Total cash and bank balances	1,744	1,808
Less: Deposits with original maturity of more than 3 months	(776)	(1,457)
Less: Amount reserved relating to staff saving scheme	(44)	(41)
Cash and cash equivalents for the statement of cash flows	924	310

The effective interest rate on time deposits as at 30 June 2017 was 1.78% (as at 31 December 2016: 2%) per annum.

**6. Loans and borrowings**

	<b>USD million</b>	
	<b>30 June 2017</b>	<b>31 December 2016</b>
<i>Non-current portion</i>		
Medium term notes	2,216	2,213
Sukuk	500	-
Long term loan	1,965	2,459
	4,681	4,672

The movement in the Loans and borrowings are as follows:

	<b>USD million</b>	
	<b>30 June 2017</b>	<b>30 June 2016</b>
Balance at 1 January	4,672	4,970
Long term loan	(500)	2,000
Loan origination fee	9	(22)
Issue of Sukuk	500	-
Bridge loan facility	-	(2,000)
Balance at 30 June	4,681	4,948

*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.

**Notes to the combined condensed interim financial information of  
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*for the six month period ended 30 June 2017*

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 2017, the details of the Term Loan are as follows:

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

Drawn/Outstanding as at 30 June 2017 is as follows:

			USD million	
			30 June 2017	31 December 2016
		<b>Repayment terms</b>		
Islamic financing	Tranche A	Bullet repayment on 5 <sup>th</sup> year	188	188
Islamic financing	Tranche B	Bullet repayment on 3 <sup>rd</sup> year	-	47
Conventional financing	Tranche A	Bullet repayment on 5 <sup>th</sup> year	1,812	1,812
Conventional financing	Tranche B	Bullet repayment on 3 <sup>rd</sup> year	-	453
			<b>2,000</b>	<b>2,500</b>

The effective interest rate as at 30 June 2017 for Tranche A Term Loan is 3.05% (31 December 2016: Tranche A 2.72% and Tranche B is 2.52%).

At the reporting date, the Reporting Entity had available for its utilization, USD 1 billion of undrawn committed revolving credit facility.

**Notes to the combined condensed interim financial information of  
EQUATE Group and TKOC  
State of Kuwait**

*for the six month period ended 30 June 2017*

*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 2017	31 December 2016
i) Fixed interest rate Notes amounting to USD 1,000 million, having a term of 5 years, maturing in 2022, and carrying a coupon rate of 3% per annum payable on a semi-annual basis.	985	983
ii) Fixed interest rate Notes amounting to USD 1,250, million having a term of 10 years, maturing in 2026, and carrying a coupon rate of 4.25% per annum payable on a semi-annual basis.	1,236	1,235
	<u>2,221</u>	<u>2,218</u>

As at 30 June 2017, 5 year and 10 year medium term notes are quoted at 98.95 and 101.54 respectively (31 December 2016: 5 year and 10 year medium term notes are quoted at 95.5372 and 95.9918 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 Company and TKOC and is listed on ISE. As at 30 June 2017, Sukuk are quoted at 101.33, based on level 1 inputs.

**Notes to the combined condensed interim financial information of  
EQUATE Group and TKOC  
State of Kuwait**

*for the six month period ended 30 June 2017*

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**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.

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.

**Notes to the combined condensed interim financial information of  
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*for the six month period ended 30 June 2017*

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**Operational Facility** – Under the cash management services provided by Dow, the Group’s subsidiaries also has in place an overnight cash sweeping facility with a subsidiary of Dow, Dow International Finance S.a.r.l. (“DIFS”). Under this arrangement, MEGC and the subsidiaries in EQUATE BV sweeps all of the bank accounts and either invests or borrows funds on an overnight basis. Under the terms of the agreement, the subsidiaries can borrow from DIFS at interest rates ranging from LIBOR plus a positive spread as set by Dow each half year that represents transactions with unrelated parties under similar terms and conditions plus 0.125% and inversely invest with DIFS at LIBOR plus a positive spread as set by Dow each half year that represents transactions with unrelated parties under similar terms and conditions minus 0.125%. Amounts outstanding as at 30 June 2017 under these arrangements were a net deposit of USD 0.6 million at interest rates ranging from 0.35% to 1.67% per annum (31 December 2016: USD 1 million net deposit at interest rates ranging from 0.38% to 1.5% per annum). These are indefinite credit arrangements subject to termination by either party. Interest is accrued monthly and capitalized.

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)



**Notes to the combined condensed interim financial information of  
EQUATE Group and TKOC  
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*for the six month period ended 30 June 2017*

Details of significant related party transactions are disclosed below:

	<b>USD million</b>	
	<b>2017</b>	<b>2016</b>
<b>a) Sales and management fee</b>		
Polypropylene plant management fees from PIC	0	0
Styrene plant management fees from TKSC	1	2
Aromatics Plant management fees from KPPC	1	0
Sale of utilities and services to KPPC, TKSC and PIC	27	6
Operating cost reimbursed by PIC for running of Polypropylene plant	17	17
Operating and utility cost reimbursed by TKSC for running of Styrene plant	20	26
Operating and utility cost reimbursed by KPPC for running of Aromatics plant	35	35
Interest income on long-term loan to TKSC	-	1
<b>b) Purchases and expenses</b>		
Feed gas and fuel gas purchased from KPC	225	265
Catalyst purchased from Dow	-	11
Ethylene Purchase from Dow	110	105
Service cost reimbursed to Dow	32	56
Glycol purchase from Dow	103	94
Catalyst purchased from UNIVATION	-	2
Operating costs reimbursed to EMC	2	2
Staff secondment costs reimbursed to Dow	1	2
<b>c) Key management compensation</b>		
Salaries, short term and terminal benefits	3	3
	<b>USD million</b>	
	<b>30 June 2017</b>	<b>31 December 2016</b>
<b>d) Due from related parties</b>		
Due from PIC	15	13
Due from UCC	-	1
Due from Dow	16	9
Due from TKSC	8	7
Due from KPPC	13	11
Due from KARO	0	0
Due from KPC	2	37
Due from KNPC	0	1
Due from SADARA	-	0
Due from others	-	0
	<u>54</u>	<u>79</u>

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	USD million	
	30 June 2017	31 December 2016
<b>e) Due to related parties</b>		
Due to KPC	107	88
Due to PIC	16	16
Due to Kuwait Oil Company K.S.C.	2	2
Due to Dow	80	62
Due to KNPC	-	0
Due to KPPC	1	1
Due to UNIVATION	-	0
Due to TKSC	2	2
	208	171

**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 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					
	2017			2016		
	PMC	Others	Total	PMC	Others	Total
External segment revenue	1,872	99	1,971	1,626	78	1,704
EBITDA	833	22	855	494	27	521
Net profit for the period	541	10	551	262	16	278
Interest income	(17)	(1)	(18)	(18)	(1)	(19)
Interest expenses	104	2	106	52	1	53
Depreciation, amortization and reservation rights	168	10	178	184	10	194
Income tax expenses	37	1	38	14	1	15

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***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.

<b>Revenue by product/ services and geography</b>	<b>USD million</b>				<b>Total</b>
	<b>EG</b>	<b>PE</b>	<b>PET</b>	<b>Others</b>	
<b>30 June 2017</b>					
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
<b>30 June 2016</b>					
Americas	255	-	-	-	255
North Asia	439	140	-	-	579
India sub-continental	173	29	-	-	202
Europe	128	64	160	-	352
Rest of the World*	82	156	-	78	316
External revenue	1,077	389	160	78	1,704

\* Rest of the World includes revenue from Kuwait of USD 32 million (2016: USD 29 million)

<b>EBITDA by product line</b>	<b>USD million</b>				<b>Total</b>
	<b>EG</b>	<b>PE</b>	<b>PET</b>	<b>Others</b>	
<b>30 June 2017</b>	638	190	5	22	855
<b>30 June 2016</b>	336	155	3	27	521

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**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 2017, 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 consolidated financial statements of EQUATE Group and financial statements of TKOC for the year ended 31 December 2016.

**10. Commitments and contingent liabilities**

The Reporting Entity has a fixed gas purchase commitment with a related party of approximately USD 1.06 million (31 December 2016: USD 1.21 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.

In addition to the above, the Reporting Entity had the following commitments and contingent liabilities outstanding as at 30 June 2017:

	USD million	
	30 June 2017	31 December 2016
Letters of credit and letters of guarantee	74	61
Capital commitments	29	31
Ethylene reservation fees	630	630
License-Gulf coast	2	2

MEGlobal Americas entered into agreement with various parties related to the development of USGC project. The plant is scheduled to come on stream in 2019.

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*Forward foreign exchange contracts*

The Reporting Entity deals in forward foreign exchange contracts to manage its foreign currency positions and cash flows. The notional value of the contracts as at 30 June 2017 is as follows:

	<b>USD million</b>	
	<b>30 June 2017</b>	<b>31 December 2016</b>
<b>Long position</b>		
KD	329	333
CAD	127	470
Euro	81	27
Others	13	144
<b>Short position</b>		
CAD	245	295
KD	313	310
Euro	122	60
Others	12	223

The fair value of forward foreign exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk free interest rate. These are classified as Level 2.

**11. Operating lease**

	<b>USD million</b>	
	<b>30 June 2017</b>	<b>31 December 2016</b>
Less than one year	24	23
Between one and five years	74	58
More than five years	11	46
	<b>109</b>	<b>127</b>