EQUATE Petrochemical Company K.S.C.C. and subsidiaries

State of Kuwait

Consolidated financial statements and
Independent auditor's report for the year ended
31 December 2020

Contents

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Independent auditor's report

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

Opinion

We have audited the consolidated financial statements of Equate Petrochemical Company K.S.C.C. ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated 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 Consolidated Financial Statements* section of our report. We are independent of the Group 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment testing of goodwill

See Note 5 to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
At 31 December 2020, the Group carries a goodwill balance of USD1,689 million relating to Ethylene Glycol business of its significant subsidiaries. The Group tested its goodwill at the reporting date to determine if they are recoverable, which involves significant management judgments about future market conditions, assumptions on sales, cost of sales, gross margins, economic growth rate and discount rate. Due to the significance of goodwill balance and the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgmental areas that our audit is concentrated on.	As part of our audit we assessed the methods used by the management of the Company to determine the recoverable amount of the cash generating units and the key assumptions used in annual impairment analysis. We performed audit procedures over the significant forecast assumptions for 2021, including volume, capacity, sales price and cost. Cash flows for the years 2022 and beyond were reviewed based on the base forecast for 2021 and market data for the EG business. Additionally, we validated that the result and the cash flow projection in the impairment analysis are consistent with the long range plan approved by the Board of Directors.

Revenue recognition

See Note 3(l) to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
The revenue from customers is recognised either at a point in time or over the period of time depending on the delivery of performance obligation, such as delivery of goods and rendering of shipping and handling services etc. The recognition of revenue now depends on the analysis of customer contracts and may involve significant judgement. Majority of the Group's sales are export sales. The terms and conditions of transferring the control and the lead time between shipment and delivery differ per country of destination and are complex, which increases the level of sensitivity to errors.	Our audit procedures included, amongst others, assessing the appropriateness of the Group's revenue recognition accounting policies in the light of new revenue recognition standards. We tested the design and implementation and the operating effectiveness of controls around sales process starting from contracts approval and sign-off, customer order's approval, recording of sales, to reconciliations with cash receipts and customers' records.

As a result, the Group could overstate revenue through improper cut-off or manual adjustments to revenue resulting in incorrect revenue recognition.	We performed testing of revenue recorded using sampling techniques, by examining the relevant supporting documents including customer orders, invoices, shipping documents and / or bills of lading and requisite approvals. Tested the sales reversals and credit memos for price adjustments subsequent to the balance sheet date to verify whether revenue for the period is to be adjusted. We conducted procedures over sales transactions before and after the year end to ensure that revenue was recognised in the correct period, by examining the relevant supporting documents including customer orders, invoices, shipping documents and / or bills of lading and requisite approvals. We inspected whether there are any manual journal entries passed relating to revenue accounts, and the underlying documents and rationale for the same. In addition, we confirmed certain customers' receivable balances at the balance sheet date.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Group's annual report, other than the consolidated financial statements and our auditor's report thereon. Prior to the date of this auditor's report, we obtained the Board of Directors report which forms part of the annual report and the remaining sections of the annual report are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

KPMG

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the consolidated financial information of the entities or business activities within the Group to express an opinion on the consolidated 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the consolidated financial statements include the information required by the Companies Law No. 1 of 2016, as amended, and its Executive Regulations and the Company's Memorandum and Articles of Association. In our opinion, proper books of account have been kept by the Company, an inventory count was carried out in accordance with recognized procedures and the accounting information given in the Board of Directors' report agrees with the books of accounts of the Company. We have not become aware of any violations of the provisions of the Companies Law No. 1 of 2016, as amended, and its Executive Regulations, or of the Company's Memorandum and Articles of Association during the year ended 31 December 2020 that might have had a material effect on the business of the Group or on its consolidated financial position.

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

Kuwait: 21 February 2021

Consolidated statement of financial position
as at 31 December 2020

	Notes	USD million 2020	USD million 2019
Assets			
Property, plant and equipment	*4*	2,510	2,519
Goodwill	*5*	1,689	1,689
Intangible assets	*6*	273	308
Right-of-use assets	*7*	364	571
Deferred tax assets	*8*	74	61
Deferred charges and other assets	*9*	889	936
Non-current assets		5,799	6,084
Inventories	*11*	192	174
Loans to a related party	*10*	-	81
Notes receivables from a related party	*10*	67	-
Due from related parties	*10*	142	45
Trade and other receivables	*12*	523	502
Deferred charges and other assets	*9*	42	37
Cash and bank balances	*13*	733	798
Current assets		1,699	1,637
Total assets		7,498	7,721
Equity			
Share capital	*14*	700	700
Treasury shares	*14*	(450)	(450)
Statutory reserve	*14*	350	350
Retained earnings		185	368
Remeasurement of retirement benefit obligation		(41)	(32)
Foreign currency translation reserve		34	20
Total equity		778	956
Liabilities			
Loans and borrowings	*15*	4,621	4,607
Deferred income	*16*	335	268
Lease liability	*7*	305	510
Deferred tax liabilities	*8*	168	183
Retirement benefit obligation	*17*	436	421
Long term incentives		3	3
Non-current liabilities		5,868	5,992
Long term incentives		4	4
Lease liability	*7*	63	63
Deferred income	*16*	37	32
Due to related parties	*10*	282	194
Notes payables to a related party	*10*	-	23
Trade and other payables	*18*	466	457
Current liabilities		852	773
Total liabilities		6,720	6,765
Total equity and liabilities		7,498	7,721

The attached notes on pages 11 to 57 form an integral part of these consolidated financial statements.

Nadia Al-Hajji
Chairperson

Naser Al-Dousari
President & Chief Executive Officer

Consolidated statement of profit or loss and other comprehensive income
for the year ended 31 December 2020

	Notes	USD million 2020	USD million 2019
Sales		2,986	3,417
Cost of sales	19	(2,573)	(2,864)
Gross profit		413	553
Management fees	10	8	8
Reservation right fees	16	32	32
General, administrative and selling expenses	20	(56)	(83)
Other income		2	3
Foreign exchange loss		(6)	(2)
Profit from operation		393	511
Finance income		6	24
Finance costs		(227)	(191)
Profit before contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), Zakat, tax on subsidiaries and Board of Directors' remuneration		172	344
Contribution to KFAS	21	(2)	(3)
Contribution to Zakat	22	(2)	(2)
Tax on subsidiaries	8	17	29
Board of Directors' remuneration	23	(0)	(0)
Net profit for the year		185	368
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of retirement benefit obligation	17	(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		190	381

The attached notes on pages 11 to 57 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
for the year ended 31 December 2020

	USD million						
	Share capital	**Treasury shares**	**Statutory reserve**	**Retained earnings**	**Remeasurement of retirement benefit obligation**	**Foreign currency translation reserve**	**Total**
Balance as at 1 January 2019	700	(450)	350	1,031	(39)	14	1,606
Net profit for the year	-	-	-	368	-	-	368
Other comprehensive income	-	-	-	-	7	6	13
Total comprehensive income	-	-	-	368	7	6	381
Dividends paid (Note 14)	-	-	-	(1,031)	-	-	(1,031)
Balance as at 31 December 2019	700	(450)	350	368	(32)	20	956
Balance as at 1 January 2020	700	(450)	350	368	(32)	20	956
Net profit for the year	-	-	-	185	-	-	185
Other comprehensive (expense) / income	-	-	-	-	(9)	14	5
Total comprehensive income	-	-	-	185	(9)	14	190
Dividends paid (Note 14)	-	-	-	(368)	-	-	(368)
Balance as at 31 December 2020	700	(450)	350	185	(41)	34	778

The attached notes on pages 11 to 57 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows
for the year ended 31 December 2020

	Notes	USD million 2020	USD million 2019
Cash flows from operating activities			
Net profit for the year		185	368
Adjustments for:			
Depreciation	*4 & 7*	252	210
Amortisation of intangible and deferred assets	*6 & 9*	77	75
Reservation right fees	*16*	(32)	(32)
Deferred income tax	*8*	(25)	(46)
Finance costs		227	191
Finance income		(6)	(24)
Provision for retirement benefit obligation	*17*	42	47
Foreign exchange gain on retirement benefit obligations	*17*	(2)	(4)
Provision for long term incentives		2	2
		720	787
Changes in:			
Inventories		(18)	46
Due from related parties		(78)	30
Trade and other receivables		(21)	161
Deferred charges and other assets		-	9
Long term incentives paid		(2)	(3)
Due to related parties		88	(35)
Trade and other payables		128	(116)
Retirement benefit obligation paid	*17*	(34)	(21)
Net cash from operating activities		783	858
Cash flows from investing activities			
Purchase of property, plant and equipment	*4*	(190)	(453)
Payment for Ethylene supply agreements		-	(410)
Payment for intangible	*6*	-	(16)
Investment in staff saving scheme		(3)	(1)
Net movement in short-term deposits		-	964
Long-term loans repaid by related parties	*10*	81	156
Notes receivables	*10*	(67)	-
Finance income received		8	29
Net cash (used in) from investing activities		(171)	269

Consolidated statement of cash flows
for the year ended 31 December 2020

	Notes	USD million 2020	2019
Cash flows from financing activities			
Repayment of long-term loan	*15*	(1,900)	-
Proceeds from issue of conventional bond	*15*	1,600	-
Proceeds from bilateral loans	*15*	300	-
Loan origination fees paid	*15*	(10)	-
Notes payables	*10*	(23)	(339)
Finance costs paid		(218)	(173)
Payment of lease liabilities	*7*	(61)	(47)
Dividends paid	*14*	(368)	(1,031)
Net cash used in financing activities		(680)	(1,590)
Net decrease in cash and cash equivalents		(68)	(463)
Cash and cash equivalents at beginning of the year		746	1,209
Cash and cash equivalents at end of the year	*13*	678	746

The attached notes on pages 11 to 57 form an integral part of these consolidated financial statements.

1. Reporting entity

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

The Company is owned by Dow Europe Holding B.V. ("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").

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

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

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

The address of the Company's registered office is Central Ahmadi, Block 12, Kuwait.

The consolidated financial statements comprise of the Company and its subsidiaries (together referred to as "the Group" and individually "the Group entities").

A list of significant directly and indirectly owned subsidiaries 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, the Company acquired 100% share capital of MEGlobal International FZE which was a fully owned subsidiary held through EQUATE BV.

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

These consolidated financial statements were authorised for issue by the Board of Directors on 9 February 2021 and are subject to approval of shareholders at the forth-coming Annual General Meeting.

2. Base of preparation

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the requirements of the Companies Law No. 1 of 2016, as amended and its Executive Regulations, the Company's Memorandum and Articles of Association and Ministerial order No.18 of 1990.

b) Basis of measurement

The consolidated 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

The consolidated financial statements are presented in United States Dollars ("USD") which is the functional currency of the Company. The Company's functional currency is not the currency of the country in which it is domiciled as majority of the transactions of the company are denominated in USD. All financial information presented in USD has been rounded to the nearest million. A separate set of financial statements is presented in Kuwaiti Dinar ("KD") for purpose of submission to the Ministry of Commerce and Industry, State of Kuwait.

d) Use of estimates and judgments

The preparation of 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 Group's consolidated 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 Covid-19 Related Rent Concession

3. Significant accounting policies

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

a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company as at the reporting date and its subsidiaries (investees which are controlled by the Group). Control is achieved when the Group 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 Group controls an investee if and only if the Group 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 returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group 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 Group's voting rights and potential voting rights

The Group 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 Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the Group's consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of the other comprehensive income are attributed to the shareholders of the Parent Company of the Group 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 in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group 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 Group 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 Group 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 Group 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 Group 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: Recognition and Measurement, is measured at fair value with the changes in fair value recognised in the consolidated statement of profit and loss.

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 consolidated statement of profit and loss. If the initial accounting for the business combination is incomplete by the end of the reporting period in which the combination occurs, the Group 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 consolidated statement of profit and loss on the acquisition date.

b) Financial Instruments

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

(b) The SPPI test

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

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

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest 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 consolidated statement of profit and loss. Any gain or loss on derecognition is recognised in the consolidated statement of profit and loss.

Financial assets at FVOCI (debt instruments)

The Group 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 consolidated statement of profit and 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 Group does not carry any debt instruments at fair value through OCI.

Financial assets designated at FVOCI (equity instruments)

Upon initial recognition, the Group 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 consolidated statement of profit and loss when the right of payment has been established, except when the Group 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 Group 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 consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss. The Group 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 Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group 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 Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group 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 Group 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 Company could be required to repay.

Impairment of financial assets

The Group 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 Group 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 Group 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 lifetime ECL, the Group 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 Group 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 Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

The Group 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 Group's view of economic conditions over the expected lives of the receivables.

The Group 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 Group considers reasonable and supportable information that is relevant and available without undue cost or effort. The Group has established a provision matrix based on quantitative and qualitative information and analysis, Group's historical credit loss experience, adjusted for forward-looking factors considering the country ratings specific to the receivables and the economic environment.

The Group evaluates the probability of default considering the period of past due receivables. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. 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 Group's financial liabilities include loans and borrowings, due to related parties, trade and other payables.

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 Group 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 consolidated 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 Group 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 consolidated 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 consolidated 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.

c) <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 consolidated 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 Group'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 Group. The Group 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.

The Group has reclassified catalysts from inventory to be part of property, plant and equipment from the current year as the Management determined that the life of the catalysts are estimated to be more than one year.

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 consolidated statement of profit or loss.

At each reporting date, the Group 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 Group 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 consolidated 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 consolidated statement of profit or loss.

d) 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 Group'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 consolidated 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.

e) 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 Group have finite useful lives and are measured at cost less accumulated amortization and any accumulated impairment losses.

Brands recognized by the Group 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 Group 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 Group 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 consolidated 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 consolidated statement of profit or loss.

f) Leases

At inception of a contract, the Group 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 Group 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 Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Group 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 Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group 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 Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group 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 Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group 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 Group 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 Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

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

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 consolidated 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 Group accounts for retirement benefits under IAS 19 "Employee Benefits". Benefits are payable to the Company's 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 Group's defined benefit obligation which mainly comprises actuarial gain and losses are recognised immediately in consolidated statement of other comprehensive income. Past service cost is recognised immediately in the period of plan amendment in the consolidated 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 Group 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 Group 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 Group determines that the customer obtains control of the goods based on the following factors:

- The Group's right to reclaim / call back once the goods are on board;
- The Group'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 Company 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 Group considered shipping and handling services to be a distinct service, in which the Group 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 Group receives.

Where the Group 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) Borrowing costs

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 Group 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 consolidated 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 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 Group intends to settle its current tax assets and liabilities on a net basis.

o) Reservation right fees

Reservation right fees are recognized in the consolidated 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 the Company and fee received from TKOC, TKSC and KPPC for the usage of offtake from Sea Cooling Tower to the extent of acquisition cost incurred by the Company.

p) Government grants

Government grants related to assets are recognized in the consolidated 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 statement of financial position date. The resultant exchange differences are recorded in the consolidated 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 consolidated 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 consolidated statement of 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 Group 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) Critical accounting judgements and key sources of estimation uncertainty

The following are the critical accounting judgements, apart 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 consolidated 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 Group 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 Company's transactions are denominated in USD. Sales and Purchases are also received and paid in USD.

Acquisition accounting

The Group 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 Group 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 Group 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 ECL

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 Group 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 Group'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 Group. Provisions are recorded for pending litigation when it is determined that an unfavorable 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.

s) Standards and interpretations issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 with earlier application permitted, however, the Group has not early adopted any of these new or amended standards in preparing these consolidated 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.

The new standards and amendments are not expected to have a material impact on the Group's consolidated financial statements in the period of initial application.

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	268	3,685	129	33	821	4,936
Additions	4	10	2	-	437	453
Transfers	280	889	16	11	(1,196)	-
Disposal	-	-	-	(6)	-	(6)
Foreign currency translation	-	1	-	-	-	1
Balance at 31 December	552	4,585	147	38	62	5,384
Additions	-	136	-	2	52	190
Transfers	162	(120)	5	-	(47)	-
Disposal	-	(28)	-	-	-	(28)
Foreign currency translation	7	7	-	-	-	14
Balance at 31 December	721	4,580	152	40	67	5,560
Accumulated depreciation and impairment losses						
Balance at 1 January 2019	95	2,465	120	17	-	2,697
Charge for the year	8	151	4	15	-	178
Related to disposal	-	-	-	(6)	-	(6)
Foreign currency translation	-	(4)	-	-	-	(4)
Balance at 31 December	103	2,612	124	26	-	2,865
Charge for the year	27	162	12	8	-	209
Related to disposal	-	(28)	-	-	-	(28)
Foreign currency translation	-	4	-	-	-	4
Balance at 31 December	130	2,750	136	34	-	3,050
Carrying amounts						
At 31 December 2019	449	1,973	23	12	62	2,519
At 31 December 2020	591	1,830	16	6	67	2,510

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 19 and Note 20).

The Company's plant was constructed on a land leased from Government of Kuwait and this renewable lease is valid until April 2031.

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 Group 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 estimates 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	241	320	88	11	15	675
Additions	-	-	-	-	16	16
Balance at 31 December 2019 and 31 December 2020	241	320	88	11	31	691
Accumulated amortisation and impairment losses						
Balance at 1 January 2019	231	99	-	-	15	345
Charge for the year	1	33	-	1	3	38
Balance at 31 December 2019	232	132	-	1	18	383
Charge for the year	1	32	-	1	1	35
Balance at 31 December 2020	233	164	-	2	19	418
Carrying amounts						
At 31 December 2019	9	188	88	10	13	308
At 31 December 2020	8	156	88	9	12	273

In conjunction with the business combination, the Group obtained access to the distribution channels and customer relationships. These relationships have been recognized on acquisition and are being amortized over 10 years 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 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 Group 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	603	603
Depreciation charge for the year	(32)	-
Finance cost	-	17
Lease payments	-	(47)
As at 31 December 2019	571	573
Depreciation charge for the year	(43)	-
Addition	5	5
Derecognition (note 16)	(169)	(171)
Finance cost	-	22
Lease payments	-	(61)
As at 31 December 2020	**364**	**368**

Amounts recognised in consolidated statement profit or loss are as follows:

	USD million	
	2020	**2019**
Interest on lease liabilities	22	17
Depreciation charge for the year	43	32

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

	USD million	
	2020	**2019**
Current	63	63
Non-current	305	510
	368	573

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 million (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 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		168		339
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 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 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 Group enters into transactions with its shareholders PIC (directly owned by Kuwait Petroleum Corporation ("KPC"), BPC, QPIC and DEHBV, part of TDCC.

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

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

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

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

An agreement to amend the MUSA and service agreements ("primary agreements") was signed between the parties to the primary agreements on 8 February 2006 releasing KARO from its obligations and liabilities under the primary agreements and appointing Kuwait Paraxylene Production Company K.S.C.C. ("KPPC") in place of KARO to assume and perform all obligations of KARO as if KPPC were and had been a party to the primary agreements. KPPC is a 100% owned subsidiary of KARO.

On 31 May 2006, the Company signed a term loan agreement with TKOC, under which the Company provided a USD 1.5 billion term loan to TKOC. The term loan is repayable over a period of 11 years in biannual instalments starting from 15 December 2009 and carry coupon rate of LIBOR + 0.625% till 19 May 2013, LIBOR + 0.725% till 19 May 2016 and LIBOR + 0.825% till the maturity date. During the year, TKOC fully repaid this loan.

During 2020, the Company acquired a sea cooling tower from PIC for a consideration of US$ 105 million. Previously, the sea cooling tower was leased by the Company 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 consolidated statement of financial position.

Operational Facility – Under the cash management services provided by MEG B.V, the Group entities and TKOC have an overnight cash sweeping facility with MEG B.V. Under this arrangement, the Company, the subsidiaries of the Group and TKOC sweep selected bank accounts with MEG B.V. This allows the subsidiaries and TKOC either to invest or borrow funds on an overnight basis. Under the terms of the agreement, the subsidiaries and TKOC can borrow or deposit with MEG B.V at an interest rate of LIBOR plus a positive spread set by the management of the Group, accrued on a monthly basis. The spread is determined based on the creditworthiness of counterpart and characteristics of the debt financing arrangement. At 31 December 2020, an amount of USD 67 million is due from TKOC to the Group under this arrangement (2019: USD 23 million due to TKOC). 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 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
Olefins plant management fees from TKOC	2	2
Styrene plant management fees from TKSC	2	2
Aromatics Plant management fees from KPPC	3	3
Operating cost reimbursed by PIC for running of Polypropylene plant	20	39
Operating and utility cost reimbursed by TKOC for running of Olefins plant	118	128
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	61	77
Interest income on long-term loan and notes receivables from TKOC	1	6
b) Purchases and expenses		
Feed gas and fuel gas purchased from KPC	232	253
Purchase of Ethylene Glycol from TKOC	349	499
Catalyst purchased from DEHBV	10	-
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
Ethylene and other purchases from TKOC	72	73
Interest expenses on notes payables from TKOC	2	5
c) Key management compensation		
Salaries and short-term benefits	3	3
Terminal benefits	0	0

d) Due from related parties

Due from PIC	6	7
Due from UCC	0	1
Due from TKOC	93	13
Due from TKSC	23	5
Due from KPPC	5	12
Due from KPC	1	-
Due from KNPC	2	2
Due from TDCC	1	3
Due from Dow Chemical Canada ULC	9	2
Due to Dow Europe GMBH	2	-
Due from others	0	-
	142	45

	USD million	
	2020	2019
e) Loans to related party		
Current portion		
TKOC	-	81
	-	81
Movement of long-term loans: TKOC		
Balance at 1 January	81	237
Receipts during the year	(81)	(156)
Balance at 31 December	-	81
f) Due to related parties		
Due to KPC	59	46
Due to KOC	7	-
Due to PIC	95	36
Due to KPPC	1	0
Due to TKSC	1	1
Due to TKOC	100	104
Due to TDCC	2	3
Due to Dow Olefinverbund GMBH	1	3
Due to Dow Chemical Canada ULC	1	-
Due to Dow Canada Limited	1	0
Due to DEHBV	8	0
Due to Dow Chemical China Investment Co	4	-
Others	2	1
	282	194
g) Notes payables		
Working capital facility with TKOC	-	23
	-	23
h) Trade and other payables		
Payable to KPC	34	-
	34	-

i) Notes Receivable

Working capital facility with TKOC	67	-
	67	-

11. Inventories

	USD million	
	2020	**2019**
Raw materials and consumables	43	42
Finished goods	84	69
Spare parts	65	63
	192	174
Provision for obsolete and slow-moving inventories	(0)	(0)
	192	174

12. Trade and other receivables

	USD million	
	2020	**2019**
Trade receivables	373	424
Less: Provision for ECL	(9)	(9)
Prepayments and other	159	87
	523	502

13. Cash and bank balances

	USD million	
	2020	**2019**
Cash balances	0	0
Bank balances	253	122
Term deposits	480	676
Total cash and bank balances	733	798
Less: Amount reserved relating to staff saving scheme (Note 18)	(55)	(52)
Cash and cash equivalent for the purpose of cash flows	678	746

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

14. Share capital

The share capital of the Company comprises 2,160 million authorised, issued and fully paid up shares of Fils 100 each in cash (2019: 2,160 million authorised, issued and fully paid up shares of Fils 100 each in cash) (1,000 Fils equals 1 Kuwaiti Dinar).

Treasury shares

The Company's treasury shares comprise the cost of the Company's own shares held. At 31 December 2020 and 2019, the Company held 113,612,868 shares which are 5.26% of the issued shares at a cost of USD 450 million. This amount is debited in the consolidated statement of changes in equity.

Statutory reserve

As required by the Companies Law No. 1 of 2016, as amended and the Company's Articles of Association, 10% of the profit for the year is to be transferred to the statutory reserve until the reserve reaches a minimum of 50% of the paid up share capital. This reserve is not available for distribution except for payment of a dividend of 5% of paid up share capital in years when retained earnings are not sufficient for the payment of such dividends.

During the Annual General Meeting of 2008, the shareholders resolved to discontinue the transfer to the statutory reserve as the reserve reached 50% of the Company's paid up share capital.

Proposed dividend

The Board of Directors proposed a cash dividend of USD 185 million for the year ended 31 December 2020 (2019: USD 368 million) which is subject to the approval of shareholders of the Company at the Annual General Assembly. This dividend has not been recorded in the accompanying consolidated financial statements and will be recorded when approved by the shareholders. On 20 February 2020, the shareholders approved the dividend for the year ended 31 December 2019 and accordingly USD 368 million (2018: USD 1,031 million), representing 17.99 cents per share (2019: 50.38 cents per share) was paid by the Group.

15. 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
Amortisation for the year	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 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 Group was jointly and severally a guarantor along with TKOC for these loans and the terms included customary covenants requirements. In 2016, the Group drewdown USD 2 billion and USD 0.5 billion from Tranche A and Tranche B, respectively.

In 2017, the 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 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 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 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:

	USD million			
	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	**31 December 2020**	**31 December 2019**
Islamic financing	Tranche A	Bullet repayment on 5th year	-	188
Conventional financing	Tranche A	Bullet repayment on 5th year	-	1,712
Islamic financing		Bullet repayment on 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 Group 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 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 year, the 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 the Company and TKOC. all the notes are listed on EURONEXT.

At the reporting date, the following 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.	1,000	-
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 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 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.

16. Deferred income

Deferred income comprises of the following:

	USD million	
	2020	**2019**
Reservation right fees for Olefins II project	260	292
Reservation right fees for Sea Cooling Tower	105	-
Government grants	6	7
Others	1	1
	372	300

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 TKOC, TKSC and KPPC for securing offtake from Sea Cooling Tower owned and operated by the Company, to the extent of acquisition cost of Sea Cooling Tower incurred by the Company. The deferred income is amortised over the useful life of Sea Cooling Tower, which is 20 years.

Government grants - The 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	335	268
Current portion of deferred income	37	32
	372	300

17. 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 consolidated 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 consolidated 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 consolidated 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 Company's defined benefit obligation is unfunded. However, the subsidiaries 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 incentives	9	7

18. Trade and other payables

	USD million	
	2020	**2019**
Trade payables	201	198
Staff incentives	1	44
Staff saving schemes (Note 13)	45	52
Staff leave and other employee benefits	17	12
Accrual for KFAS and Zakat	10	17
Income tax	30	42
Accrued turnaround and capital expense	14	10
Interest payable	57	29
Others	91	53
	466	457

19. Cost of sales

	USD million	
	2020	**2019**
Materials	1,705	2,028
Distribution expenses	280	265
Staff cost	150	216
Depreciation and amortisation	320	282
Other	118	73
	2,573	2,864

20. General, administrative and selling expenses

	USD million	
	2020	**2019**
Staff costs	22	38
Depreciation	9	3
Selling expenses	23	40
Others	2	2
	56	83

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

KFAS is calculated at 1% of the net profit for the year of the Company after deducting the transfer to statutory reserve.

22. Contribution to Zakat

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

23. Board of Director's remuneration

The total remuneration payable to the Board of directors during the year amounted to USD 74,563 (2019: USD 74,563). The same is disclosed as nil on the face of the consolidated statement of profit or loss due to rounding off to millions. This is subject to approval of shareholders in the Annual General Meeting.

24. Additional Business and Geographical Information

Basis for segmentation

The Group has one significant business segment i.e.; Performance Materials & Chemicals ("PMC"), which is the reportable segment. 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 and key members of management, reviews the internal management reports of segments to monitor the performance and allocate capital. Earnings before Interest, Tax, Depreciation and Amortization ("EBITDA") is the key measure used to monitor the performance of business because management believes that this information is the most relevant in evaluating the results of the business relative to other entities that operate in the similar industries. In addition to PMC business, the Group is engaged in managing operations of petrochemical plants of certain related parties, which did not meet the quantitative threshold for reportable segment.

Information about reportable segments

	2020 USD million			2019 USD million		
	PMC	**Others**	**Total**	**PMC**	**Others**	**Total**
External segment revenue	2,736	250	2,986	3,115	302	3,417
EBITDA	636	54	690	757	7	764
Net profit	168	17	185	361	7	368
Interest income	(6)	-	(6)	(24)	-	(24)
Interest expenses	215	12	227	191	-	191
Depreciation, amortization and reservation right fees	272	25	297	253	-	253
Income tax / KFAS /Zakat	(13)	-	(13)	(24)	-	(24)

Revenue by product / services and geography

PMC business is managed on a worldwide basis, but operate manufacturing facilities and sales offices primarily in Kuwait, Canada, Germany, Dubai, Hong Kong and Singapore. The geographical information analyses the Group's revenue by the Company's country of domicile and other countries. In presenting the geographical information, the segment revenue has been determined based on geographic location of customers.

	EG (USD million)	PE (USD million)	PET (USD million)	Others (USD million)	Total (USD million)
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	-	250	607
External revenue	1,809	657	270	250	2,986

	EG (USD million)	PE (USD million)	PET (USD million)	Others (USD million)	Total (USD million)
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	-	302	731
External revenue	2,025	736	354	302	3,417

* 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 revenue.

Timing of revenue recognition

	USD million	
	2020	**2019**
Products transferred at a point in time	2,525	2,941
Products and services transferred over time	211	174
Revenue from contracts with customers	2,736	3,115
Other revenue	250	302
	2,986	3,417

EBIDTA by product line	EG (USD million)	PE (USD million)	PET (USD million)	Others (USD million)	Total (USD million)
31 December 2020	336	296	4	54	690
31 December 2019	436	301	20	7	764

25. Financial risk management

Overview

The Group 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 Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Finance Committee, which is responsible for developing and monitoring the Group'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 Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. 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 Group's Corporate Treasury function provides treasury 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 Group 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 Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group'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 Group:

	USD million	
	2020	2019
Trade receivables	364	415
Due from related parties	142	45
Loans to related parties	-	81
Notes receivables	67	-
Other receivables	159	87
Bank balances	733	798
	1,465	1,426

Trade receivables

The Company'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 Group have a credit evaluation and customer acceptance system in place. The Group 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 Group 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 Group 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 Group'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 Group 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 Group 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 Group'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 has been credit impaired.

In determining the recoverability of a trade receivable, the Group 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 & Gulf Cooperation Council countries (GCC)	23	39
North America	28	35
Asia	174	235
Europe	66	51
Other regions	73	55
	364	415

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

	USD million			
	2020		2019	
	Non-credit impaired	*Credit impaired*	*Non-credit impaired*	*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 Company 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 Company considers that its bank balances have low credit risk based on the external credit ratings of the counterparties, therefore, the 12-month ECL computed on the bank balances and term deposits is considered negligible.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group'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 Group'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 Group's short, medium and long-term funding and liquidity management requirements. The Group 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 Group's non-derivative financial liabilities based on the remaining period at the consolidated 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	466	-	-	-	466	466
Due to related parties	282	-	-	-	282	282
Loans and borrowings	177	1,174	764	3,459	5,574	4,621
Lease liabilities	42	45	139	264	490	368
Total	967	1,219	903	3,723	6,812	5,737
As at 31 December 2019						
Trade and other payables	457	-	-	-	457	457
Due to related parties	194	-	-	-	194	194
Notes payables to related parties	23	-	-	-	23	23
Loans and borrowings	185	166	3,241	1,852	5,444	4,607
Lease liabilities	63	67	210	468	808	573
Total	922	233	3,451	2,320	6,926	5,854

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

Foreign currency risk

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

The Groups' 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	95	15	70	64	244
Liabilities	(268)	(31)	(573)	(17)	(889)
Net exposure	(173)	(16)	(503)	47	(645)
31 December 2019					
Assets	79	63	67	156	365
Liabilities	(197)	(252)	(613)	(101)	(1,163)
Net exposure	(118)	(189)	(546)	55	(798)

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 32 million (2019: USD 40 million).

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

	USD million	
	2020	**2019**
Long position		
KD	827	741
CAD	107	216
Euro	199	225
Others	25	4
Short position		
KD	419	224
CAD	94	110
Euro	327	124
Others	49	8

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$ 9 million (2019:US$ 3 million).

Interest rate risk

The Group 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 Group's exposure to interest rates on financial assets and financial liabilities are disclosed in Notes 10, 13 and 15 to the consolidated 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 Group 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.

26. Commitments and contingent liabilities

Commitments

The Group has a fixed gas purchase commitment with a related party of approximately USD 1 million (2019: USD 1 million) per day until the agreement is cancelled in writing by both 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 Group under the Ethylene Supply Agreement has a commitment to purchase and obligates DCC ULC to supply a contract quantity of ethylene each year through 2024 with an additional two five year extensions through to 2034 in respect of the manufacturing plants in Alberta.

The 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 25 years, starting from 2019.

In addition to the above, the Group has the following commitments and contingent liabilities outstanding as at 31 December:

	USD million	
	2020	2019
Letters of credit and letters of guarantee	5	1
Capital commitments	26	23

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 these assessments.

27. Capital management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. There were no changes in the Group's approach to Capital Management during the year.

The capital structure of the Group consists of debt, which includes the loans and borrowings net of loans to and from related parties, cash and bank balances and equity, comprising issued capital, treasury shares, statutory reserves and retained earnings.

The Company is not subject to externally imposed capital requirements, except the minimum capital requirement of the Companies Law No. 1 of 2016, as amended and its Executive Regulations.

28. 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 Group experienced among other things decline in revenue and profit. leading to an impact on the Group'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 Group'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 Group has taken several executive decisions in response to minimise the financial impact as a result of the pandemic. In addition to the above, the Group also expects the market to recover in the coming months with an upward trend in the market prices subsequent to the year end.

The Group 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 Group has considered potential impacts of the current economic volatility in determination of the reported amounts of the Group'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.