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 2019

Contents

KPMG Safi Al-Mutawa & Partners
Al Hamra Tower, 25th Floor
Abdulaziz Al Saqr Street
P.O. Box 24, Safat 13001
State of Kuwait
Tel.: +965 2228 7000
Fax: +965 2228 7444

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

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

Condensed consolidated statement of financial position
as at 30 June 2019

	Note	USD million 30 June 2019	USD million 31 December 2018 (Audited)
Assets			
Property, plant and equipment	*4*	2,410	2,239
Goodwill		1,689	1,689
Intangible assets		313	330
Right-of-use assets	*3*	73	-
Deferred tax assets		51	45
Deferred charges and other assets	*4*	779	583
Loan to a related party	*7*	-	81
Non-current assets		5,315	4,967
Inventories		185	220
Loan to a related party	*7*	160	156
Due from related parties	*7*	53	76
Trade and other receivables		649	663
Deferred charges and other assets	*4*	201	13
Notes receivables from a related party	*7*	62	-
Cash and bank balances	*5*	431	2,224
Current assets		1,741	3,352
Total assets		7,056	8,319
Equity			
Share capital		700	700
Treasury shares		(450)	(450)
Statutory reserve		350	350
Retained earnings		186	1,031
Remeasurement of retirement benefit obligation		(39)	(39)
Foreign currency translation reserve		16	14
Total equity		763	1,606
Liabilities			
Loans and borrowings	*6*	4,594	4,591
Deferred income		284	305
Lease liability	*3*	66	-
Deferred tax liabilities		208	214
Retirement benefit obligation		418	406
Long term incentives		3	3
Non-current liabilities		5,573	5,519
Long term incentives		5	5
Lease liability	*3*	8	-
Deferred income		32	32
Due to related parties	*7*	190	229
Trade and other payables		485	566
Notes payable to a related party	*7*	-	362
Current liabilities		720	1,194
Total liabilities		6,293	6,713
Total equity and liabilities		7,056	8,319

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

Ramesh Ramachandran
President & Chief Executive Officer

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 2019

	USD million	
	2019	**2018**
Sales	1,753	2,533
Cost of sales	(1,495)	(1,807)
Gross profit	258	726
Management fee	5	3
Reservation right fees	16	16
General, administrative and selling expenses	(49)	(42)
Other income	9	1
Foreign exchange gain/ (loss)	1	(5)
Profit from operations	240	699
Finance income	16	20
Finance costs	(77)	(94)
Profit before contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), Zakat, tax on subsidiaries and Board of Directors' remuneration	179	625
Contribution to KFAS	(2)	(5)
Contribution to Zakat	(1)	(3)
Tax on subsidiaries	10	(51)
Board of Directors' remuneration	(0)	0
Net profit for the period	186	566
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	188	570

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

Condensed consolidated statement of changes in equity
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	700	(450)	350	771	(59)	45	1,357
Adjustment on initial application of IFRS 9 and IFRS 15	-	-	-	(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 11)	-	-	-	(771)	-	-	(771)
Balance as at 30 June 2018	700	(450)	350	566	(59)	49	1,156
Balances as at 1 January 2019 (audited)	700	(450)	350	1,031	(39)	14	1,606
Net profit for the period	-	-	-	186	-	-	186
Other comprehensive income	-	-	-	-	-	2	2
Total comprehensive income for the period	-	-	-	186	-	2	188
Dividends paid (Note 11)	-	-	-	(1,031)	-	-	(1,031)
Balance as at 30 June 2019	700	(450)	350	186	(39)	16	763

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

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

Condensed consolidated statement of cash flows
for the six month period ended 30 June 2019

	Note	USD million 2019	2018
Cash flows from operating activities			
Net profit for the period		186	566
Adjustments for:			
Depreciation		101	107
Amortisation of intangible and deferred assets		25	3
Reservation right fees		(16)	(16)
Deferred income tax		(13)	(15)
Finance costs		77	94
Finance income		(16)	(20)
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
		371	755
Changes in:			
Inventories		35	(5)
Due from related parties		22	122
Trade and other receivables		14	(62)
Deferred charges and other assets		4	(4)
Due to related parties		(39)	143
Trade and other payables		(74)	(40)
Retirement benefit obligation paid		(15)	(21)
Long term incentives paid		(3)	(5)
Net cash from operating activities		315	883
Cash flows from investing activities			
Purchase of property, plant and equipment	*4*	(258)	(300)
Deferred charges payment	*4*	(409)	-
Investment in staff saving scheme		(1)	(3)
Matured short term deposits		912	160
Long term loans repaid by related parties	*7*	77	72
Finance income received		23	20
Notes receivables from a related party		(62)	-
Net cash from / (used in) investing activities		282	(51)
Cash flows from financing activities			
Lease payments	*3*	(5)	-
Finance costs paid		(81)	(92)
Dividends paid	*11*	(1,031)	(771)
Notes payable to related party		(362)	-
Net cash used in financing activities		(1,479)	(863)
Net decrease in cash and cash equivalents		(882)	(31)
Cash and cash equivalents at beginning of the period		1,209	856
Cash and cash equivalents at end of the period	*5*	327	825

The attached notes on pages 6 to 22 form an integral part of these 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.

These 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 2019	Percentage of holdings 31 December 2018
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 Group on 6 August 2019

2. Basis of preparation

a) Statement of compliance

These 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 2018 (" 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 2019 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

This is the first set of the Group's condensed consolidated 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) Judgments and estimates

In preparing these 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 consolidated 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 condensed consolidated interim financial information are consistent with those used in the preparation of the annual consolidated 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 Group, which are effective for annual reporting period starting from 1 January 2019.

In the current period, the Group 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 Group's financial statements as at and for the year ending 31 December 2019.

IFRS 16 -Leases

The Group 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 Group is the lessor.

The Group 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 Group 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 Group 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 Group has lease contracts for various items of land, vehicles, equipment and others. Before the adoption of IFRS 16, the Group 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 Group; 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 Group 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 Group.

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 Group's lease liabilities, the incremental borrowing rates used as discount factors in discounting payments are established based on a consistent approach reflecting the Group'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 in Millions
Assets	
Right of use of assets	78
	78
Liabilities	
Lease liabilities	78
	78

Accounting policy of IFRS 16- Leases

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

Right-of-use assets

The Group 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 Group 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 Group 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 Group and payments of penalties for terminating a lease, if the lease term reflects the Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group's right-of-use assets and lease liabilities and the movements during the period ended 30 June 2019:

	Right-of -use assets	**Lease liabilities**
As at 1 January 2019	78	78
Depreciation expense	(5)	-
Finance cost	-	1
Lease payments	-	(5)
As at 30 June 2019	73	74

The current and non-current portion of lease liability is set of below:	**USD '000**
Current	8
Non-current	66
As at 30 June 2019	74

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 condensed consolidated interim financial information.

4. Property, plant and equipment and deferred charges

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. This mainly 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 the current year. During the six month period ended 30 June 2019, the Group spent USD 667 million for assets under construction (31 December 2018: USD 545 million, 30 June 2018: USD 300 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**
		(Audited)
Cash balances	0	0
Bank balances	137	270
Term deposits	294	1,954
Total cash and bank balances	431	2,224
Less: Deposits with original maturity 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	327	1,209

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

The movement in loans and borrowings is as follows:

	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 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 drawdown 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.

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 on 5th year	188	188
Conventional financing	Tranche A	Bullet repayment on 5th year	1,712	1,712
			1,900	1,900

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

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 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 issued following outstanding 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 97.2721 respectively), based on level 1 inputs (31 December 2018 : 98.087).

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 2019, Sukuk are quoted at 102.332 (31 December 2018: 98.087), 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 a term loan agreement with TKOC, under which the Company provided a USD 1.5 billion term loan to TKOC. The term loan is 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.

Operational Facility– Under the cash management services provided by MEG B.V, the Group entities 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 2019 under these arrangements were a net assets/liability of USD 62 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 2019	USD million 2018
a) Sales and management fee		
Polypropylene plant management fees from PIC	1	0
Olefins plant management fees from TKOC	1	1
Styrene plant management fees from TKSC	1	1
Aromatics plant management fees from KPPC	2	1
Operating cost reimbursed by PIC for running of Polypropylene plant	19	19
Operating and utility cost reimbursed by TKOC for running of Olefins plant	68	57
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	39
Interest income on long-term loan to TKOC	4	5

	USD million 2019	USD million 2018
b) Purchases and expenses		
Feed gas and fuel gas purchased from KPC	123	127
Purchase of Ethylene Glycol from TKOC	249	407
Catalyst purchased from Dow	5	11
Ethylene purchased from Dow	122	87
Service cost reimbursed to Dow	16	7
Glycol purchased from Dow	69	58
Catalyst purchased from UNIVATION	5	6
Operating costs reimbursed to EMC	1	2
Staff secondment costs reimbursed to Dow	-	2
Ethylene and other purchases from TKOC	42	45
c) Key management compensation		
Salaries, short term and terminal benefits	3	4

	USD million	
	30 June 2019	**31 December 2018**
		(Audited)
d) Due from related parties		
Due from PIC	10	7
Due from Dow	7	8
Due from TKOC	13	17
Due from TKSC	5	10
Due from KPPC	8	30
Due from KNPC	2	2
Due from Others	8	2
	53	76
e) Notes receivables		
Working capital facility from TKOC	62	-
	62	-
f) Notes payables		
Working capital facility with TKOC	-	362
	-	362
g) Loan to a related party		
Non-current portion		
TKOC	-	81
	-	81
Current portion		
TKOC	160	156
	160	156

Movement of long-term loan: TKOC

	USD million	
	2019	**2018**
Balance at 1 January	237	384
Payment during the period	(77)	(72)
Balance at 30 June	160	312

	USD million	
	30 June 2019	**31 December 2018**
		(Audited)
h) Due to related parties		
Due to KPC	46	53
Due to PIC	25	10
Due to Dow	28	17
Due to KPPC	1	30
Due to TKSC	1	0
Due to TKOC	87	112
Due to Others	2	7
	190	229

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

	2019 (USD million)			2018 (USD million)		
	PMC	**Others**	**Total**	**PMC**	**Others**	**Total**
External segment revenue	1,593	160	1,753	2,396	137	2,533
EBITDA	345	5	350	790	3	793
Net profit for the period	181	5	186	563	3	566
Interest income	(16)	-	(16)	(20)	-	(20)
Interest expenses	77	-	77	94	-	94
Depreciation, amortization and reservation rights	110	-	110	94	-	94
Income tax/ KFAS/ Zakat	(7)	-	(7)	59	-	59

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 2019					
Americas	213	-	-	-	213
North East Asia	446	192	-	-	638
India sub-continental	171	21	-	-	192
Europe	94	47	195	-	336
Rest of the World*	71	143	-	160	374
External revenue	995	403	195	160	1,753
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

* Rest of the World includes revenue from Kuwait of USD 33 million (2018: USD 41 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 2019	159	174	12	5	350
30 June 2018	505	269	16	3	793

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 2019, 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 2018.

10. Commitments and contingent liabilities

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

	USD million	
	30 June 2019	31 December 2018 (Audited)
Letters of credit and letters of guarantee	291	290
Capital commitments	221	189
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 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**
		(Audited)
Long position		
KD	915	633
CAD	209	289
EURO	50	150
Others	32	34
Short position		
CAD	105	150
KD	458	313
EURO	107	87
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.

11. Annual General Assembly

At the Company's Annual General Meeting held on 10 March 2019, the shareholders approved the Board of Directors recommendation to distribute cash dividend of 50.39 cents per share amounted to 1,031 million (2018: 37.68 cents per share amounted to 771 million).