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")
for the six month period ended 30 June 2019

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 2019, 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. Management is responsible for the preparation and presentation of these combined condensed interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these 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 2019 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: 6 August 2019

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

as at 30 June 2019

	Note	USD million 30 June 2019	31 December 2018 (Audited)
Assets			
Property, plant and equipment	*4*	3,041	2,906
Goodwill		1,689	1,689
Intangible assets		378	396
Right-of-use assets	*3*	81	-
Deferred tax assets		51	45
Deferred charges and other assets	*4*	779	583
Non-current assets		6,019	5,619
Inventories		198	230
Due from related parties	*7*	46	64
Trade and other receivables		648	664
Deferred charges and other assets	*4*	201	13
Cash and bank balances	*5*	442	2,239
Current assets		1,535	3,210
Total assets		7,554	8,829
Equity			
Share capital		1,080	1,080
Treasury shares		(450)	(450)
Statutory reserve		540	540
Retained earnings		308	1,560
Remeasurement of retirement benefit obligation		(39)	(39)
Foreign currency translation reserve		16	14
Total equity		1,455	2,705
Liabilities			
Loans and borrowings	*6*	4,594	4,591
Deferred income		158	170
Lease liability	*3*	74	-
Deferred tax liabilities		208	214
Retirement benefit obligation		418	406
Long term incentives		3	3
Non-current liabilities		5,455	5,384
Long term incentives		5	5
Lease liability	*3*	8	-
Deferred income		15	15
Due to related parties	*7*	129	142
Trade and other payables		487	578
Current liabilities		644	740
Total liabilities		6,099	6,124
Total equity and liabilities		7,554	8,829

The attached notes on pages 7 to 22 form an integral part of these combined condensed interim financial informatio

Ramesh Ramachandran
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 2019

	USD million	
	2019	**2018**
Sales	1,711	2,505
Cost of sales	(1,319)	(1,462)
Gross profit	392	1,043
Management fee	3	2
Reservation right fees	8	9
General, administrative and selling expenses	(50)	(46)
Other income	9	1
Foreign exchange gain/(loss)	4	(5)
Profit from operations	366	1,004
Finance income	11	17
Finance costs	(74)	(95)
Profit before contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), Zakat, tax on subsidiaries and Board of Directors' remuneration	303	926
Contribution to KFAS	(3)	(9)
Contribution to Zakat	(2)	(4)
Tax on subsidiaries	10	(51)
Board of Directors' remuneration	(0)	(0)
Net profit for the period	308	862
Other comprehensive income		
Items that are or may be reclassified subsequently to profit or loss		
Foreign currency translation differences	2	4
Other comprehensive income for the period	2	4
Total comprehensive income for the period	310	866

The attached notes on pages 7 to 22 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 2019

	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 2018	1,080	(450)	540	1,131	(59)	45	2,287
Adjustment on initial application of IFRS 9 and IFRS 15	-	-	-	(0)	-	-	(0)
Balance as a 1 January 2018 after IFRS 9 and IFRS 15 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
Balances as at 1 January 2019 (audited)	1,080	(450)	540	1,560	(39)	14	2,705
Net profit for the period	-	-	-	308	-	-	308
Other comprehensive income	-	-	-	-	-	2	2
Total comprehensive income for the period	-	-	-	308	-	2	310
Dividends paid	-	-	-	(1,560)	-	-	(1,560)
Balance as at 30 June 2019	1,080	(450)	540	308	(39)	16	1,455

The attached notes on pages 7 to 22 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 2019

	Note	USD million 2019	2018
Cash flows from operating activities			
Net profit for the period		308	862
Adjustments for:			
Depreciation		140	146
Amortisation of intangibles and deferred assets		28	6
Reservation right fees		(8)	(9)
Deferred income tax		(13)	(15)
Finance costs		74	95
Finance income		(11)	(17)
Provision for expected credit losses		-	12
Provision for retirement benefit obligation		25	24
Foreign exchange loss on retirement benefit obligations		0	(3)
Provision for long term incentives		2	3
		545	1,104
Changes in:			
Inventories		33	10
Due from related parties		18	61
Trade and other receivables		16	(64)
Deferred charges and other assets		8	(10)
Due to related parties		(13)	25
Trade and other payables		(100)	(33)
Retirement benefit obligation paid		(15)	(21)
Long term incentives paid		(3)	(5)
Net cash from operating activities		489	1,067
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(264)	(328)
Deferred charges payment	4	(409)	-
Investment in staff saving scheme		(1)	(2)
Matured short term deposits		912	301
Finance income received		23	24
Net cash generated from / (used in) investing activities		261	(5)
Cash flows from financing activities			
Lease payments	3	(6)	-
Finance costs paid		(70)	(97)
Dividends paid		(1,560)	(1,131)
Net cash used in financing activities		(1,636)	(1,228)
Net decrease in cash and cash equivalents		(886)	(166)
Cash and cash equivalents at beginning of the period		1,224	999
Cash and cash equivalents at end of the period	5	338	833

The attached notes on pages 7 to 22 form an integral part of these 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 2019 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.

These combined condensed interim financial information was authorised for issue by President and Chief Executive Officer of the Reporting Entity on 6 August 2019.

2. Basis of preparation

a) Statement of compliance

These 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 2018 ("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 combined performance of the Reporting Entity since the last annual financial statements of the Reporting Entity. Operating results for the six month period ended 30 June 2019 are not necessary indicative of the results that may be expected for the financial year ending 31 December 2019.

This is the first set of the Reporting entity's combined financial information where IFRS 16 'Leases' and IFRIC 23 *Uncertainty Over Income Tax Treatment* have been applied. Changes to significant accounting policies are described in Note 3.

b) Basis of combination

This combined condensed interim 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 2019, 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 these 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, 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 described in the last annual financial statements, except for the new significant judgements and key sources of estimation uncertainty related to application of IFRS 16 and IFRIC 23, which are described in Note 3.

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 annual combined financial statements for the year ended 31 December 2018, except for the adoption of new standards and new interpretations, and the amendments and annual improvements to IFRSs, relevant to the Reporting Entity, which are effective for annual reporting period starting from 1 January 2019.

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.

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 2019.

IFRS 16 -Leases

The Reporting Entity has adopted IFRS 16 'Leases' on the effective date 1 January 2019. The newly adopted standard replaces the previous accounting standard IAS 17 'Leases'. The accounting policies affected by this new standard are disclosed below.

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4, *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Reporting Entity is the lessor.

The Reporting Entity has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated. Lease liabilities and right of use of assets were both recorded at the present value of future lease payments, thus no impact was recorded on the opening retained earnings. The Reporting Entity elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Reporting Entity also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The Reporting Entity has lease contracts for various items of land, vehicles, equipments and others. Before the adoption of IFRS 16, the Reporting Entity classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Reporting Entity; otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognized as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalized and the lease payments were recognized as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under trade and other receivables and trade and other payables, respectively. Upon adoption of IFRS 16, the Reporting Entity applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Reporting Entity.

In measuring the present value of the lease liability under IFRS 16, the standard requires that the lessee's incremental borrowing rate be used as discount factor if the rate implicit in the lease cannot be readily determined. In establishing the Reporting Entity 's lease liabilities, the incremental borrowing rates used as discount factors in discounting payments are established based on a consistent approach reflecting the Reporting Entity 's borrowing rate i.e. 3.75% per annum, the currency of the obligation, the duration of the lease term.

The effect of adoption of IFRS 16 as at 1 January 2019 is as follows:

	2019
	USD `000
Assets	
Right of use of assets	86
	86
Liabilities	
Lease liabilities	86
	86

Accounting policy of IFRS 16- Leases

Set out below are the new accounting policies of the Reporting Entity upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets

The Reporting Entity recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Reporting Entity is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Reporting Entity recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in- substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Reporting Entity and payments of penalties for terminating a lease, if the lease term reflects the Reporting Entity exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Reporting Entity uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Reporting Entity applies the short-term lease recognition exemption to its short-term leases of office equipment, shops etc. (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below $ 5,000). Lease payments on short-term leases and leases of low- value assets are recognised as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Reporting Entity determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Reporting Entity applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Reporting Entity reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Set out below, are the carrying amounts of the Reporting Entity's right-of-use assets and lease liabilities and the movements during the period ended 30 June 2019:

	USD in Millions	
	Right-of - use assets	**Lease liabilities**
As at 1 January 2019	86	86
Depreciation expense	(5)	-
Finance costs	-	2
Lease payments	-	(6)
As at 30 June 2019	81	82

The current and non-current portion of lease liability is set of below:	**USD '000**
Current	8
Non-current	74
As at 30 June 2019	**82**

IFRIC 23, Uncertainty over Income Tax Treatments

IFRIC 23 is effective for annual reporting periods beginning on or after 1 January 2019. It clarifies the accounting for uncertainties in income taxes. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.

As at the reporting date, the application of IFRIC 23 did not result in any significant impact on the combined condensed interim financial information.

4. Property, plant and equipment and deferred charges

Assets under construction comprise of construction of new plant and improvement projects for the existing plant. Such assets are not subject to depreciation until they 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 2019, the Reporting Entity spent USD 673 million for assets under construction (31 December 2018: USD 555 million, 30 June 2018: USD 328 million), which includes USD 549 million (31 December 2018: USD 479 million, 30 June 2018: USD 232 million) on the USGC project.

The capex additions includes payments to Dow amounting to USD 315 million and USD 94 million towards Ethylene subscription rights on USGC project and Alberta plant respectively. These amounts are presented under deferred charges and other assets.

5. Cash and bank balances

	USD million	
	30 June 2019	**31 December 2018**
Cash balances	0	0
Bank balances	148	285
Term deposits	294	1,954
Total cash and bank balances	442	2,239
Less: Deposits with original maturity of more than 3 months	(52)	(964)
Less: Amount reserved relating to staff saving scheme	(52)	(51)
Cash and cash equivalents for the statement of cash flows	338	1,224

The effective interest rate on time deposits as at 30 June 2019 was 2.68 % (as at 31 December 2018: 2.21%) per annum.

6. Loans and borrowings

	USD million	
	30 June 2019	**30 June 2018**
Balance at 1 January	4,591	4,715
Loan origination fee	3	(14)
Balance at 30 June	4,594	4,701

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.

On 13 December 2018, the Group completed the restructuring and extended the term loan facility until 23 June 2023 and revolver credit facility until 23 June 2022, and spread on both term loan and the revolver credit facility was reduced. As part of the amendment and extension, the Group repaid an amount of USD 100 million, reducing the Term loan Facility outstanding balance to USD 1.9 billion.

At 30 June 2019, the details of the Term Loan are as follows:

	Term Loan		
	Tranche A	Revolving credit facility	Total Facility
Islamic financing	188	94	282
Conventional financing	1,712	906	2,618
Total	1,900	1,000	2,900

Drawn/Outstanding as at 30 June 2019 is as follows:

			USD million	
		Repayment terms	**30 June 2019**	**31 December 2018**
Islamic financing	Tranche A	Bullet repayment in 5th year	188	188
Conventional financing	Tranche A	Bullet repayment in 5th year	1,712	1,712
			1,900	1,900

The effective interest rate as at 30 June 2019 for Tranche A Term Loan is 3.72 % (31 December 2018: 3.81%).

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 2019	**31 December 2018**
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 2019, 5 year and 10 year medium term notes are quoted at 100.319 and 105.195 respectively (31 December 2018: 5 year and 10 year medium term notes are quoted at 96.6859 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 2019, Sukuk are quoted at 102.332, based on level 1 inputs (31 December 2018: 98.087).

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.

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	
	2019	**2018**
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	2	1
Sale of utilities and services to KPPC, TKSC and PIC	26	28
Operating cost reimbursed by PIC for running of Polypropylene plant	19	19
Operating and utility cost reimbursed by TKSC for running of Styrene plant	30	22
Operating and utility cost reimbursed by KPPC for running of Aromatics plant	43	40

	USD million	
	30 June 2019	**30 June 2018**
b) Purchases and expenses		
Feed gas and fuel gas purchased from KPC	195	188
Catalyst purchased from Dow	5	11
Ethylene Purchase from Dow	122	87
Service cost reimbursed to Dow	16	7
Glycol purchase from Dow	70	58
Catalyst purchased from UNIVATION	5	6
Operating costs reimbursed to EMC	1	2
Staff secondment costs reimbursed to Dow	0	2
Tugging fees payments to KOC	3	4
c) Key management compensation		
Salaries, short term and terminal benefits	3	4

	USD million	
	30 June 2019	**31 December 2018**
d) Due from related parties		
Due from PIC	14	9
Due from UCC	0	0
Due from DOW	7	8
Due from TKSC	10	14
Due from KPPC	8	31
Due from KNPC	2	2
Due from KARO	0	0
Due from KPC	0	0
Due from SADARA	0	0
Due from others	5	0
	46	64

	USD million	
	30 June 2019	**31 December 2018**
e) Due to related parties		
Due to KPC	71	75
Due to PIC	26	11
Due to Kuwait Oil Company K.S.C.	2	2
Due to DOW	29	17
Due to KPPC	1	31
Due to TKSC	0	6
	129	142

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					
	2019			2018		
	PMC	**Others**	**Total**	**PMC**	**Others**	**Total**
External segment revenue	1,593	118	1,711	2,396	109	2,505
EBITDA	502	24	526	1,119	28	1,147
Net profit for the period	294	14	308	846	16	862
Interest income	(11)	0	(11)	(16)	(1)	(17)
Interest expenses	74	0	74	92	3	95
Depreciation, amortization and reservation rights	150	10	160	133	10	143
Income tax /KFAS / Zakat	(5)	0	(5)	64	0	64

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 2019					
Americas	213	-	-	-	213
North Asia	446	192	-	-	638
India sub-continental	171	21	-	-	192
Europe	94	47	195	-	336
Rest of the World*	71	143	-	118	332
External revenue	995	403	195	118	1,711
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

* Rest of the World includes revenue from Kuwait of USD 33 million (2018: USD 41 million)

EBITDA by product line	USD million				
	EG	PE	PET	Others	Total
30 June 2019	316	174	12	24	526
30 June 2018	834	269	16	28	1,147

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 2019, 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 2018.

10. Commitments and contingent liabilities

The Reporting Entity has a fixed gas purchase commitment with a related party of approximately USD 1 million (31 December 2018: USD 1.36 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 2019:

	USD million	
	30 June 2019	**31 December 2018**
Letters of credit and letters of guarantee	291	290
Capital commitments	229	192
Ethylene reservation fees	-	315
License-Gulf coast	2	2

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.

Contingent liabilities

Corporation Income Tax Assessment from the Canadian Revenue Agency

In December 2018, ME Global Canada ULC received a Corporation Income Tax Assessment from the Canadian Revenue Agency (CRA) for an additional CAD$ 11.8 million (USD 8.8 million) relating to tax year of 2013. This assessment is issued subsequent to the final audit report completed for the tax years 2013, 2014 and 2015 by the CRA. The additional tax assessment is result of the audit report that concluded a transfer price adjustment for CAD$ 61.6 million (USD 46 million) of additional income.

In the current period, the Management has filed a notice of objection for the 2013 assessment and is of the view that no liability is required for this assessment because it can defend, through the appeals process, the submitted inter-company transfer price and get the assessment reversed. The company has not received the Corporation Tax Assessments for the tax years 2014 and 2015 yet.

Unutilized tax losses no longer available for deduction

In September 2018, Equipolymers GmbH received from the German Tax Office ("tax authorities") a notice concluding that the full amount of the unutilized tax losses not offset or deducted as at 1 July 2011 is no longer available for deduction against future profits.

The approximate value as of July 1, 2011 is €170.8 million (USD 194.2 million) of Corporate Tax loss and €161.4 million (USD 183.5 million) of trade tax loss. The notice is issued as a conclusion of the tax audit opinion relating to the fair valuation of EQUIPOLYMERS GmbH during the merger of EQUIPOLYMERS BV with MEGlobal BV.

The tax authorities concluded that the valuation report submitted by the company on 15 July 2013 was not prepared based on the merger date of July 1, 2011 and listed errors that did not satisfy the German Valuation Standards. The company agreed with the tax authorities to resubmit the valuation based on the merger date with full compliance to the German Valuation Standards. This valuation was completed and submitted to the tax office on 19th December, 2018 and reflected hidden reserves of €137 million (USD 156 million). The revised valuation is under the review of tax authorities.

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 2019 is as follows:

	USD million	
	30 June 2019	**31 December 2018**
Long position		
KD	915	633
CAD	209	289
Euro	274	162
Others	32	34
Short position		
KD	458	313
CAD	105	150
Euro	218	138
Others	61	59

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.