Combined financial statements
of
EQUATE Petrochemical Company K.S.C.C. and Subsidiaries ("EQUATE Group")
and
The Kuwait Olefins Company K.S.C.C. ("TKOC")

Contents

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

Independent auditor's report

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

Opinion

We have audited the combined financial statements 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 comprise the combined statement of financial position as at 31 December 2020, the combined statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the combined financial position of the Reporting Entity as at 31 December 2020, and its combined financial performance and its combined cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Combined Financial Statements* section of our report. We are independent of the Reporting Entity in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter- Basis of preparation

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

Responsibilities of Management and Those Charged with Governance for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, management is responsible for assessing the Reporting Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Reporting Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Reporting Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these combined financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Reporting Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Reporting Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Reporting Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the combined financial statements, including the disclosures, and whether the combined financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtained sufficient audit evidence regarding the financial information of the entities or the business activities within the Reporting Entity to express an opinion on the combined financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

Kuwait: 4 March 2021

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

as at 31 December 2020

	Notes	USD million 2020	2019
Assets			
Property, plant and equipment	*4*	3,096	3,131
Goodwill	*5*	1,689	1,689
Intangible assets	*6*	332	372
Right-of-use assets	*7*	377	585
Deferred tax assets	*8*	74	61
Deferred charges and other assets	*9*	889	936
Non-current assets		6,457	6,774
Inventories	*11*	197	181
Due from related parties	*10*	55	38
Trade and other receivables	*12*	523	516
Deferred charges and other assets	*9*	42	37
Cash and bank balances	*13*	733	802
Current assets		1,550	1,574
Total assets		8,007	8,348
Equity			
Share capital		1,080	1,080
Treasury shares		(450)	(450)
Statutory reserve		540	540
Retained earnings		358	638
Remeasurement of retirement benefit obligation		(41)	(32)
Foreign currency translation reserve		34	20
Total equity		1,521	1,796
Liabilities			
Loans and borrowings	*14*	4,621	4,607
Deferred income	*15*	165	150
Lease liability	*7*	316	522
Deferred tax liabilities	*8*	168	183
Retirement benefit obligation	*16*	436	421
Long term incentives		3	3
Non-current liabilities		5,709	5,886
Long term incentives		4	4
Lease liability	*7*	65	65
Deferred income	*15*	17	15
Due to related parties	*10*	206	117
Trade and other payables	*17*	485	465
Current liabilities		777	666
Total liabilities		6,486	6,552
Total equity and liabilities		8,007	8,348

The accompanying notes on pages 8 to 56 form an integral part of these combined financial statements

Naser Al-Dousari
President & Chief Executive Officer
of EQUATE and TKOC

Phisanu Sermchaiwong
Chief Financial Officer

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

for the year ended 31 December 2020

	Notes	USD million 2020	2019
Sales	*22*	2,917	3,346
Cost of sales	*18*	(2,309)	(2,498)
Gross profit		608	848
Management fee	*10*	6	6
Reservation right fees		15	15
General, administrative and selling expenses	*19*	(57)	(85)
Other income		2	3
Foreign exchange gain / (loss)		(4)	3
Profit from operations		570	790
Finance income		4	16
Finance costs		(227)	(187)
Profit before contribution to Kuwait Foundation for the Advancement of Sciences (“KFAS”), Zakat, tax on subsidiaries and Board of Directors’ remuneration		347	619
Contribution to KFAS	*20*	(3)	(6)
Contribution to Zakat	21	(3)	(4)
Tax on subsidiaries	8	17	29
Board of Directors’ remuneration		(0)	(0)
Net profit for the year		358	638
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of retirement benefit obligation	16	(9)	7
Items that are or may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		14	6
Other comprehensive income for the year		5	13
Total comprehensive income for the year		363	651

The accompanying notes on pages 8 to 56 form an integral part of these combined financial statements.

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

for the year ended 31 December 2020

	USD million						
	Share capital	**Treasury shares**	**Statutory reserve**	**Retained earnings**	**Remeasurement of retirement benefit obligations**	**Foreign currency translation reserve**	**Total**
Balances as at 1 January 2019	1,080	(450)	540	1,560	(39)	14	2,705
Net profit for the year	-	-	-	638	-	-	638
Other comprehensive income	-	-	-	-	7	6	13
Total comprehensive income	-	-	-	638	7	6	651
Dividends paid	-	-	-	(1,560)	-	-	(1,560)
Balance as at 31 December 2019	1,080	(450)	540	638	(32)	20	1,796
Balances as at 1 January 2020	1,080	(450)	540	638	(32)	20	1,796
Net profit for the year	-	-	-	358	-	-	358
Other comprehensive income	-	-	-	-	(9)	14	5
Total comprehensive income	-	-	-	358	(9)	14	363
Dividends paid	-	-	-	(638)	-	-	(638)
Balance as at 31 December 2020	1,080	(450)	540	358	(41)	34	1,521

The accompanying notes on pages 8 to 56 form an integral part of these combined financial statements.

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

for the year ended 31 December 2020

	Notes	USD million 2020	2019
Cash flows from operating activities			
Net profit for the year		358	638
Adjustments for:			
Depreciation	*4 & 7*	308	269
Amortisation of intangible and deferred assets	*6 & 9*	82	80
Reservation right fees	*15*	(15)	(15)
Deferred income tax	*8*	(25)	(46)
Finance costs		227	187
Finance income		(4)	(16)
Provision for retirement benefit obligation	*16*	42	47
Foreign exchange gain on retirement benefit	*16*	(2)	(4)
Provision for long term incentives		2	2
		973	1,142
Changes in:			
Inventories		(16)	49
Due from related parties		2	26
Trade and other receivables		(6)	148
Deferred charges and other assets		-	9
Due to related parties		89	(24)
Trade and other payables		62	(97)
Retirement benefit obligation paid	*16*	(34)	(21)
Long term incentives paid		(2)	(3)
Net cash from operating activities		1,068	1,229
Cash flows from investing activities			
Purchase of property, plant and equipment	*4*	(217)	(456)
Payment for Ethylene supply agreement	*9*	-	(410)
Payment for intangibles		0	(19)
Investment in staff saving scheme		(3)	(1)
Maturity of short term deposits		0	964
Finance income received		8	32
Net cash (used in) / generated from investing activities		(212)	110
Cash flows from financing activities			
Repayment of long term loan	*14*	(1,900)	-
Proceeds from issue of new notes	*14*	1,600	-
Proceeds from bilateral loans	*14*	300	-
Loan origination fees paid		(10)	-
Finance costs paid		(218)	(204)
Payment of lease liabilities	*7*	(63)	(49)
Dividends paid		(637)	(1,560)
Net cash used in financing activities		(928)	(1,813)
Net decrease in cash and cash equivalents		(72)	(474)
Cash and cash equivalents at beginning of the year		750	1,224
Cash and cash equivalents at end of the year	*13*	678	750

The accompanying notes on pages 8 to 56 form an integral part of these combined financial statements.

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 engaged in manufacturing and sale of ethylene glycol ("EG") and polyethylene ("PE"). 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 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. ("DEHBV"), 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 Central Ahmadi, Block 12, Kuwait.

DEHBV is a subsidiary of the The DOW Chemical Company ("TDCC").

EQUATE and its subsidiaries together referred as "EQUATE Group" and EQUATE Group and TKOC together referred as "the Reporting Entity".

The combined financial statements, 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 statements, information related to the combined financial position and combined financial performance of the Reporting Entity. The combined financial statements is being prepared by and at the level of the common shareholders of EQUATE Group and TKOC. The combined financial statements of the Reporting Entity were prepared for presentation to lenders of EQUATE Group.

The combined financial statements as at and for the year ended 31 December 2020 comprise of the consolidated financial statements of EQUATE Group and TKOC. List of directly and indirectly owned subsidiaries of EQUATE are as follows:

Name of entity	Country of incorporation	Principal business	Percentage of holdings 31 December 2020	31 December 2019
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%
MEGlobal International FZE *	UAE	Marketing and distribution of EG	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%
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%
MEGlobal EG Singapore Pte Ltd **	Singapore	Marketing and distribution of EG	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%

* Effective from 1 January 2020, EQUATE has acquired 100% share capital of MEGlobal International FZE which was a fully owned subsidiary held through EQUATE BV.

** Effective from 1 November 2020, the EQUATE Group incorporated a new entity MEGlobal EG Singapore Pte Ltd which is a fully owned subsidiary held through EQUATE BV.

These combined financial statements were authorised for issue by President and Chief Executive Officer of the Reporting Entity on 4 March 2021.

2. Basis of preparation

a) Basis of accounting and combination

These combined financial statements have been prepared by combining consolidated financial statements of EQUATE Group and financial statements of TKOC for the year ended 31 December 2020, prepared in accordance with International Financial Reporting Standards (IFRS).

Details of the Reporting Entity's accounting policies, including changes thereto, are included in note 2 (e) and 3.

These combined financial statements have been prepared as following:

- Financial statements of EQUATE Group and TKOC are combined on a line-by-line basis by adding together assets, liabilities, income and expenses;

- Share capital and reserves are aggregated;

- Inter-company transactions and balances between EQUATE Group and TKOC are eliminated; and

- Taxes have been determined based on the tax charges recorded by individual combined entities.

b) Basis of measurement

These combined financial statements have been prepared on the historical cost or amortized cost basis, except for the derivative financial instruments which are measured at fair value.

c) Functional and presentation currency

These combined financial statements are presented in United States Dollars (“USD”) which is the functional currency of both EQUATE Group and TKOC. The functional currency is not the currency of the country in which the Reporting Entity is domiciled as majority of the transactions of the Reporting Entity is denominated in USD. All financial information presented in USD has been rounded to the nearest million.

d) Use of judgements and estimates

The preparation of these combined financial statements in conformity with IFRSs require management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying value of assets and liabilities that are not readily apparent from other sources.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

e) Changes in accounting policies

A number of amendments to standards and interpretations are effective for annual periods beginning on 1 January 2020 as below, but they do not have material effect on the Reporting Entity’s combined financial statements.

- Amendments to IFRS 3: Definition of a Business;
- Adoption of profit rate benchmark reform (IBOR reform Phase 1);
- Amendments to IAS 1 and IAS 8: Definition of Material;
- Conceptual Framework for Financial Reporting issued on 29 March 2018; and
- Amendments to IFRS 16 Covid019 Related Rent Concession

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these combined financial statements except as disclosed in note 2(e).

a) Basis of consolidation

The combined financial statements comprise the consolidated financial statements of EQUATE Group as at the reporting date and its subsidiaries (investees which are controlled by Equate Group) at the same date or a date not earlier than one month from the reporting date. Control is achieved when the Reporting Entity is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Reporting Entity controls an investee if and only if the Reporting Entity has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its return.

When the Reporting Entity has less than a majority of the voting or similar rights of an investee, the Reporting Entity considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Reporting Entity's voting rights and potential voting rights

The Reporting Entity re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Reporting Entity obtains control over the subsidiary and ceases when the Reporting Entity loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the Reporting Entity's combined financial statements from the date the Reporting Entity gains control until the date the Reporting Entity ceases to control the subsidiary.

Profit or loss and each component of the other comprehensive income are attributed to the shareholders of the Reporting Entity and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Reporting Entity's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Reporting Entity are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Reporting Entity lose control over a subsidiary, it derecognises the related assets (including goodwill and intangible assets), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Business combination under common control

With respect to business combinations, arising from transfers of interests in entities that are under the control of the shareholders the Reporting Entity has chosen to apply IFRS 3 – Business combinations. Accordingly, transactions under common control are accounted for using the acquisition method whereby the assets and liabilities acquired are recognized at their fair value.

The cost of an acquisition is measured as the aggregate of the consideration transferred, and the identifiable assets acquired and liabilities assumed in a business combination which are measured at acquisition date fair value, and the amount of any non-controlling interests in the acquire. For each business combination, the Reporting Entity elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are recognized as expenses in the periods in which the costs are incurred. When the Reporting Entity acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 *Financial Instruments*, is measured at fair value with the changes in fair value recognised in the combined statement of income.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date and included in cost of acquisition in determination of goodwill. Any resulting gain or loss on re-measurement of previously held equity interest is recognised in combined income statement. If the initial accounting for the business combination is incomplete by the end of the reporting period in which the combination occurs, the Reporting Entity reports provisional amounts for the items for which the accounting is incomplete and retrospectively adjusts these amounts during the measurement period of one year from the acquisition date.

Goodwill is measured as the excess of the aggregate of the fair value of the consideration transferred in the business combination, the amount recognized for non-controlling interest, and the fair value of any previously held equity interest in the acquiree, over the fair value of the acquiree's net identifiable assets acquired and liabilities assumed. If the aggregate consideration transferred, is lower than the fair value of net assets acquired, the difference is recognised as gain on business combination in the combined income statement on the acquisition date.

b) <u>Property, plant and equipment</u>

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is computed on the straight-line method based on estimated useful lives of assets as follows:

	2020	**2019**
Buildings, waterway improvements and roads	5 to 40 years	5 to 40 years
Plant and equipment	1 to 25 years	1 to 25 years
Office furniture and equipment	5 years	5 years
Catalysts	2 years	2 years

The estimated useful lives, residual values and depreciation methods are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the property, plant and equipment being replaced. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of fixed asset. All other expenditure is recognised in the statement of profit or loss when the expense is incurred. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Significant improvements and replacements of assets are capitalised.

Assets in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Reporting Entity’s accounting policy. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

The replacement costs of major components and overhaul costs which improve the economic benefit that can be generated are capitalised by the Reporting Entity. The Reporting Entity recognises and accounts for each component of its asset separately for depreciation. The component approach is also applied where regular major inspections of an asset are a condition of continuing to use it. The cost of each inspection is treated as a separate item (replacement) of property, plant and equipment provided recognition criteria are satisfied.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised on a net basis within other income in the combined statement of profit or loss.

At each reporting date, the Reporting Entity reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Reporting Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the combined statement of profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the combined statement of profit or loss.

c) Goodwill

Goodwill arising on the acquisition of a subsidiary is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the consideration transferred over the net fair value of the identifiable net assets recognised.

If, after reassessment, the Reporting Entity's interest in the net fair value of the acquiree's identifiable net assets exceeds the consideration transferred, the excess is recognised immediately in the combined statement of profit and loss as a bargain purchase gain.

Goodwill is not amortised, but is reviewed for impairment at least annually. Goodwill impairment is determined by assessing the recoverable amount of cash-generating unit to which goodwill relates. The recoverable amount is the value in use of the cash-generating unit, which is the net present value of estimated future cash flows expected from such cash-generating unit. If the recoverable amount of cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit prorated on the basis of the carrying amount of each asset in the unit.

Any impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

d) Intangible assets

Intangible assets consist of technology and licences for the manufacture of ethylene, ethylene glycol and polyethylene. Intangible assets also consist of assets acquired on business combination like customer relationships, intellectual properties, brands, software and ethylene supply agreement, and brands.

Intangibles are measured at cost less accumulated amortisation and any accumulated impairment losses. Licenses to manufacture ethylene, ethylene glycol and polyethylene are amortised from the date of commencement of commercial production on a straight-line basis over twenty years, except for the olefin technology, which is amortised over five years.

Customer relationships(useful life-10 years), Intellectual properties, software and Ethylene Supply agreements acquired by the Reporting Entity have finite useful lives and are measured at cost less accumulated amortization and any accumulated impairment losses.

Brands recognized by the Reporting Entity on business combination has an infinite life and will be considered for annual impairment testing.

The estimated useful lives, residual values and amortisation methods are reviewed at each year end, with the effect of any changes in estimate being accounted for on a prospective basis.

At each reporting date, the Reporting Entity reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Reporting Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the combined statement of profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the combined statement of profit or loss.

e) <u>Financial instruments</u>

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, FVOCI or FVTPL.

The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and the Reporting Entity’s business model for managing them. With the exception of deposits and due from a related party that do not contain a significant financing component or for which the Reporting Entity has applied the practical expedient, the Reporting Entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or FVOCI, it needs to give rise to cash flows that are ‘solely payments of principal and interest (SPPI)’ on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Reporting Entity commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments),
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments),
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments),
- Financial assets at FVTPL.

Financial assets at amortised cost

The Reporting Entity measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and

- 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.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Reporting Entity's financial assets at amortised cost includes loan to related party, due from related parties, trade and other receivables and bank balances.

(a) Business model assessment

The Reporting Entity determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Reporting Entity's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel; and
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;

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

(b) The SPPI test

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

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

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

In contrast, contractual terms that introduce a more than de minimum 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 profit 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 income. Any gain or loss on derecognition is recognised in the statement of income.

Financial assets at FVOCI (debt instruments)

The Reporting Entity measures debt instruments at FVOCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- 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.

For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss. The Reporting Entity does not carry any debt instruments at fair value through OCI.

Financial assets designated at FVOCI (equity instruments)

Upon initial recognition, the Reporting Entity can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Reporting Entity benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment. The Reporting Entity does not carry any equity instrument designated at fair value through OCI.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. The Reporting Entity does not carry any financial assets at FVTPL.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Reporting Entity's statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Reporting Entity has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Reporting Entity has transferred substantially all the risks and rewards of the asset, or (b) the Reporting Entity has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Reporting Entity has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Reporting Entity continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Reporting Entity also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Reporting Entity has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Reporting Entity could be required to repay.

Impairment of financial assets

The Reporting Entity recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Reporting Entity expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Reporting Entity has established a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Under the general approach, the Reporting Entity determines whether the financial asset is in one of the three stages in order to determine the amount of ECL to recognize:

Stage 1: 12 months ECL
For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognised.

Stage 2: Lifetime ECL – not credit impaired
For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Stage 3: Lifetime ECL – credit impaired
Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under IAS 39, the Reporting Entity methodology for specific provisions remains largely unchanged.

Lifetime ECL are recorded on financial assets that is credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

For trade and other receivables, the Reporting Entity applies a simplified approach in calculating ECLs. Therefore, the Reporting Entity does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

The Reporting Entity allocates each exposure to a credit risk grade based on the data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information about customers) and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default.

Exposures within each credit risk grade are segmented by geographic region and industry classification and an ECL rate is calculated for each segment based on delinquency status and actual credit loss experience over the past four years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Reporting Entity's view of economic conditions over the expected lives of the receivables.

The Reporting Entity has elected to measure loss allowances at an amount equal to 12 month ECLs for the bank balances, loans to a related party and due from related parties, for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

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

The Reporting Entity evaluates the probability of default considering the period of past due receivables. However, in certain cases, the Reporting Entity may also consider a financial asset to be in default when internal or external information indicates that the Reporting Entity is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Reporting Entity. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Reporting Entity's financial liabilities include loans and borrowings, due to related parties, trade payables and accruals and other liabilities.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Reporting Entity that are not designated as hedging instruments in hedge relationships as defined by IFRS 9.

Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Reporting Entity has not designated any financial liability as at fair value through profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

f) <u>Leases</u>

At inception of a contract, the Reporting Entity assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Reporting Entity uses the definition of a lease in IFRS 16.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Reporting Entity allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Reporting Entity recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Reporting Entity by the end of the lease term or the cost of the right-of-use asset reflects that the Reporting Entity will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Reporting Entity's incremental borrowing rate. Generally, the Reporting Entity uses its incremental borrowing rate as the discount rate.

The Reporting Entity determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- amounts expected to be payable under a residual value guarantee; and
- Payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Reporting Entity's estimate of the amount expected to be payable under a residual value guarantee, if the Reporting Entity changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Reporting Entity applies the short-term lease recognition exemption to its short-term leases (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).

g) Inventories

Finished goods are measured at the lower of weighted average cost or net realisable value. The cost of finished products includes direct materials, direct labour and fixed and variable manufacturing overhead and other costs incurred in bringing inventories to their present location and condition. Net realisable value is the estimated selling price for inventories in the ordinary course of business less estimated costs of completion and selling expenses.

Raw materials and catalysts are measured at weighted average cost net of allowance for slow-moving and obsolete items. Spare parts are not intended for resale and are measured at weighted average cost after making allowance for slow-moving and obsolete items. Purchase cost includes the purchase price, import duties, transportation, handling and other direct costs.

h) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank current accounts and short term deposits with an original maturity of three months or less from the date of placement.

i) Treasury shares

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the statement of changes in equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in treasury shares reserve.

j) Retirement obligations

The Reporting Entity accounts for retirement benefits under IAS 19 “Employee Benefits”. Benefits are payable to EQUATE Group and TKOC employees on completion of employment in accordance with the Kuwaiti Labour Law. The subsidiaries have various pension plans in accordance with the local conditions and practices in the Country in which they operate. Benefits payable under these plans are in accordance with the laws in those countries.

The cost of providing defined retirement benefit plans are determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each statement of financial position date. Re-measurement of the Reporting Entity’s defined benefit obligation which mainly comprises actuarial gain and losses are recognised immediately in statement of other comprehensive income. Past service cost is recognised immediately in the period of plan amendment in the combined statement of profit or loss. Interest expense is determined on defined benefit obligation for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period, taking into account any changes in the defined benefit obligation during the period as a result of benefit payments. The liability is not externally funded.

Liabilities for defined contribution plans are expensed as the related service is provided.

k) Provisions

A provision is recognised if, as a result of a past event, the Reporting Entity has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows that reflects current market assessments of the time value of money and the risks specific to the liability.

l) Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer. The Reporting Entity recognized revenue when it transfers control over a good or service to a customer. Revenue is measured at a fair value of the consideration received or receivable, taking into account defined terms of payment in a contract and net of applicable discounts.

Revenue from sale of products:

Revenue from the sale of 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. The Reporting Entity determines that the customer obtains control of the goods based on the following factors:

- The Reporting Entity’s right to reclaim / call back once the goods are on board;
- The Reporting Entity’s right to divert / sell the goods once onboard
- The primary beneficiary in the event of losses from the insurance company.

The following table provides information about the nature and timing of satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies:

Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition
Customer obtain control of goods based on the agreed Incoterms. The invoices are generated at that point of time based on provisional pricing. Invoices are usually paid within 90 days. Each such sale normally represents two performance obligations as below: - Sale of goods - Shipping, Insurance and logistics	Recognition of the revenues is done separately for the two performance obligations as follows: - Sale of goods: At the time the control passes from the Reporting Entity to the customer based on the agreed Incoterms. - Shipping, Insurance and logistics income and costs are recognised over the period of delivery.

Revenue from shipping and handling services

The shipping and handling occurs after a customer obtains control of the goods, the Reporting Entity considered shipping and handling services to be a distinct service, in which the Reporting Entity allocates a portion of the transaction price to the shipping and handling. Revenue allocated to the goods is recognized when control of the goods transfers to the customer i.e. point in time. Revenue allocated to the shipping and handling is recognized as the shipping and handling performance obligation is satisfied i.e. over the time. The related costs are generally expensed as incurred. As a practical expedient, if an entity has a right to consideration (ie a right to an invoice) from a customer in an amount that corresponds directly to the value transferred to the customer to date, the entity may recognize revenue in that amount in line with IFRS 15.

Variable pricing – preliminary pricing

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

Where the Reporting Entity records receivable for the preliminary price, subsequent changes in the estimated final price will not be recorded as revenue until such point in time at which the final price is determined.

Interest income

Interest income is accrued on effective yield basis, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

m) <u>Borrowing costs</u>

Borrowing costs directly attributable to the construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets by applying a capitalisation rate on the expenditure on such assets, until such time as the assets are substantially ready for their intended use. The capitalisation rate used by the Reporting Entity is the weighted average of the borrowing costs applicable to the outstanding borrowings during the period. Borrowing costs that are not directly attributable to the acquisition, construction, or production of qualifying assets are recognised in the combined statement of profit or loss using the effective interest method in the period in which they are incurred.

n) Income taxes

Deferred income tax assets and liabilities are computed for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future. Such deferred income tax asset and liability computations are based on substantially enacted tax laws and rates applicable to periods in which the differences are expected to affect taxable income. Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity.

The carrying amount of deferred tax assets is reviewed at each combined statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Reporting Entity intends to settle its current tax assets and liabilities on a net basis.

o) Reservation right fees

Reservation right fees are recognized in the combined statement of financial position as deferred income. The fees are presented as deferred income and recognized to consolidated statement of profit and loss on a systematic and rational basis over a period of 20 years, which represents the fees received from Olefins II project entities for usage of utility plant to the extent of construction cost of utility plant incurred by EQUATE and fee received from TKSC and KPPC for the usage of offtake from Sea Cooling Tower to the extent of acquisition cost incurred by the EQUATE..

p) Government Grants

Government grants related to assets are recognized in the combined statement of financial position as deferred income. The grants are presented as deferred income and recognized to income on a systematic and rational basis over a period of 20 years, which is the average life of the assets to which the grant relates.

q) Translation of foreign currencies

Transactions in foreign currencies are translated into USD at rates of exchange prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into USD at rates of exchange prevailing at the combined statement of financial position date. The resultant exchange differences are recorded in the combined statement of profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost are translated using the exchange rate at the date of transaction.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the combined statement of profit or loss.

The assets and liabilities of foreign operations, are translated to USD at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to USD at the average exchange rates for current year. Foreign exchange differences arising on translation are recognized in other comprehensive income and presented in the foreign currency translation reserve in equity.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of gain or loss on disposal. When the Reporting Entity disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to the non-controlling interests.

r) <u>Operating segments</u>

Segment reporting requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. This leads to segments being reported in a manner that is more consistent with the internal reporting provided to the chief operating decision maker. A segment is distinguishable component of the Reporting Entity that engages in business activities from which it earns revenue and incurs costs. The operating segments are used by the management of the Reporting Entity to allocate resources and assess performance.

s) <u>Critical accounting judgements and key sources of estimation uncertainty</u>

The following are the critical accounting judgements, apart from those involving estimations that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the combined financial statements.

Retirement Benefit Obligation

The cost of providing retirement benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each statement of financial position date. Actuarial valuations are based on a number of assumptions and require significant judgements made by the management. The management believes that the assumptions used in determining the retirement benefit obligation using actuarial valuation method are reasonable.

Determination of functional currency

Functional currency is the currency of the primary economic environment in which the Reporting Entity operates. When indicators of the primary economic environment are mixed, management uses its judgment to determine the functional currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. The management have determined that the functional currency of the Company is USD since the majority of the Reporting Entity's transactions are denominated in USD. Sales and Purchases are also received and paid in USD.

Acquisition accounting

The Reporting Entity assesses the fair value of assets and liabilities assumed in an acquisition on a provisional basis. If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the assessed fair values, or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

Deferred tax assets

The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and are recorded on the statement of financial position. Deferred income tax assets are recorded to the extent that realization of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes reasonable judgments and estimates based on taxable profits and expectations of future income. As tax losses do not expire in Germany and Italy, utilization of these tax losses require management to consider taxable profits well into the future. This significant long-term view increases the uncertainty of such projections.

As a result of this and certain limits on annual tax loss usage, the Reporting Entity limits its consideration of German and Italian tax losses to 10 years, which is considered a more foreseeable future, even though the ability to potentially utilize the tax losses extends beyond this period.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date are discussed below:

Measurement of fair values of financial instruments

The Reporting Entity uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:

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

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement.

For financial instruments carried at amortized cost, fair values are not materially different from their carrying values and are used only for disclosure purpose. Fair value of such financial instruments are classified under level 3 determined based on discounted cash flow basis, with most significant inputs being the discount rate that reflects the credit risk of counterparties.

Measurement of ECLs

The measurement of ECLs on financial assets involves complex estimations. ECLs are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective profit rate of the financial instrument. Cash shortfall represent the difference between cashflows due to the Reporting Entity in accordance with the contract and the cashflows that the Company expects to receive. The key elements in the measurement of ECL include probability of default, loss given default and exposure at default.

The Probability of Default ("PD") is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the financial asset has not been previously derecognized and is still in the portfolio.

The Exposure at Default ("EAD") is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities.

The Loss Given Default ("LGD") is an estimate of the loss arising in the case where a default occurs at a given time.

Impairment of other tangible and intangible assets and useful lives

The Reporting Entity's management tests annually whether tangible and intangible assets have suffered impairment in accordance with accounting policies. The recoverable amount of an asset is determined based on value-in-use method. This method uses estimated cash flow projections over the estimated useful life of the asset discounted using market rates.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Legal contingencies

Legal contingencies cover a wide range of matters threatened in various jurisdictions against the Reporting Entity. Provisions are recorded for pending litigation when it is determined that an unfavourable outcome is probable and the amount of loss can be reasonably estimated, after consideration of advice from attorneys. Due to the inherent uncertain nature of litigation, the ultimate outcome or actual cost of the settlement may materially vary from estimates.

t) Standards and interpretations issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Reporting Entity has not early adopted the new or amended standards in preparing these combined financial statements.

- Reference to the Conceptual Framework – Amendments to IFRS 3;
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16;
- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities;
- Profit Rate Benchmark Reform (Phase 2); and
- IFRS 17 – Insurance contracts.

4. Property, plant and equipment

	USD million					
	Buildings, land, waterway improvements and roads	**Plant and equipment**	**Office furniture and equipment**	**Catalysts**	**Assets under construction**	**Total**
Cost						
Balance at 1 January 2019	278	4,895	152	52	843	6,220
Additions	4	12	3	-	437	456
Transfers	280	907	16	11	(1,214)	-
Disposal	-	-	-	(6)	-	(6)
Foreign currency translation	-	1	-	-	-	1
Balance at 31 December 2019	562	5,815	171	57	66	6,671
Additions	-	142	-	2	73	217
Transfers	162	(116)	6	-	(52)	-
Disposal	-	(28)	-	-	-	(28)
Foreign currency translation	7	7	-	-	-	14
Balance at 31 December 2020	731	5,820	177	59	87	6,874
Accumulated depreciation and impairment losses						
Balance at 1 January 2019	97	3,049	142	26	-	3,314
Charge for the year	9	198	4	25	-	236
Disposal	-	-	-	(6)	-	(6)
Foreign currency translation	-	(4)	-	-	-	(4)
Balance at 31 December 2019	106	3,243	146	45	-	3,540
Charge for the year	27	218	11	8	-	264
Disposal	-	(28)	-	-	-	(28)
Foreign currency translation	-	2	-	-	-	2
Balance at 31 December 2020	133	3,435	157	53	-	3,778
Carrying amounts						
At 31 December 2019	456	2,572	25	12	66	3,131
At 31 December 2020	598	2,385	20	6	87	3,096

Assets under construction comprise of improvement projects for the existing plants. Such assets are not subject to depreciation until the improvements are tested and available and ready for use.

Depreciation is allocated to cost of sales and general, administrative and selling expenses in order to reflect appropriately the way in which economic benefits are derived from the use of property, plant and equipment (Note 18 and Note 19).

EQUATE and TKOC's plants was constructed on land leased from Government of Kuwait and these renewable leases are valid until April 2031 and May 2031 respectively.

5. Goodwill

Goodwill and indefinite useful life intangibles acquired in a business combination is allocated at acquisition to the Cash Generating Unit ('CGU') that is expected to benefit from that business combination. Goodwill represents expected economic benefits from the business combination including the future growth of the operations, synergies expected from supply chain and logistics, reduction of cost, silver leasing programs and access to global market and network. The impairment testing for Goodwill is carried out annually. The carrying amount of goodwill has been allocated to the Ethylene Glycol (EG) CGU. The recoverable amount of this cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on future production volume increases, financial budgets, market prices, and the industry supply demand balance of glycol as reviewed by the directors.

The Reporting Entity tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the cash generating units are determined based on the value in use method. The key assumptions used in value in use calculations are discount rates, growth rates and expected changes to product selling prices and direct costs. Management estimates discount rates using rates that reflect current market assessments of the time value of money and the risks specific to the cash generating units. The growth rates are based on industry growth forecasts. Changes in product selling prices and direct costs are based on the historical data and expectations of future changes in the market.

The key assumption used in the estimation of the recoverable amount are set out below:

	2020	**2019**
Weighted Average Cost of Capital (WACC)	8.01%	8.35% to 9%
Terminal value growth rate	1% to 2.5%	1% to 2%
Budgeted EBITDA growth rate (average of next five years)	46%	45%

WACC was estimated based on estimated rate of return (cost of equity) and cost of debt, with a possible debt leveraging of 77% (2019: 74%) at the market interest of 3.77% (2019: 3.18%).

The cashflow projections includes estimate for five years and a terminal growth rate thereafter. The terminal growth rate determined based on management's estimate of the long-term compound annual EDITDA growth rate, consistent with the assumptions that are market participant would make.

Budgeted EBITDA was based on expectation of future outcomes taking into account historical data adjusted for anticipated revenue growth. Revenue growth was projected taking into account the average growth level experienced over the past five years and the estimated sales volume and prices for the next five years.

Based on the impairment analysis as at 31 December 2020, the estimated recoverable amount of the CGUs exceeded their carrying amounts. Management has not identified any reasonably possible change in the key assumptions which could cause the carrying amount to exceed the recoverable amount. Management is confident that based on its assessment goodwill is recoverable and accordingly, no impairment loss has been recorded.

6. Intangible assets

	USD million					
	Technology and license fees	**Customer Relationships**	**Brand**	**Intellectual property**	**Software**	**Total**
Cost						
Balance at 1 January 2019	334	320	88	11	15	768
Additions	3	-	-	-	16	19
Balance at 31 December 2019 and 31 December 2020	337	320	88	11	31	787
Accumulated amortisation and impairment losses						
Balance at 1 January 2019	259	98	-	-	15	372
Charge for the year	6	33	-	1	3	43
Balance at 31 December 2019	265	131	-	1	18	415
Charge for the year	6	32	-	1	1	40
Balance at 31 December 2020	271	163	-	2	19	455
Carrying amounts						
At 31 December 2019	72	189	88	10	13	372
At 31 December 2020	66	157	88	9	12	332

In conjunction with the business combination between EQUATE, EQUATE BV and MEGC, the EQUATE Group obtained access to the distribution channels and customer relationships. These relationships have been recognized on acquisition and are being amortized over 10 year period. The amortization period of customer relationships represents management's best estimate of the expected usage or consumption of the economic benefits of the acquired assets, which is based on historical experience of customer attrition rates. The amortization of customer relationships is included in cost of sales. The EQUATE Group has also recognized the MEGlobal brand as an intangible asset on its acquisition of the MEGBV and MEGC business. Brand is tested for impairment. Refer note 5.

7. Right of use assets and lease liabilities

The Reporting Entity leases many assets including land, plants, equipment and vehicles. The leases typically run for a period of 2-24 years, with an option to renew the lease after that date. The weighted average rate applied is within the range of 3.25% - 4.33% (2019: 3.72% - 4.33%).

Information about leases for which the Group is a lessee is presented below

	USD million	
	Right-of-use assets	**Lease liabilities**
As at 1 January 2019	618	618
Depreciation charge for the year	(33)	-
Finance cost	-	18
Lease payments	-	(49)
As at 31 December 2019	585	587
Depreciation charge for the year	(44)	-
Addition	5	5
Derecognition	(169)	(171)
Finance cost	-	23
Lease payments	-	(63)
As at 31 December 2020	377	381

Amounts recognised in profit or loss and other comprehensive income are as follows:

	USD million	
	2020	**2019**
Interest on lease liabilities	23	18
Depreciation charge for the year	44	33

The current and non-current portion of lease liability is set out below:

	USD million	
	2020	**2019**
Current	65	65
Non-current	316	522
	381	587

8. Deferred tax assets and liabilities

The provision for income taxes consists of the following:

	USD million	
	2020	**2019**
Income tax-net		
Current	8	17
Deferred	(25)	(46)
	(17)	(29)

Net income taxes paid in 2020 were USD 18 (2019: USD 49 million). This represents deferred tax assets and liabilities of subsidiaries.

	USD million	
	2020	**2019**
Deferred tax assets		
Post – retirement benefit obligations	9	5
Tax losses	156	76
Glycol capacity reservation agreement	42	47
Interest	6	13
Property, plant and equipment	(142)	(84)
Others	3	4
	74	61
Deferred tax liabilities		
Intangible assets	(37)	(42)
Property, plant and equipment	(88)	(92)
Others	(43)	(49)
	(168)	(183)

At 31 December 2020, the EQUATE Group has unused significant tax losses of USD 926 million (2019: USD 509 million) available for offset against the future profits, with no expiration dates.

Reconciliation of effective tax rate as follows:

		USD million 2020		**USD million 2019**
Profit before tax from continuing operation		341		609
Tax using the Company's domestic tax rate	0%	0	0%	0
Effect of different tax rates of subsidiaries operating in other jurisdictions		(44)		(47)
Tax effect of expenses that are not deductible in determining taxable profit		21		30
Tax effect of previous year losses for which deferred tax assets have been unrecognized		6		0
Recognition of previously unrecognised tax losses		0		(12)
Tax benefits		(17)		(29)

9. Deferred charges and other assets

	USD million	
	2020	**2019**
Ethylene supply agreement – Canadian plants	266	278
Ethylene subscription rights - Oyster creek plant	664	694
Others	1	1
	931	973
Classified as: -		
Current	42	37
Non-current	889	936
	931	973

- *Ethylene supply agreement -Canadian plants*: This represents amounts paid to Dow towards the Ethylene supply rights for various Canadian Plants. These amounts are amortised over the life of the contract. In the year 2019, the EQUATE Group paid an additional amount of USD 95 million to DOW towards Ethylene supply agreement rights for Alberta plant.

- *Ethylene subscription rights* – Oyster Creek Plant: The EQUATE Group, under the Ethylene Subscription Agreement, has committed to purchase and obligates DOW to supply 27.6% of output of one of the Dow's ethylene crackers (TX-9), for Oyster Creek plant in United States of America, through the earlier of a) Dow Cracker facility permanently cease to operate or b) MEGlobal Americas plant ceases to operate, subject to certain other conditions. These amounts are amortised over a useful life of 25 years.

10. Related party transactions

In the normal course of business, the Reporting Entity enter into transactions with its shareholders PIC (directly owned by Kuwait Petroleum Corporation ("KPC")), BPC, QPIC and DEHBV, part of TDCC.

EQUATE Marketing Company EC, Bahrain ("EMC"), which is owned by PIC and DEHBV, 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, DEHBV 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 DEHBV (42.5%) and KARO (57.5%). KARO is owned by PIC (20%), Kuwait National Petroleum Company K.S.C. ("KNPC") (60%) 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 DEHBV, 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.

During 2020, EQUATE acquired a sea cooling tower from PIC for a consideration of US$ 105 million. Previously, the sea cooling tower was leased by EQUATE and accounted under IFRS 16 and accordingly the right of use assets and the respective lease liability was derecognised and the sea cooling tower is now recognised as a property, plant and equipment in the combined statement of financial position.

Operational Facility – Under the cash management services provided by MEG B.V, the EQUATE Group entities and TKOC have an overnight cash sweeping facility with MEG B.V. Under this arrangement, the EQUATE 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 of the Group, accrued on monthly basis. The spread is determined based on the creditworthiness of the counterpart and characteristics of the debt financing agreement. These are indefinite credit arrangements subject to termination by either party.

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 the one 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 DEHBV/TDCC.

n) Feedstock supply agreement by MEGC with DEHBV/TDCC for the USGC Project
o) Master service agreement with DEHBV/TDCC
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)

In addition to the above there are number of arrangements with the related parties which are disclosed below.

		USD million	
		2020	**2019**
a)	**Sales and management fee**		
	Polypropylene plant management fees from PIC	1	1
	Styrene plant management fees from TKSC	2	2
	Aromatics Plant management fees from KPPC	3	3
	Sale of ethylene, utilities and services to KPPC, TKSC and PIC	50	57
	Operating cost reimbursed by PIC for running of Polypropylene plant	20	39
	Operating and utility cost reimbursed by TKSC for running of Styrene plant	40	53
	Operating and utility cost reimbursed by KPPC for running of Aromatics plant	61	77
b)	**Purchases and expenses**		
	Feed gas and fuel gas purchased from KPC	334	371
	Catalyst and other raw materials purchased from DEHBV	10	16
	Ethylene Purchase from Dow Chemical Canada ULC	193	190
	Ethylene Purchase from TDCC	149	18
	Service cost reimbursed to Dow Chemical Canada ULC	62	75
	Service cost reimbursed to TDCC	12	-
	Service cost reimbursed to DEHBV	36	-
	Glycol purchase from TDCC	107	126
	Purchase of sea cooling water from PIC	21	20
	Catalyst purchased from UNIVATION	9	8
	Operating costs reimbursed to EMC	2	3
	Staff secondment costs reimbursed to DEHBV	3	2
	Toggling fees payments to Kuwait Oil Company K.S.C.C. (“KOC”)	9	6
c)	**Key management compensation**		
	Salaries, short term and terminal benefits	3	3
	Terminal benefits	0	0

		USD million	
		2020	**2019**
d)	**Due from related parties**		
	Due from PIC	8	9
	Due from UCC	0	1
	Due from TDCC	1	3
	Due from Dow Chemical Canada ULC	9	2
	Due to Dow Europe GMBH	2	-
	Due to Dow Turkye Kimya Sanayi Ve	0	-
	Due from TKSC	27	9
	Due from KPPC	5	12
	Due from KARO	0	0
	Due from KPC	1	0
	Due from Kuwait National Petroleum Corporation K.S.C.C.	2	2
	Due from Others	0	0
		55	38
e)	**Due to related parties**		
	Due to KPC	67	71
	Due to PIC	95	37
	Due to Kuwait Oil Company K.S.C	23	1
	Due to TDCC	2	3
	Due to Dow Olefinverbund GMBH	1	3
	Due from Dow Chemical Canada ULC	1	-
	Due to Dow Canada Limited	1	0
	Due to DEHBV	8	0
	Due to Dow Chemical China	4	-
	Due to KPPC	1	0
	Due to UNIVATION	0	-
	Due to TKSC	1	1
	Others	2	1
		206	117

11. Inventories

	USD million	
	2020	**2019**
Raw materials and consumables	47	48
Finished goods	85	70
Spare parts	65	63
	197	181
Provision for obsolete and slow moving inventories	0	0
	197	181

12. Trade and other receivables

	USD million	
	2020	**2019**
Trade receivables	373	424
Less: Provision for ECL	(9)	(9)
Prepayments and other	159	101
	523	516

13. Cash and bank balances

	USD million	
	2020	**2019**
Cash balances	0	0
Bank balances	253	126
Term deposits	480	676
Total cash and bank balances	733	802
Deposits with original maturity of more than 3 months		-
Amount reserved relating to staff saving scheme (note 17)	(55)	(52)
Cash and cash equivalent for the statement of cash flows	678	750

The effective interest rate on time deposits as at 31 December 2020 was 1.16% (31 December 2019: 2.59%) per annum.

14. Loans and borrowings

The movement in loans and borrowings is as follows:

	USD million	
	2020	**2019**
Balance at 1 January	4,607	4,591
Loan origination fee	(10)	16
Amortization for the period	24	-
Repayment of long term loan	(1,900)	-
Issue of conventional bonds	1,600	-
New loan facilities (Murabaha and Term loan facility)	300	-
Balance at 31 December	4,621	4,607

Long term loan
In 2016, the EQUATE Group had secured a USD 5 billion long term loan (“Term Loans”) from a consortium of banks. The Term Loans 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 was jointly and severally a guarantor along with TKOC for these loans and the terms included customary covenants requirements. In 2016, the Group drawdown USD 2 billion and USD 0.5 billion from Tranche A and Tranche B, respectively.

In 2017, the EQUATE Group early settled Tranche B 3-year bullet facility amounting to USD 500 million and cancelled the undrawn available facility of Tranche B.

In 2018, the EQUATE Group completed the restructuring of Term Loans and extended the Tranche A term loan facility until 23 June 2023, 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 of the facilities, the EQUATE Group repaid an amount of USD 100 million, thereby reducing the Tranche A Term Loan outstanding balance to USD 1.9 billion.

During 2020, the EQUATE Group fully settled Tranche A Term Loan amounting to USD 1,900 million using the proceeds from issue of new notes amounting to USD 1,600 million and a new 3-year term and murabaha loans amounting to USD 300 million. Murabaha and Term Loan is repayable in 2023 and is guaranteed by TKOC. Additionally, the existing revolver facility commitment was reduced to USD 500 million and the maturity was extended by one year to 23 June 2023.

At 31 December 2020, the details of borrowing facilities are as follows:

	Tranche A	Term and murabaha loan	Revolving credit facility	Total Facility
2020				
Islamic financing	-	75	47	122
Conventional financing	-	225	453	678
	-	300	500	800
2019				
Islamic financing	188	-	94	282
Conventional financing	1,712	-	906	2,618
	1,900	-	1,000	2,900

Drawn / Outstanding as at 31 December 2020:

			USD million	
		Repayment terms	**2020**	**2019**
Islamic financing	Tranche A	Bullet repayment in 5th year	-	188
Conventional financing	Tranche A	Bullet repayment in 5th year	-	1,712
Islamic financing		Bullet repayment in 3rd year	75	-
Conventional financing		Bullet repayment on 3rd year	225	-
			300	1,900

The effective interest rate as at 31 December 2020 on the term and murabaha loans is 2.70% (31 December 2019: Tranche A is 3.5%).

At the reporting date, the Reporting Entity had available for its utilization, USD 500 million (31 December 2019: USD 1,000 million) of undrawn committed revolving credit facility

Medium term notes

In 2016, the EQUATE Group established a USD 4 billion Global Medium Term Note Programme (“GMTN 1”), and on 3 November 2016 EQUATE B.V. issued notes (“GMTN 1 notes”) amounting to US$ 2.25 billion with various tenors.

During the current, the EQUATE Group established a USD 4 billion Global Medium Term Note Programme (“GMTN 2”), and on 18 May 2020 MEGlobal Canada ULC issued notes (“GMTN 2 notes”) amounting to US$ 1.6 billion with various tenors.

The payments due in respect of both GMTN 1 and GMTN 2 notes are unconditionally and irrevocably guaranteed, jointly and severally, and not severally, by EQUATE and TKOC. All the notes are listed on EURONEXT.

At the reporting date, following outstanding Notes were outstanding:

	USD million	
	2020	**2019**
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
iii) Fixed interest rate Notes amounting to USD 1,000, million having a term of 5 years, maturing in 2025, with an effective interest rate of 5.000% and carrying a coupon rate of 5.000% per annum payable on a semi-annual basis.	1000	-
iv) Fixed interest rate Notes amounting to USD 600, million having a term of 10 years, maturing in 2030, with an effective interest rate of 5.875% and carrying a coupon rate of 5.875% per annum payable on a semi-annual basis.	600	-
	3,818	2,218

As at 31 December 2020, medium term notes described in i) and ii) above are quoted at 102.18 and 111.93 respectively (31 December 2019: 100.47 and 107.19 respectively) The medium term notes described in iii) and iv) are quoted at 113.00 and 124.87 respectively These quotes are based on level 1 inputs of fair value.

Sukuk programme

In December 2016, the EQUATE Group established a USD 2 billion Sukuk programme (Sukuk 1) 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 Euronext Dublin. As at 31 December 2020, Sukuk are quoted at 106.91 (31 December 2019: 104.25), based on level 1 inputs of fair value.

In the current year, the EQUATE Group established a USD 2 billion sukuk programme (Sukuk 2). The sukuk is guaranteed by TKOC. No trust certificates are issued yet under Sukuk 2.

15. Deferred income

Deferred income comprises of the following:

	USD million	
	2020	**2019**
Reservation right fees for Olefins II project	142	157
Reservation right fees for Sea Cooling Tower	33	-
Government grants	6	7
Others	1	1
	182	165

Reservation right fees for Olefins II Project - represents payments received from Olefins II project entities for usage of utility plant relating to Olefins II project, to the extent of construction cost of utility plant incurred by the Company. The deferred income is amortised over the useful life of plant, which is 20 years.

Reservation right fees for Sea Cooling Tower – represents amounts receivable from TKSC and KPPC for securing offtake from Sea Cooling Tower owned and operated by the Reporting Entity, to the extent of acquisition cost of Sea Cooling Tower incurred by the Reporting Entity. The deferred income is amortised over the useful life of Sea Cooling Tower, which is 20 years.

Government grants - EQUATE Group received a total of USD 34 million in 2005 and 2006 in government grants for the construction of the PET manufacturing facility at its Schkopau site. The government grants are presented as deferred income and recognized to income on a systematic and rational basis over a period of 20 years.

	USD million	
	2020	**2019**
Non-current portion of deferred income	165	150
Current portion of deferred income	17	15
	182	165

16. Retirement benefit obligation

The most recent actuarial valuation of the present value of various defined benefit obligations were carried out at 31 December 2020. The present value of the defined benefit obligations and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2020	**2019**
Economic assumptions		
Discount rate	2.58% - 3.25%	3.75% - 3.95%
Expected rate of increase in		
- Basic salary & variable allowances including overtime and incentives	3.5% - 6%	3.5% - 6%
- Average annual & quarterly incentives	23% p.a	23% p.a
Long-term inflation	2% - 2.5% p.a	2% - 3.5% p.a

Management variable incentive pay (as a percentage of basic salary)	Target percentage level	Target percentage level
Demographic assumptions		
Retirement age		
- Kuwaiti employees	Age 55	Age 55
- Non-Kuwaiti employees	Age 55	Age 55
Decrement		
- Mortality	None	None
- Turnover	Service related rates	Service related rates

The total expense recognised in the statement of profit or loss is as follows:

	USD million	
	2020	**2019**
Current service costs	24	29
Interest on obligation	18	18
	42	47

The total charge for the year, which has been included in the statement of profit or loss, is as follows:

	USD million	
	2020	**2019**
Cost of sales	36	40
General, administrative and selling expenses	6	7
	42	47

Movement in the retirement benefit obligation is as follows:

	USD million	
	2020	**2019**
Retirement benefit obligation as at 1 January	421	406
Included in the combined statement of profit or loss		
Current service costs	24	29
Interest on obligation	18	18
	42	47

Included in other comprehensive income		
Re measurement (gain) / loss		
- Experience adjustment	1	(11)
- Actuarial changes arising from changes in economic assumptions	8	4
	9	(7)
Benefits paid	(34)	(21)
Foreign currency translation adjustment	(2)	(4)
Retirement benefit obligation as at 31 December	436	421

The EQUATE Group's defined benefit obligation is unfunded. However, the subsidiaries of EQUATE have invested in Plan Assets.

Reconciliation of fair value of Plan Assets of the subsidiaries

	USD million	
	2020	**2019**
Defined benefit obligation of the subsidiaries	125	119
Fair value of plan assets of the subsidiaries	(83)	(83)
Net retirement benefit	42	36

A sensitivity analysis of possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the retirement benefit obligation by the amounts shown below:

	USD million	
	0.25% increase	
	2020	**2019**
Discount rate	(10)	(10)
Basic salary & variable allowances including overtimes and	9	7

17. Trade and other payables

	USD million	
	2020	**2019**
Trade payables	203	198
Staff incentives	1	44
Staff saving schemes	45	52
Staff leave and other employee benefits	17	12
Accrual for KFAS and Zakat	15	21
Income tax	30	42
Accrued turnaround and capital expense	18	10
Interest payable	57	29
Others	99	57
	485	465

18. Cost of sales

	USD million	
	2020	**2019**
Materials	1,303	1,496
Distribution expenses	289	272
Staff cost	150	216
Depreciation and amortisation	381	346
Others	186	168
	2,309	2,498

19. General, administrative and selling expenses

	USD million	
	2020	**2019**
Staff costs	22	38
Depreciation	9	3
Selling expenses	22	41
Others	4	3
	57	85

20. Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)

KFAS is calculated at 1% of the net profit for the year of EQUATE and TKOC after deducting the transfer to statutory reserves.

21. Contribution to Zakat

Zakat is calculated at 1% on the net profit for the year attributable to Kuwaiti shareholders of the Reporting Entity after allowable deductions.

22. 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. Under PMC segment, the Group 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, Reporting Entity 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					
	2020			2019		
	PMC	Others	Total	PMC	Others	Total
External segment revenue	2,736	181	2,917	3,115	231	3,346
EBITDA	858	87	945	1,072	52	1,124
Net profit for the period	323	35	358	596	42	638
Interest income	(4)	(0)	(4)	(16)	(0)	(16)
Interest expenses	215	12	227	186	1	187
Depreciation, amortization and reservation rights	334	41	375	325	9	334
Income tax expenses/ KFAS/ ZAKAT	(10)	(1)	(11)	(19)	0	(19)

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 Reporting Entity' 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**
31 December 2020					
Americas	340	-	-	-	340
North Asia	897	297	-	-	1,194
India sub-continental	260	41	-	-	301
Europe	213	61	270	-	544
Rest of the World	99	258	-	181	538
External revenue	1,809	657	270	181	2,917
31 December 2019					
Americas	337	-	-	-	337
North Asia	894	338	-	-	1,232
India sub-continental	347	36	-	-	383
Europe	297	83	354	-	734
Rest of the World	150	279	-	231	660
External revenue	2,025	736	354	231	3,346

* Rest of the World includes revenue from sale of products in Kuwait of USD 45 million (2019: USD 60 million).

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

Timing of revenue recognition

	USD million	
	2020	**2019**
Products transferred at a point in time	2,525	2941
Products and services transferred over time	211	174
Revenue from contracts with customers	2,736	3,115
Other revenue	181	231
	2,917	3,346

	USD million				
EBITDA by product line	**EG**	**PE**	**PET**	**Others**	**Total**
31 December 2020	558	296	4	87	945
31 December 2019	751	301	20	52	1,124

23. Financial risk management

Overview

The Reporting Entity is exposed to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

Financial management framework

This note presents information about the Reporting Entity’s exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the Reporting Entity’s management of capital. Further quantitative disclosures are included throughout these combined financial statements.

The Board of Directors of the Reporting Entity has overall responsibility for the establishment and oversight of the Reporting Entity’s risk management framework. The Board has established the Finance Committee, which is responsible for developing and monitoring the Reporting Entity’s risk management policies. The Committee reports regularly to the Board of Directors on its activities.
The Audit Committee oversees how management monitors compliance with the Reporting Entity’s risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Reporting Entity. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Reporting Entity’s Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Reporting Entity through internal risk reports which analyse exposures by degree and magnitude of risks.

Credit risk

Credit risk is the risk of financial loss to the Reporting Entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Reporting Entity's trade and other receivables, due from related parties, loans to related parties and bank balances.

Exposure to credit risk

The carrying amount of following financial assets represents the maximum credit exposure of the Reporting Entity:

	USD million	
	2020	**2019**
Trade receivables	364	415
Due from related parties	55	38
Bank balances	733	802
	1,152	1,255

Trade receivables

The Reporting entity's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the country in which customers operate. The Reporting entity have a credit evaluation and customer acceptance system in place. The Reporting entity has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Reporting Entity only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Reporting Entity uses other publicly available financial information and its own trading records to rate its major customers. Further, qualitative factors are also considered as a part of credit evaluation process. The Reporting Entity's exposure to and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. If no credit ratings of customers are available, the Reporting Entity ensures that any sales with them are fully insured and are covered with collaterals. The Credit exposure is controlled by counterparty limits that are reviewed and approved by the management annually.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of trade receivables. The average credit period on sales is 44 days (2019: 51 days) except for some customers where a longer credit period has been approved. The average age of these receivables is 48 days (2019: 54 days). The Reporting Entity has provided fully for all receivables over 90 days because historical experience is that, such receivables past due beyond 90 days are generally not recoverable. Trade receivables between 60 days and 90 days are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience and historical data of payment statistics.

Included in the Reporting entity's trade receivables balance are debtors with a carrying amount of USD 9 million (2019: USD 9 million) which are past due and fully impaired. This was the only instance in last 5 years where any debtor have been credit impaired.

In determining the recoverability of a trade receivable, the Reporting Entity considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated.

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	USD million	
	2020	**2019**
Domestic and Gulf Cooperation Council Countries	23	39
North America	28	35
Asia	174	235
Europe	66	51
Other regions	73	55
	364	415

A summary of the Reporting Entity's exposure for trade receivables are as follows:

	USD million			
	2020		**2019**	
	Non-credit impaired	*Credit impaired*	*Non-credit*	*Credit impaired*
Not due	333	-	394	-
Past due				
- Secured with collaterals	27	8	20	8
- Not secured	4	1	1	1
Gross carrying amount	364	9	415	9
Loss allowance	-	(9)	-	(9)
	364	-	415	-

Due from related parties

Transactions with related parties are carried out on a negotiated contract basis. The related parties are with high credit rating and repute in the market. Impairment on the due from a related party have been measured on the basis of lifetime expected credit losses. The Reporting Entity considers that these have low credit risk based on historical experiences, available press information and experienced credit judgment. As on 31 December 2020, these are neither impaired nor due.

Bank balances and time deposits

Bank balances and time deposits are held with bank and financial institution counterparties, which are highly rated. Impairment on bank balances has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Reporting Entity considers that its bank balances have low credit risk based on the external credit ratings of the counterparties. The 12 month ECL computed on the bank balances and term deposits is considered negligible.

Liquidity risk

Liquidity risk is the risk that the Reporting Entity will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Reporting Entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Reporting Entity's reputation.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Reporting Entity's short, medium and long-term funding and liquidity management requirements. The Reporting Entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below analyses the Reporting Entity's non-derivative financial liabilities based on the remaining period at the combined statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	USD million					
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total	Carrying amount
As at 31 December 2020						
Trade and other payables	485	-	-	-	485	485
Due to related parties	206	-	-	-	206	206
Loans and borrowings	177	1,174	764	3,459	5,574	4,621
Lease liabilities	44	46	150	264	504	381
Total	912	1,220	914	3,723	6,769	5,693
As at 31 December 2019						
Trade and other payables	465	-	-	-	465	465
Due to related parties	117	-	-	-	117	117
Loans and borrowings	185	166	3,241	1,852	5,444	4,607
Lease liabilities	65	68	222	468	823	587
Total	832	234	3,463	2,320	6,849	5,776

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Reporting Entity's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Reporting Entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

Foreign currency risk

The Reporting Entity undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The Reporting Entity's on balance sheet exposure to foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	USD million				
	Euro	**Canadian Dollar**	**Kuwait Dinar**	**Other**	**Total**
31 December 2020					
Assets	253	15	70	64	402
Liabilities	(268)	(31)	(598)	(17)	(914)
Net exposure	(15)	(16)	(528)	47	(512)
31 December 2019					
Assets	213	63	67	156	499
Liabilities	(197)	(252)	(635)	(101)	(1,185)
Net exposure	16	(189)	(568)	55	(686)

The following exchange rates were applied to translate the monetary assets and liabilities at 31 December 2020:

	Reporting date Mid-spot rate	
	2020	**2019**
Euro	0.814	0.891
Canadian Dollar	0.785	0.769
Kuwaiti Dinar	0.303	0.303

Foreign currency sensitivity analysis

As at 31 December 2020, if the USD had weakened / strengthened by 5% against the Euro, Canadian dollar and Kuwaiti Dinar with all other variables held constant, profit for the year would have been lower / higher by USD 26 million (2019: USD 34 million).

Foreign currency exposure risks are managed by dealing in forward contracts within approved limits. As at 31 December 2020, the Reporting Entity had following net notional forward exchange contracts (off balance sheet exposure)

	USD million	
	2020	**2019**
Long position		
KD	827	741
CAD	107	216
Others	69	229

	USD million	
	2020	**2019**
Short position		
KD	419	224
CAD	94	110
Others	68	132

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. The fair value of the forward foreign exchange contract as at 31 December 2020 amounting to US$ 12.5 million (2019:US$ 4.5 million).

Interest rate risk

The Reporting Entity is exposed to interest rate risk as it borrows and places funds.

Interest rate sensitivity analysis

During the year, if interest rates on USD denominated borrowings had been 10 basis points higher/lower with all other variables held constant, profit for the previous year would have been USD 1.1 million (2019: USD 1.9 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

The Reporting Entity's exposure to interest rates on financial assets and financial liabilities are disclosed in Notes 12 and 13 to the combined financial statements.

Determination of fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Underlying the definition of fair value is the presumption that the Reporting Entity is a going concern without any intention, or need, to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

The fair value of financial assets and financial liabilities (excluding derivative instruments, medium term notes and Sukuk) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions. The fair value of forward 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 (level II inputs). The fair value of medium term notes and Sukuk are determined using quoted prices (level I inputs). All other financial instruments are classified as Level III.

24. Commitments and contingent liabilities

Commitments

The Reporting Entity has a fixed gas purchase commitment with a related party of approximately USD 1 million (31 December 2019: USD 1 million) per day until the agreement is cancelled in writing by the parties.

The Group under the "Excess EG Marketing agreement" has made a commitment to purchase EG from Dow an annual volume up 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.

The EQUATE Group under the Ethylene Supply Agreement has a commitment to purchase and obligates The Dow Chemical Company to supply 26.7% of output of one of Dow's ethylene crackers (TX-9), for USGC project, through the earlier of A) Dow Cracker facility permanently cease to operate or B) MEGlobal USGC plants cease to operate, subject to certain other conditions. The useful life of this asset is 25 years, starting from 2019.

In addition to the above, the Reporting Entity had the following commitments and contingent liabilities outstanding as at 31 December 2020:

	USD million	
	2020	**2019**
Letters of credit and letters of guarantee	5	1
Capital commitments	27	28

Contingent liabilities

Corporation Income Tax Assessment from the Canadian Revenue Agency

Following the completion of audit report for the tax years 2013, 2014 and 2015, ME Global Canada ULC received a Corporation Income Tax re-assessment from the Canadian Revenue Agency (CRA) for a transfer pricing adjustment amounting to CAD$ 61.6 million (USD 48.2 million) for 2013, CAD$ 75 million (USD 58.7 million) for 2014 and CAD $75.8 million (USD 59.2 million) for 2015. This has resulted in additional assessed federal, provincial and Part XIII tax impact of CAD$ 31.6 million (USD 24.7 million) for 2013, tax impact of CAD$ 38.3 million (USD 30 million) for 2014 and tax impact of CAD$ 38.1 million (USD 29.8 million) for 2015.

The Management has filed notice of objections for each of the re-assessments and is confident that it can defend their filed positions using its transfer pricing methodology and get the assessments reversed through the appeal process, similar to prior years. It is also of the view that no additional tax liability is required for this assessment.

25. COVID-19

Coronavirus (“COVID-19”) a global pandemic. The COVID-19 pandemic and related economic repercussions have created significant volatility, uncertainty and turmoil in the oil and gas and related industries. This outbreak and the related responses of governmental authorities to limit the spread of the virus have significantly reduced global economic activity, resulting in an unprecedented decline in the demand for commodities. This supply-and-demand imbalance coincided with decisions of various global oil producers to increase the production levels, putting severe downward pressure on commodity prices. These factors caused a swift and material deterioration in commodity prices during the year. Due to above, the Reporting Entity experienced among other things decline in revenue and profit. leading to an impact on the Reporting Entity’s financial results and financial position.

The full extent and impact of the COVID-19 pandemic and related factors is unknown at this time and the degree to which it may impact the Reporting Entity’s business operations and financial results will depend on future developments, which are highly uncertain and cannot be predicted with any degree of confidence, including: the duration, severity and geographic spread of the COVID-19 virus.

In response to the event, the Reporting Entity has taken several executive decisions in response to minimise the financial impact as a result of the pandemic. In addition to the above, the Reporting Entity also expects the market to recover in the coming months with an upward trend in the market prices subsequent to the year end.

The Reporting Entity is closely monitoring the situation and has activated its Business Continuity Planning and risk management practices to manage the potential business disruption that COVID-19 outbreak may have on its operations and financial performance.

The Reporting Entity has considered potential impacts of the current economic volatility in determination of the reported amounts of the Reporting Entity's financial and non-financial assets and these are considered to represent management's best assessment based on available or observable information. Markets however remain volatile and the recorded amounts remain sensitive to market fluctuations.