EQUATE Petrochemical Company K.S.C.C. and subsidiaries
State of Kuwait

Condensed consolidated interim financial information and independent auditor's report for the six-month period ended 30 June 2018

Contents

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

The Board of Directors
EQUATE Petrochemical Company K.S.C.C.
State of Kuwait

Introduction

We have reviewed the accompanying condensed consolidated interim financial information of EQUATE Petrochemical Company K.S.C.C. ("the Company") and its subsidiaries (together "the Group") which comprises the condensed consolidated statement of financial position as at 30 June 2018, the condensed consolidated 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 condensed consolidated interim financial information. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this condensed consolidated 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 condensed consolidated 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*.

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

Kuwait:5 August 2018

KPMG Safi Al-Mutawa & Partners, a Kuwaiti Public Accountant and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

EQUATE Petrochemical Company K.S.C.C. and subsidiaries
State of Kuwait

Condensed consolidated statement of financial position
as at 30 June 2018

	Note	USD million 30 June 2018	31 December 2017 (Audited)
Assets			
Property, plant and equipment	*4*	2,065	1,851
Goodwill		1,689	1,689
Intangible assets		346	365
Deferred tax assets		63	48
Deferred charges and other assets		607	591
Loan to a related party	*7*	156	237
Non-current assets		4,926	4,781
Inventories		237	232
Loan to a related party	*7*	156	147
Due from related parties	*7*	34	156
Trade and other receivables		825	775
Deferred charges and other assets		1	25
Cash and bank balances	*5*	1,584	1,774
Current assets		2,837	3,109
Total assets		7,763	7,890
Equity			
Share capital		700	700
Treasury shares		(450)	(450)
Statutory reserve		350	350
Retained earnings		566	771
Remeasurement of retirement benefit obligation		(59)	(59)
Foreign currency translation reserve		49	45
Total equity		1,156	1,357
Liabilities			
Loans and borrowings	*6*	4,701	4,715
Deferred income		321	333
Deferred tax liabilities		230	230
Retirement benefit obligation		413	416
Long term incentives		4	4
Non-current liabilities		5,669	5,698
Long term incentives		5	5
Deferred income		32	32
Due to related parties	*7*	296	194
Notes payable to related parties	*7*	41	-
Trade and other payables		564	604
Current liabilities		938	835
Total liabilities		6,607	6,533
Total equity and liabilities		7,763	7,890

The attached notes on pages 6 to 22 form an integral part of this condensed consolidated interim financial information.

Ramesh Ramachandran
President & Chief Executive Officer

P.T.

EQUATE Petrochemical Company K.S.C.C. and subsidiaries
State of Kuwait

Condensed consolidated statement of profit or loss and other comprehensive income
for the six month period ended 30 June 2018

	USD million	
	2018	**2017**
Sales	2,533	2,006
Cost of sales	(1,807)	(1,511)
Gross profit	726	495
Management fee	3	3
Reservation right fees	16	16
General, administrative and selling expenses	(42)	(43)
Other income	1	4
Foreign exchange loss	(5)	(2)
Profit from operations	699	473
Finance income	20	21
Finance costs	(94)	(105)
Profit before contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), Zakat, tax on subsidiaries and Board of Directors' remuneration	625	389
Contribution to KFAS	(5)	(4)
Contribution to Zakat	(3)	(2)
Tax on subsidiaries	(51)	(29)
Board of Directors' remuneration	0	0
Net profit for the period	566	354
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	570	354

The attached notes on pages 6 to 22 form an integral part of this condensed consolidated interim financial information.

Condensed consolidated statement of changes in equity
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	700	(450)	350	415	(52)	6	969
Net profit for the period	-	-	-	354	-	-	354
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	354	-	-	354
Dividends paid (Note 12)	-	-	-	(415)	-	-	(415)
Balance as at 30 June 2017	700	(450)	350	354	(52)	6	908
Balances as at 1 January 2018 (audited)	700	(450)	350	771	(59)	45	1,357
Adjustment on initial application of IFRS 9 (Note 3)	-	-	-	0	-	-	0
Balance as at 1 January 2018 after IFRS 9 transition	700	(450)	350	771	(59)	45	1,357
Net profit for the period	-	-	-	566	-	-	566
Other comprehensive income	-	-	-	-	-	4	4
Total comprehensive income for the period	-	-	-	566	-	4	570
Dividends paid (Note 12)	-	-	-	(771)	-	-	(771)
Balance as at 30 June 2018	700	(450)	350	566	(59)	49	1,156

The attached notes on pages 6 to 22 form an integral part of this condensed consolidated interim financial information.

Condensed consolidated statement of cash flows
for the six month period ended 30 June 2018

	Note	USD million 2018	2017
Cash flows from operating activities			
Net profit for the period		566	354
Adjustments for:			
Depreciation		107	148
Amortisation of intangible and deferred assets		3	6
Reservation right fees		(16)	(16)
Deferred income tax		(15)	(6)
Finance costs		94	105
Finance income		(20)	(21)
Provision for doubtful receivables		12	-
Provision for retirement benefit obligation		24	21
Foreign exchange loss on retirement benefit obligations		(3)	1
Provision for long term incentives		3	2
		755	594
Changes in:			
Inventories		(5)	(31)
Due from related parties		122	(14)
Trade and other receivables		(62)	27
Deferred charges and other assets		(4)	3
Due to related parties		143	14
Trade and other payables		(40)	(79)
Retirement benefit obligation paid		(21)	(7)
Long term incentives paid		(5)	(6)
Net cash from operating activities		883	501
Cash flows from investing activities			
Purchase of property, plant and equipment	*4*	(300)	(96)
Investment in staff saving scheme		(3)	(3)
Matured/(placement) of short term deposits		160	535
Long term loans repaid by related parties	*7*	72	69
Finance income received		20	25
Net cash (used in) / from investing activities		(51)	530
Cash flows from financing activities			
Repayments/ borrowed of long term loan	*6*	-	(500)
Proceeds from issue of Sukuk	*6*	-	500
Loan origination fees paid		-	(5)
Finance costs paid		(92)	(85)
Dividends paid	*12*	(771)	(415)
Net cash used in financing activities		(863)	(505)
Net increase / (decrease) in cash and cash equivalents		(31)	526
Cash and cash equivalents at beginning of the period		856	229
Cash and cash equivalents at end of the period	*5*	825	755

The attached notes on pages 6 to 22 form an integral part of this condensed consolidated interim financial information.

1. Reporting entity

EQUATE Petrochemical Company K.S.C.C. ("the Company") is a closed Kuwaiti Shareholding Company incorporated in the State of Kuwait on 20 November 1995 with commercial registration number 63392 dated 20 November 1995.

The Company is 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").

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".

The objective of the Company is to manufacture all kinds of petrochemical products. The Company may have interests in, or in any way associate itself with entities, which are carrying on activities similar to its own or which may help the Company to realise its objectives, whether in the State of Kuwait or abroad.

The Group is primarily engaged in the manufacture and sale of ethylene glycol ("EG"), polyethylene ("PE") and polyethylene terephthalate ("PET"). The Company also operates and maintains Olefins II, Styrene, Aromatics and Polypropylene plants on behalf of related entities in Kuwait.

The address of the Company's registered office is East Ahmadi, Block 9, Kuwait.

This condensed consolidated interim financial information comprise the financial information of the Company and its following directly and indirectly owned subsidiaries.

A list of significant directly owned subsidiaries are as follows:

Name of entity	Country of incorporation	Principal business	Percentage of holdings 30 June 2018	Percentage of holdings 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%	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%

This condensed consolidated interim financial information were authorised for issue by the President and Chief Executive Officer of the Company on 5 August 2018.

2. Basis of preparation

a) Statement of compliance

This condensed consolidated interim financial information have been prepared in accordance with IAS 34 *Interim Financial Reporting*, and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 December 2017 (" last annual financial statements"). 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 Group's financial position and performance since the last annual consolidated financial statements. Operating results for the six month period ended 30 June 2018 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

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

b) Judgments and estimates

In preparing this condensed consolidated 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 Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for new significant judgements and key sources of estimation uncertainty related to application of IFRS 15 and IFRS 9, which are described in Note 3.

3. Significant accounting policies

Except as described below, the accounting policies applied in the preparation of these condensed consolidated interim financial information are consistent with those used in the preparation of the consolidated 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 Group's consolidated financial statements as at and for the year ending 31 December 2018.

The Group 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 Group, 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 Group, did not result in any material impact on the accounting policies, consolidated financial position or performance of the Group.

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 Group recognised revenue upon satisfaction of the performance obligations for the amounts that reflect the consideration to which Group 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 Group 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 Group receives.

The Group 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 the 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 Group 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 Group 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 Group'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 largely 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 Group 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 Group determines its business model at the level that best reflects how it manages groups 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 Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

(b) The SPPI test

As a second step of its classification process, the Group assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

Principal for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

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

In contrast, contractual terms that introduce a more than de 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 on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

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

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

Upon initial recognition, the Group 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 condensed consolidated 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 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 cashflows 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 consolidated statement of profit or loss and other comprehensive income.

Dividend income from equity investments measured at FVTPL is recognised in the condensed consolidated 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:

1 January 2018	**Original measurement and classification under IAS39**	**New classification and measurement under IFRS 9**
Loan to a related party	Loans and receivables, carried at amortised cost	Financial assets carried at amortised cost
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 Group'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 Group 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 Group 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 Group considers reasonable and supportable information that is relevant and available without undue cost or effort. The Group has established a provision matrix based on quantitative and qualitative information and analysis, Group's historical credit loss experience, adjusted for forward-looking factors considering the country ratings specific to the trade receivables and the economic environment.

The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. The adoption of the ECL requirements of IFRS 9 did not result in any significant effect on the Group's condensed consolidated 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	771
Opening balance impact on reclassification and re-measurement:	
Loan to a related party	0
Due from related parties	0
Trade and other receivables	0
Cash on hand and at banks	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	771

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 Group'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					
Loans to a related party	Loans and receivables	Amortised cost	384	0	384
Due from related parties	Loans and receivables	Amortised cost	156	0	156
Trade and other receivables	Loans and receivables	Amortised cost	775	0	775
Cash and bank balances	Loans and receivables	Amortised cost	1,774	0	1,774
Total financial assets			3,089	0	3,089

The Group's entity evaluates the probability of default considering the period of past due receivables as well as when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. The adoption of the ECL requirements of IFRS 9 did not result in any significant effect on the Group's condensed consolidated interim financial information. Financial statements 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 Company 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 Group spent USD 300 million for assets under construction (31 December 2017: USD 279 million, 30 June 2017: USD 96 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 (Audited)**
Cash balances	0	0
Bank balances	425	74
Term deposits	1,159	1,700
Total cash and bank balances	1,584	1,774
Less: Deposits with original maturity more than 3 months	(712)	(873)
Less: Amount reserved relating to staff saving scheme	(47)	(45)
Cash and cash equivalents for the statement of cash flows	825	856

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 (Audited)**
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 loans and borrowings is 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 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 Group is jointly and severally a guarantor along with The Kuwait Olefins Company K.S.C.C. ("TKOC") for the Term Loan and the credit facilities including 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 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	1812	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 on Tranche A Term Loan is 4.01% (31 December 2017: Tranche A is 3.47%).

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

Medium term notes

In 2016, the Group estabilished 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 issued following outstanding 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 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 2018, Sukuk are quoted at 97.815 (31 December 2017: 102.177), based on level 1 inputs.

7. Related party transactions

In the normal course of business, the Group 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 Company. The Company 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 The Kuwait Olefins Company K.S.C.C ("TKOC"), The Kuwait Styrene Company K.S.C.C ("TKSC") and Kuwait Aromatics Company K.S.C.C. ("KARO"). TKOC is owned by DEH (42.5%), PIC (42.5%), BPC (9%) and QPIC (6%). 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, the Company signed a Materials and Utility Supply Agreement ("MUSA") with TKOC, TKSC, KARO and PIC. Under the terms of the MUSA, the Company receives a reservation right fee from the above entities that equals the total capital construction costs incurred by the Company on the new utilities and infrastructure facilities under the Olefins II projects

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

On 2 December 2004, the Company signed an Ethylene Supply Agreement with TKOC. Under the terms of the agreement, the price per metric tonne of Ethylene is paid to TKOC based on the quantities delivered by them at the contract price.

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

An agreement to amend the 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, the Company signed term loan agreements with TKOC and TKSC, under which the Company provided a USD 1.5 billion term loan to TKOC and USD 497 million term loan to TKSC. The term loans are repayable over a period of 11 years in biannual instalments starting from 15 December 2009 and carry coupon rate of LIBOR + 0.625% till 19 May 2013, LIBOR + 0.725% till 19 May 2016 and LIBOR + 0.825% till the maturity date. During 2016 TKSC fully prepaid the loan.

Operational Facility– Under the cash management services provided by MEG B.V, the Company, Group's subsidiaries and TKOC have an overnight cash sweeping facility with MEG B.V. Under this arrangement, the Company, the subsidiaries of the Group and TKOC sweep selected bank accounts with MEG B.V. This allows the subsidiaries and TKOC either to 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. Amounts outstanding for the Group as at 30 June 2018 under these arrangements were a net liability of USD 41 million towards TKOC. 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 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
Olefins plant management fees from TKOC	1	1
Styrene plant management fees from TKSC	1	1
Aromatics plant management fees from KPPC	1	1
Operating cost reimbursed by PIC for running of Polypropylene plant	19	17
Operating and utility cost reimbursed by TKOC for running of Olefins plant	57	61
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	39	35
Interest income on long-term loan to TKOC and TKSC	5	5

	USD million	USD million
	2018	**2017**
b) Purchases and expenses		
Feed gas and fuel gas purchased from KPC	127	179

Purchase of Ethylene Glycol from TKOC	407	318
Catalyst purchased from Dow	11	13
Ethylene purchased from Dow	87	110
Service cost reimbursed to Dow	7	32
Glycol purchased from Dow	58	103
Catalyst purchased from UNIVATION	6	-
Operating costs reimbursed to EMC	2	2
Staff secondment costs reimbursed to Dow	2	1
Ethylene and other purchases from TKOC	45	29

c) Key management compensation

Salaries, short term and terminal benefits	4	3

	USD million	
	30 June 2018	31 December 2017 (Audited)
d) Due from related parties		
Due from PIC	10	11
Due from Dow	-	6
Due from TKOC	12	69
Due from TKSC	3	12
Due from KPPC	8	56
Due from KNPC	1	2
Due from Others	0	0
	34	156
e) Loan to a related party		
Non-current portion		
TKOC	156	237
	156	237
Current portion		
TKOC	156	147
	156	147

Movement of long-term loan: TKOC

	USD million	
	2018	2017
Balance at 1 January	384	524
Payment during the period	(72)	(69)
Balance at 30 June	312	455

	USD million	
	30 June 2018	**31 December 2017**
		(Audited)
f) Due to related parties		
Due to KPC	68	68
Due to PIC	15	7
Due to Dow	35	26
Due to KNPC	0	-
Due to KPPC	2	2
Due to TKSC	2	1
Due to TKOC	174	90
	296	194
g) Notes payables		
Working capital facility with TKOC	41	-
	41	-

8. Additional Business and Geographical Information

Basis for segmentation

The Group has 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.

Equate Management Team ("EMT"), a committee comprises of certain board members 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, the Group 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

	2018 (USD million)			**2017 (USD million)**		
	PMC	**Others**	**Total**	**PMC**	**Others**	**Total**
External segment revenue	2,396	137	2,533	1,872	134	2,006
EBITDA	790	3	793	607	4	611
Net profit for the period	563	3	566	350	4	354
Interest income	(20)	-	(20)	(21)	-	(21)
Interest expenses	94	-	94	105	-	105
Depreciation, amortization and reservation rights	94	-	94	138	-	138
Income tax/ KFAS/ Zakat	59	-	59	35	-	35

Revenue by product/ services and geography

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 Group'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.

	EG (USD million)	PE (USD million)	PET (USD million)	Others (USD million)	Total (USD million)
30 June 2018					
Americas	320	-	-	-	320
North East Asia	844	215	-	-	1,059
India sub-continental	253	34	-	-	287
Europe	188	51	210	-	449
Rest of the World*	96	185	-	137	418
External revenue	1,701	485	210	137	2,533
30 June 2017					
Americas	264	-	-	-	264
North East Asia	512	142	-	-	654
India sub-continental	270	28	-	-	298
Europe	177	43	168	-	388
Rest of the World*	102	166	-	134	402
External revenue	1,325	379	168	134	2,006

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

There are no customers that contributed more than 5 % of the revenue.

EBITDA by product line	EG (USD million)	PE (USD million)	PET (USD million)	Others (USD million)	Total (USD million)
30 June 2018	505	269	16	3	793
30 June 2017	412	190	5	4	611

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 Group 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 Group 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 Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2017.

10. Commitments and contingent liabilities

The Group has a fixed gas purchase commitment with a related party of approximately USD 1 million (31 December 2017: USD 1 million) per day until the agreement is cancelled in writing by both parties.

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

The 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 to 2034.

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

	USD million	
	30 June 2018	**31 December 2017 (Audited)**
Letters of credit and letters of guarantee	39	291
Capital commitments	824	104
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 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**
		(Audited)
Long position		
KD	761	812
CAD	134	497
EURO	245	73
Others	31	102
Short position		
CAD	255	51
KD	413	365
EURO	337	118
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 (Audited)**
Less than one year	21	29
Between one and five years	29	40
More than five years	32	42
	82	111

12. Annual General Assembly

At the Company's annual general meeting held on 18 March 2018, the shareholders approved the Board of Directors recommendation to distribute cash dividend of 37.68 cents per share amounted to 771 million (2016: 20.28 cents per share amounted to USD 415 million).