

**Combined condensed interim financial information  
of  
EQUATE Petrochemical Company K.S.C.C. and subsidiaries  
("EQUATE Group")  
and  
The Kuwait Olefins Company K.S.C.C. ("TKOC")  
for the six-month period ended 30 June 2021**

**EQUATE Group and TKOC  
State of Kuwait**

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

The Shareholders

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

## Introduction

We have reviewed the accompanying combined condensed interim financial information of EQUATE Petrochemical Company K.S.C.C. ("EQUATE") and its subsidiaries (together "EQUATE Group") and The Kuwait Olefins Company K.S.C.C. ("TKOC") (together referred to as "the Reporting Entity"), which comprises the combined condensed statement of financial position as at 30 June 2021, the combined condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the combined condensed interim financial information. Management is responsible for the preparation and presentation of these combined condensed interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these combined condensed interim financial information based on our review.

## Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying combined condensed interim financial information as at and for the six months ended 30 June 2021 are not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.



## Emphasis of matter – Basis of preparation

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

Safi A. Al-Mutawa  
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of KPMG Safi Al-Mutawa & Partners  
Member firm of KPMG International


Kuwait: 15 August 2021

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

*as at 30 June 2021*

	Note	US\$ million	
		30 June 2021	31 December 2020 (Audited)
<b>Assets</b>			
Property, plant and equipment		2,998	3,096
Goodwill		1,689	1,689
Intangible assets		315	332
Right-of-use assets		365	377
Deferred tax assets		74	74
Deferred charges and other assets		875	889
<b>Non-current assets</b>		<b>6,316</b>	<b>6,457</b>
Inventories		212	197
Due from related parties	5	41	55
Trade and other receivables		885	523
Deferred charges and other assets		42	42
Cash and bank balances	3	729	733
<b>Current assets</b>		<b>1,909</b>	<b>1,550</b>
<b>Total assets</b>		<b>8,225</b>	<b>8,007</b>
<b>Equity</b>			
Share capital		1,080	1,080
Treasury shares		(450)	(450)
Statutory reserve		540	540
Retained earnings		543	358
Remeasurement of retirement benefit obligation		(41)	(41)
Foreign currency translation reserve		32	34
Hedge reserve		(0)	-
<b>Total equity</b>		<b>1,704</b>	<b>1,521</b>
<b>Liabilities</b>			
Loans and borrowings	4	4,324	4,621
Deferred income		154	165
Lease liability		304	316
Deferred tax liabilities		168	168
Retirement benefit obligation		441	436
Long term incentives		0	3
<b>Non-current liabilities</b>		<b>5,391</b>	<b>5,709</b>
Loans and borrowings	4	427	-
Long term incentives		5	4
Lease liability		65	65
Deferred income		17	17
Due to related parties	5	103	206
Trade and other payables		513	485
<b>Current liabilities</b>		<b>1,130</b>	<b>777</b>
<b>Total liabilities</b>		<b>6,521</b>	<b>6,486</b>
<b>Total equity and liabilities</b>		<b>8,225</b>	<b>8,007</b>

The attached notes on pages 7 to 24 form an integral part of these combined condensed interim financial information.

  
Naser Al-Dousari  
President & Chief Executive Officer

  
Phisanu Sermchaiwong  
Chief Financial Officer

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

*for the six month period ended 30 June 2021*

	Note	US\$ million	
		2021	2020
Sales	6	2,041	1,423
Cost of sales		(1,323)	(1,167)
<b>Gross profit</b>		<b>718</b>	<b>256</b>
Management fee	5	3	3
Reservation right fees		11	8
General, administrative and selling expenses		(35)	(41)
Other income		0	1
Foreign exchange (loss) / gain		(1)	1
<b>Profit from operations</b>		<b>696</b>	<b>228</b>
Finance income		3	5
Finance costs		(130)	(111)
<b>Profit before contribution to Kuwait Foundation for the Advancement of Sciences (“KFAS”), Zakat, tax on subsidiaries and Board of Directors’ remuneration</b>		<b>569</b>	<b>122</b>
Contribution to KFAS		(6)	(2)
Contribution to Zakat		(3)	(1)
Tax on subsidiaries		(17)	5
Board of Directors’ remuneration		(0)	(0)
<b>Net profit for the period</b>		<b>543</b>	<b>124</b>
<b>Other comprehensive income</b>			
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Foreign currency translation differences		(2)	(23)
Fair value of cashflow hedge		(0)	-
<b>Other comprehensive loss for the period</b>		<b>(2)</b>	<b>(23)</b>
<b>Total comprehensive income for the period</b>		<b>541</b>	<b>101</b>

The attached notes on pages 7 to 24 form an integral part of these combined condensed interim financial information.

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

*for the six month period ended 30 June 2021*

	US\$ million							
	Share capital	Treasury shares	Statutory reserve	Retained earnings	Remeasurement of retirement benefit obligation	Foreign currency translation reserve	Hedge reserve	Total
<b>Balances as at 1 January 2020 (audited)</b>	1,080	(450)	540	638	(32)	20	-	1,796
Net profit for the period	-	-	-	124	-	-	-	124
Other comprehensive loss	-	-	-	-	-	(23)	-	(23)
<b>Total comprehensive income for the period</b>	-	-	-	124	-	(23)	-	101
Dividends	-	-	-	(638)	-	-	-	(638)
<b>Balance as at 30 June 2020</b>	<u>1,080</u>	<u>(450)</u>	<u>540</u>	<u>124</u>	<u>(32)</u>	<u>(3)</u>	<u>-</u>	<u>1,259</u>
<b>Balances as at 1 January 2021 (audited)</b>	1,080	(450)	540	358	(41)	34	-	1,521
Net profit for the period	-	-	-	543	-	-	-	543
Other comprehensive loss	-	-	-	-	-	(2)	(0)	(2)
<b>Total comprehensive income for the period</b>	-	-	-	543	-	(2)	-	541
Dividends	-	-	-	(358)	-	-	-	(358)
<b>Balance as at 30 June 2021</b>	<u>1,080</u>	<u>(450)</u>	<u>540</u>	<u>543</u>	<u>(41)</u>	<u>32</u>	<u>(0)</u>	<u>1,704</u>

The attached notes on pages 7 to 24 form an integral part of these combined condensed interim financial information.

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

*for the six month period ended 30 June 2021*

	Note	US\$ million	
		2021	2020
<b>Cash flows from operating activities</b>			
Net profit for the period		543	124
<i>Adjustments for:</i>			
Depreciation		144	149
Amortisation of intangibles and deferred assets		40	40
Reservation right fees		(11)	(8)
Deferred income tax		-	(8)
Finance costs		130	111
Finance income		(3)	(5)
Provision for retirement benefit obligation		22	23
Foreign exchange loss on retirement benefit obligations		6	(9)
Provision for long term incentives		1	3
		<u>872</u>	<u>420</u>
<i>Changes in:</i>			
Inventories		(15)	6
Due from related parties		14	(4)
Trade and other receivables		(362)	(73)
Deferred charges and other assets		(6)	(21)
Due to related parties		(103)	5
Trade and other payables		18	(115)
Retirement benefit obligation paid		(19)	(18)
Long term incentives paid		(3)	(3)
<b>Net cash from operating activities</b>		<u>396</u>	<u>197</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(16)	(24)
Investment in staff saving scheme		(1)	(1)
Finance income received		5	13
<b>Net cash used in investing activities</b>		<u>(12)</u>	<u>(12)</u>
<b>Cash flows from financing activities</b>			
Repayment of long-term loans	4	-	(1,900)
Buy back of notes	4	(572)	-
Proceeds from issue of new notes	4	699	1,600
Proceeds from bilateral loans	4	-	300
Loan origination fee paid	4	(4)	(9)
Lease payments		(22)	(34)
Finance costs paid		(132)	(103)
Dividends paid		(358)	(382)
<b>Net cash used in financing activities</b>		<u>(389)</u>	<u>(528)</u>
Net decrease in cash and cash equivalents		(5)	(343)
Cash and cash equivalents at beginning of the period		678	750
<b>Cash and cash equivalents at end of the period</b>	3	<u>673</u>	<u>407</u>

The attached notes on pages 7 to 24 form an integral part of these combined condensed interim financial information.

**Notes to the combined condensed interim financial information of  
EQUATE Group and TKOC  
State of Kuwait**

*for the six month period ended 30 June 2021*

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**1. Reporting entity**

EQUATE Petrochemical Company K.S.C.C. ("EQUATE") is a closed Kuwaiti Shareholding Company incorporated in the State of Kuwait on 20 November 1995. EQUATE is primarily engaged in manufacturing and sale of Ethylene Glycol ("EG"), polyethylene ("PE") and polyethylene terephthalate ("PET"). EQUATE also operates and maintains Olefins II, Styrene, Aromatics and Polypropylene plants on behalf of its related entities in Kuwait.

The Kuwait Olefins Company K.S.C.C. ("TKOC") is a closed Kuwaiti Shareholding Company incorporated in the State of Kuwait on 10 October 2004 and is primarily engaged in the manufacturing and sale of Ethylene and Ethylene Glycol ("EG"). TKOC is owned by EQUATE's shareholders and is managed by EQUATE's management. Additionally, the manufacturing plants of both EQUATE and TKOC are integrated and operated and managed by EQUATE's management under various agreements.

EQUATE and TKOC are owned by Dow Europe Holding B.V. ("DEHBV"), Petrochemical Industries Company K.S.C. ("PIC"), Boubyan Petrochemical Company K.S.C. ("BPC") and Al-Qurain Petrochemical Industries Company K.S.C. ("QPIC"). The shareholding of both the companies are identical and they are under common control. The registered address of both the companies is Central Ahmadi, Block 12, Kuwait.

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

EQUATE and its subsidiaries set out below, together referred as "EQUATE Group" and EQUATE Group and TKOC together referred as "the Reporting Entity".

The combined condensed interim financial information, which is the responsibility of the management of the Reporting Entity, is being presented with the sole purpose of providing, in a single set of financial information related to the combined financial position and combined financial performance of the Reporting Entity. The combined condensed interim financial information is being prepared by and at the level of the common shareholders of EQUATE and TKOC. This combined condensed interim financial information of the Reporting Entity was prepared for presentation to lenders of EQUATE Group.

The combined condensed interim financial information as at and for the period ended 30 June 2021 comprises of the condensed consolidated interim financial information of EQUATE Group and condensed interim financial information of TKOC. List of directly and indirectly owned subsidiaries of EQUATE is as follows:

**Notes to the combined condensed interim financial information of  
EQUATE Group and TKOC  
State of Kuwait**

*for the six month period ended 30 June 2021*

Name of entity	Country of incorporation	Principal business	Percentage of holdings	
			30 June 2021	31 December 2020
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%	100%
<b>Held through EQUATE BV</b>				
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 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%	100%
Equipolymers GmbH	Germany	Manufacturing and sales of PET	100%	100%
Equipolymers Srl	Italy	Marketing of PET	100%	100%
<b>Held through MEGC</b>				
Alberta & Orient Glycol Company ULC	Canada	Manufacturing and sales of EG	100%	100%

These combined condensed interim financial information were authorised for issue by the President & Chief Executive Officer and Chief Financial Officer of the Reporting Entity on 15 August 2021.

## 2. Basis of preparation

### a) Statement of compliance

These combined condensed interim financial information for the six months period ended 30 June 2021 have been prepared in accordance with IAS 34 *Interim Financial Reporting*, and should be read in conjunction with the Reporting Entity's last annual combined financial statements as at and for the year ended 31 December 2020 ("last annual combined financial statements"). They do not include all of the information required for a complete set of financial statements prepared in accordance with IFRS Standards. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Reporting Entity's financial position and performance since the last annual combined financial statements. Operating results for the six month period ended 30 June 2021 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2021.

**Notes to the combined condensed interim financial information of  
EQUATE Group and TKOC  
State of Kuwait**

*for the six month period ended 30 June 2021*

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b) Basis of combination

This combined condensed interim financial information has been prepared by combining condensed consolidated interim financial information of EQUATE Group and condensed interim financial information of TKOC for the six month period ended 30 June 2021, prepared in accordance with IAS 34 *Interim Financial Reporting*.

This combined condensed interim financial information has been prepared as following:

- Financial information is combined on a line-by-line basis by adding together assets, liabilities, income and expenses;
- Share capital and reserves are aggregated;
- Inter-company transactions and balances are eliminated; and
- Taxes have been determined based on the tax charges recorded by individual entities.

c) Judgments and estimates

In preparing these combined condensed interim financial information, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Reporting Entity's accounting policies and the key sources of estimation uncertainty are the same as those described in the last annual combined financial statements.

d) Significant accounting policies

The accounting policies applied in these combined condensed interim financial information are the same as those applied in the Reporting Entity's combined financial statements as at and for the year ended 31 December 2020 except for the amendments to IFRS which are effective for annual accounting period starting from 1 January 2021 and policy on hedge accounting.

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted. The Reporting Entity has not early adopted any of the forthcoming new or amended standards in preparing these combined condensed interim financial information.

i) Derivative financial instruments and hedge accounting

The Reporting entity uses derivative financial instruments, such as forward currency contracts and forward commodity contracts, to hedge its foreign currency risks and commodity price risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

**Notes to the combined condensed interim financial information of  
EQUATE Group and TKOC  
State of Kuwait**

*for the six month period ended 30 June 2021*

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For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment;
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment;
- Net investment hedges.

At inception of designated hedging relationships, the Reporting Entity documents the risk management objective and strategy for undertaking the hedge. The Reporting Entity also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

*Fair value hedges*

The change in the fair value of a hedging derivative is recognised in the combined condensed statement of profit or loss. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying value of the hedged item and is also recognised in the combined condensed statement of profit or loss. For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the combined condensed statement of profit or loss over the remaining term to maturity. Amortisation may begin as soon as an adjustment exists and shall end no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the combined condensed statement of profit or loss. When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the combined condensed statement of profit or loss.

*Cash flow hedges*

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income (OCI) and accumulated in the hedge reserve. The effective portion of changes in the fair value of the derivative that is recognised in OCI is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in combined condensed statement of profit or loss.

The Reporting Entity's designates only the change in fair value of the spot element of forward contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the forward element of forward contracts (forward points) is separately accounted for as a cost of hedging and recognised in a cost of hedge reserve within equity.

When the hedged forecast transaction subsequently results in the recognition of a non-financial item such as inventory, the amount accumulated in the hedge reserve and the cost of hedge reserve is included directly in the initial cost of the non-financial item when it is recognised.

**Notes to the combined condensed interim financial information of  
EQUATE Group and TKOC  
State of Kuwait**

*for the six month period ended 30 June 2021*

For all other hedged forecast transactions, the amount accumulated in the hedge reserve and the cost of hedge reserve is reclassified to profit or loss in the same period or periods during which the hedged expected future cash flows affect profit or loss.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedge reserve remains in equity until, for a hedge of a transaction resulting in the recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to combined condensed statement of profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedge reserve and the cost of hedge reserve are immediately reclassified to combined condensed statement of profit or loss.

*Net investment hedges*

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of a derivative or foreign exchange gains and losses for a non-derivative is recognised in OCI and presented in the translation reserve within equity. Any ineffective portion of the changes in the fair value of the derivative or foreign exchange gains and losses on the nonderivative is recognised immediately in combined condensed statement of profit or loss. The amount recognised in OCI is fully or partially reclassified to combined condensed statement of profit or loss as a reclassification adjustment on disposal or partial disposal of the foreign operation, respectively.

**3. Cash and bank balances**

	<b>US\$ million</b>	
	<b>30 June 2021</b>	<b>31 December 2020</b>
		<b>(Audited)</b>
Cash balances	0	0
Bank balances	299	253
Term deposits	430	480
Total cash and bank balances	729	733
Less: Amount reserved relating to staff saving scheme	(56)	(55)
Cash and cash equivalents for the statement of cash flows	673	678

The effective interest rate on time deposits as at 30 June 2021 was 0.36% (as at 31 December 2020: 1.16%) per annum.

**Notes to the combined condensed interim financial information of  
EQUATE Group and TKOC  
State of Kuwait**

*for the six month period ended 30 June 2021*

**4. Loans and borrowings**

	<b>US\$ million</b>	
	<b>30 June 2021</b>	<b>31 December 2020 (Audited)</b>
Balance at 1 January	4,621	4,607
Loan origination fee	(4)	(10)
Amortization for the period	7	24
Repayment of long term loan	-	(1,900)
Issue of conventional bonds	699	1,600
Buy back of bonds	(572)	-
New loan facilities (Murabaha and Term loan facility)	-	300
Balance at 30 June	<u>4,751</u>	<u>4,621</u>
Non-current	4,324	4,621
Current	<u>427</u>	<u>-</u>
	<u>4,751</u>	<u>4,621</u>

*Long term loan*

In 2016, the EQUATE Group had secured a US\$ 5 billion long term loan (“Term Loan”) from a consortium of banks. The Term Loan consisted of US\$ 2 billion Tranche A 5-year bullet facility, US\$ 2 billion Tranche B 3-year bullet facility and US\$ 1 billion 3 year revolving credit facility. The EQUATE Group was jointly and severally a guarantor along with TKOC for these loans and the terms included customary covenants requirements. In 2016, the EQUATE Group drawdown US\$ 2 billion and US\$ 0.5 billion from Tranche A and Tranche B, respectively.

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

In 2018, the EQUATE Group completed the restructuring of Term Loans and extended the Tranche A term loan facility until 23 June 2023, revolver credit facility until 23 June 2022 and spread on both term loan and the revolver credit facility was reduced. As part of the amendment and extension of the facilities, the Group repaid an amount of US\$ 100 million, thereby reducing the Tranche A Term Loan outstanding balance to US\$ 1.9 billion.

During 2020, the EQUATE Group fully settled Tranche A Term Loan amounting to US\$ 1,900 million using the proceeds from issuance of new notes amounting to US\$ 1,600 million and a new 3-year Term and Murabaha loans amounting to US\$ 300 million. Murabaha and Term Loan are repayable in 2023 and are guaranteed by TKOC. Additionally, the existing revolver facility commitment was reduced to US\$ 500 million and maturing in June 2022. In 2020, the EQUATE Group has extended US\$ 425 million of this revolver facility until 2023. The EQUATE Group has an option to extend maturity of the revolver facility by one more year until June 2024.

**Notes to the combined condensed interim financial information of  
EQUATE Group and TKOC  
State of Kuwait**

*for the six month period ended 30 June 2021*

As at reporting date, the details of the Term & Murabaha Loan and revolving credit facility are as follows:

	US\$ million		
	Term and Murabaha loan	Revolving credit facility	Total Facility
<b>30 June 2021</b>			
Islamic financing	75	47	122
Conventional financing	225	453	678
	<u>300</u>	<u>500</u>	<u>800</u>
<b>31 December 2020 (Audited)</b>			
Islamic financing	75	47	122
Conventional financing	225	453	678
	<u>300</u>	<u>500</u>	<u>800</u>

Drawn / outstanding as at 30 June 2021 is as follows:

	Repayment terms	US\$ million	
		30 June 2021	31 December 2020 (Audited)
Islamic financing	Bullet repayment on 3 <sup>rd</sup> year	75	75
Conventional financing	Bullet repayment on 3 <sup>rd</sup> year	225	225
		<u>300</u>	<u>300</u>

The effective interest rate as at 30 June 2021 on the Term and Murabaha loans is 2.68% (31 December 2020: 2.70%).

At the reporting date, the Reporting Entity had available for its utilization, US\$ 500 million (31 December 2020: US\$ 500 million) of undrawn committed revolving credit facility.

*Medium term notes*

In 2016, the EQUATE Group established a US\$ 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 (5.4 and 10 years).

In 2020, the EQUATE Group established a US\$ 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 (5 and 10 years).

During the period, the Group updated the US\$ 4 billion GMTN 1 (“GMTN 3”), and on 28 April 2021 EQUATE B.V issued notes (“GMTN 3 notes”) amounting to US\$ 700 million with 7 years tenor maturing in 2028.

**Notes to the combined condensed interim financial information of  
EQUATE Group and TKOC  
State of Kuwait**

*for the six month period ended 30 June 2021*

The payments due in respect of both GMTN 1, GMTN 2 and GMTN 3 notes are unconditionally and irrevocably guaranteed, jointly and severally, and not severally, by EQUATE and TKOC. All the notes are listed on EURONEXT.

During the period, the EQUATE Group bought back GMTN 1 notes amounting to US\$ 572 million, which was to mature in 2022, at a price of 102.375 per cent. The loss on buy back, net of write off of unamortised loan origination fees, amounting US\$ 14 million is included in finance cost.

At the reporting date, EQUATE Group had issued following outstanding Notes.

	US\$ million	
	30 June 2021	31 December 2020
i) Fixed interest rate Notes (GMTN 1 notes) amounting to US\$ 428 million (31 December 2020: US\$ 1,000 million), having a term of 5.4 years, maturing in March 2022, with an effective interest rate of 3.338% and carrying a coupon rate of 3% per annum payable on a semi-annual basis.	427	983
ii) Fixed interest rate Notes (GMTN 1 notes) amounting to US\$ 1,250 million having a term of 10 years, maturing in November 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 (GMTN 2 notes) amounting to US\$ 1,000, million having a term of 5 years, maturing in May 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	1,000
iv) Fixed interest rate Notes (GMTN 2 notes) amounting to US\$ 600, million having a term of 10 years, maturing in May 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	600
v) Fixed interest rate Notes (GMTN 3 notes) amounting to US\$ 700, million having a term of 7 years, maturing in April 2028, with an effective interest rate of 2.641% and carrying a coupon rate of 2.625% per annum payable on a semi-annual basis	699	-
	<u>3,961</u>	<u>3,818</u>

As at 30 June 2021, medium term notes described in i), ii), iii) and iv) above are quoted at 101.69, 111.31, 112.16 and 123.71 respectively (31 December 2020: 102.18, 111.93, 113.00 and 124.87 respectively). The medium term notes described in v) are quoted at 101.15. These quotes are based on level 1 inputs of fair value.

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*Sukuk programme*

In December 2016, the EQUATE Group established a US\$ 2 billion Sukuk programme (Sukuk 1) and issued trust certificates amounting to US\$ 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 payments due in respect of trust certificates is guaranteed by the EQUATE and TKOC and is listed on Euronext Dublin. As at 30 June 2021, trust certificates are quoted at 107.58 (31 December 2020: 106.91), based on level 1 inputs.

During 2020, the EQUATE Group updated the US\$ 2 billion Sukuk 1 (Sukuk 2). No trust certificates are issued yet under Sukuk 2.

**5. Related party transactions**

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

EQUATE Marketing Company EC, Bahrain ("EMC"), which is owned by PIC and DEHBV, is the exclusive sales agent in certain territories for the marketing of PE produced by the EQUATE. EQUATE reimburses all the actual expenses incurred by EMC.

During 2004, DEHBV and PIC initiated a number of joint venture petrochemical projects ("Olefins II projects") in Kuwait to manufacture polyethylene, ethylene glycol and styrene monomer. The Olefins II projects consist of the EQUATE expansion project, and the incorporation and development of TKOC, The Kuwait Styrene Company K.S.C.C. ("TKSC") and Kuwait Aromatics Company K.S.C.C. ("KARO"). TKSC is a joint venture of DEHBV (42.5%) and KARO (57.5%). KARO is owned by PIC (20%), Kuwait National Petroleum Company K.S.C. ("KNPC") (60%) and QPIC (20%).

On 2 December 2004, EQUATE signed a Materials and Utility Supply Agreement ("MUSA") with TKOC, TKSC, KARO and PIC. Under the terms of the MUSA, EQUATE receives a reservation right fee from the above entities that equals the total capital construction costs incurred by EQUATE on the new utilities and infrastructure facilities under the Olefins II projects.

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

On 2 December 2004, TKOC signed an Ethylene supply agreement with EQUATE and TKSC. Under the terms of the agreement, the price per metric tonne of ethylene is paid by TKSC based on the quantity delivered to them at contract price.

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

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

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During 2020, EQUATE acquired a sea cooling tower from PIC for a consideration of US\$ 105 million. Previously, the sea cooling tower was leased by the EQUATE and accounted under IFRS 16 and accordingly the right of use assets and the respective lease liability was derecognised, and the sea cooling tower was recognised as a property, plant and equipment in the financial statement. The outputs from the sea cooling tower is reserved by TKOC, TKSC and KPPC for reservation right fees received.

**Operational Facility**– Under the cash management services provided by MEG B.V, the EQUATE Group’s subsidiaries and TKOC have an overnight cash sweeping facility with MEG B.V. Under this arrangement, the EQUATE Group entities and TKOC sweep selected bank accounts with MEG B.V. This allows the EQUATE Group entities and TKOC to either invest or borrow funds on an overnight basis. Under the terms of the agreement, the subsidiaries and TKOC can borrow or deposit with MEG B.V at an interest rate of LIBOR plus a positive spread set by the Management. The spread is determined by taking into consideration of economic factors such as the creditworthiness of counterpart, characteristics of the debt financing arrangement etc. These are indefinite credit arrangements subject to termination by either party of which the interest is accrued monthly.

All transactions with related parties are carried out on a negotiated contract basis.

The following is a description of significant related party agreements and transactions, other than described above:

- a) Supply by Union Carbide Corporation (“UCC”) of technology and licences relating to manufacture of PE and EG
- b) Feed gas and fuel agreement with PIC
- c) Supply by the EQUATE Group of certain materials and services required by PIC to operate and maintain the polypropylene plant
- d) Excess EG Marketing Agreement
- e) General Services Agreement
- f) Secrecy Agreement
- g) Long Term Land Lease Agreement
- h) Site Services Agreement
- i) Employee Seconding Agreement
- j) Catalyst License Agreement
- k) Binding Term sheet – Gulf Coast
- l) Other Assignment and Assumption Agreements
- m) Ethylene supply agreement by MEGC with 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)

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Details of significant related party transactions are disclosed below:

US\$ million		
	30 June 2021	30 June 2020
<b>a) Sales and management fee</b>		
Polypropylene plant management fees from PIC	0	0
Styrene plant management fees from TKSC	1	1
Aromatics Plant management fees from KPPC	2	2
Sale of utilities and services to KPPC, TKSC and PIC	20	25
Operating cost reimbursed by PIC for running of Polypropylene plant	4	14
Operating and utility cost reimbursed by TKSC for running of Styrene plant	26	21
Operating and utility cost reimbursed by KPPC for running of Aromatics plant	37	36
US\$ million		
	30 June 2021	30 June 2020
<b>b) Purchases and expenses</b>		
Feed gas and fuel gas purchased from KPC	167	166
Catalyst purchased from Dow Chemical Canada ULC	-	22
Ethylene Purchase from Dow Chemical Canada ULC	110	96
Ethylene Purchase from TDCC	53	57
Service cost reimbursed to Dow Chemical Canada ULC	7	7
Service cost reimbursed to TDCC	4	6
Service cost reimbursed to DEHBV	18	17
Glycol purchase from TDCC	73	50
Purchase of sea cooling water from PIC	-	11
Catalyst purchased from UNIVATION	6	-
Operating costs reimbursed to EMC	1	1
Staff secondment costs reimbursed to DEHBV	1	2
Tugging fees payments to Kuwait Oil Company K.S.C.C. ("KOC")	4	4
<b>c) Key management compensation</b>		
Salaries, short term and terminal benefits	3	2

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		<b>US\$ million</b>	
		<b>30 June 2021</b>	<b>31 December 2020</b>
			<b>(Audited)</b>
<b>d) Due from related parties</b>			
Due from PIC	4	8	
Due from UCC	2	0	
Due from TDCC	2	1	
Due from Dow Chemical Canada ULC	8	9	
Due to Dow Europe GMBH	2	2	
Due from TKSC	11	27	
Due from KPPC	10	5	
Due from KPC	0	1	
Due from Kuwait National Petroleum Corporation K.S.C.C.	2	2	
Due from Others	0	0	
	<b>41</b>	<b>55</b>	
		<b>US\$ million</b>	
		<b>30 June 2021</b>	<b>31 December 2020</b>
			<b>(Audited)</b>
<b>e) Due to related parties</b>			
Due to KPC	78	67	
Due to PIC	3	95	
Due to Kuwait Oil Company K.S.C	1	23	
Due to TDCC	12	2	
Due to Dow Olefinverbund GMBH	-	1	
Due from Dow Chemical Canada ULC	1	1	
Due to Dow Canada Limited	4	1	
Due to DEHBV	2	8	
Due to Dow Chemical China	-	4	
Due to KPPC	1	1	
Due to TKSC	1	1	
Others	0	2	
	<b>103</b>	<b>206</b>	

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**6. Additional Business and Geographical Information**

***Basis for segmentation***

The Reporting Entity have one significant business segment i.e; Performance Materials & Chemicals (“PMC”), which is the reportable segment. This business segment manufactures and markets different types of basic petrochemical products.

Equate Management Team (“EMT”), a committee comprises of certain board members of EQUATE Group and TKOC and key members of management, reviews the internal management reports of segments to monitor the performance and allocate capital. Earnings before Interest, Tax, Depreciation and Amortization (“EBITDA”) is the key measure used to monitor the performance of business because management believes that this information is the most relevant in evaluating the results of the business relative to other entities that operate in the similar industries. In addition to PMC business, EQUATE is engaged in managing operations of petrochemical plants of certain related parties, which did not meet the quantitative threshold for reportable segment.

***Information about reportable segments***

	US\$ million					
	30 June 2021			30 June 2020		
	PMC	Others	Total	PMC	Others	Total
External segment revenue	1,951	90	2,041	1,327	96	1,423
EBITDA	842	27	869	368	41	409
Net profit for the period	530	13	543	108	16	124
Interest income	(3)	-	(3)	(5)	-	(5)
Interest expenses	128	2	130	106	5	111
Depreciation, amortization and reservation rights	161	12	173	161	20	181
Income tax / KFAS / Zakat	26	0	26	(2)	(0)	(2)

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***Geographical information***

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

Revenue by product / services and geography	US\$ million				
	EG	PE	PET	Others	Total
<b>30 June 2021</b>					
Americas	265	-	-	-	265
North Asia	648	165	-	-	813
India sub-continental	236	34	-	-	270
Europe	146	62	157	-	365
Rest of the World*	58	180	-	90	328
External revenue	1,353	441	157	90	2,041

Revenue by product / services and geography	US\$ million				
	EG	PE	PET	Others	Total
<b>30 June 2020</b>					
Americas	154	-	-	-	154
North Asia	502	145	-	-	647
India sub-continental	97	20	-	-	117
Europe	82	29	139	-	250
Rest of the World*	41	118	-	96	255
External revenue	876	312	139	96	1,423

\* Rest of the World includes revenue from Kuwait of US\$ 30 million (2020: US\$ 23 million)

**Timing of revenue recognition**

	US\$ million	
	30 June 2021	30 June 2020
Products transferred at a point in time	1,848	1,216
Products and services transferred over time	103	111
Revenue from contracts with customers	1,951	1,327
Other revenue	90	96
	2,041	1,423

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EBITDA by product line	US\$ million				
	EG	PE	PET	Others	Total
<b>30 June 2021</b>	573	260	9	27	869
<b>30 June 2020</b>	243	123	2	41	409

**7. Financial instruments**

*Fair value measurement*

The fair value of the financial instrument is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction.

When measuring the fair value of an asset or a liability, the Reporting Entity uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

*Forward foreign exchange contracts*

Foreign currency exposure risks are managed by dealing in forward contracts within the pre-approved limits. The EQUATE Group deals in forward foreign exchange contracts to manage its foreign currency positions and cash flows. The net notional value of the forward exchange contracts (off Balance Sheet exposure) as at 30 June 2021 is as follows:

	US\$ million	
	30 June 2021	31 December 2020 (Audited)
<b>Long position</b>		
KD	1,031	827
CAD	117	107
Others	101	69
<b>Short position</b>		
KD	503	419
CAD	55	94
Others	131	68

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 30 June 2021 amounting to US\$ 23.5 million (31 December 2020: US\$ 12.5 million).

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*Cash flow hedge*

The Reporting Entity sells Monoethylene (MEG) in normal course of its business. The increased volatility in sale price of MEG over the past 12 months has led to the decision to enter into commodity forward contracts. The contracts are expected to reduce the volatility attributable to sale price fluctuations of MEG. Hedging the price volatility of forecast highly probable future sales of MEG is in accordance with the risk management strategy outlined by the Board of Directors.

The Reporting Entity applied hedge accounting in relation to these highly probable future sales where there was an economic relationship between the hedged item and hedging instrument. The existence of an economic relationship was determined at inception and prospectively by comparing the critical terms of the hedging instrument and those of the hedged item. The group entered into hedging derivatives that matched the notional amounts of the hedged items on a 1:1 hedge ratio basis. The hedge ratio was determined by comparing the notional amount of the derivative with the notional amount designated on the forecast transaction.

The hedge ineffectiveness can arise from:

- Differences in the timing of the cash flows of the hedged items and the hedging instruments
- Different indexes (and accordingly different curves) linked to the hedged risk of the hedged items and hedging instruments
- The counterparties' credit risk differently impacting the fair value movements of the hedging instruments and hedged items
- Changes to the forecasted amount of cash flows of hedged items and hedging instruments

The table below shows the fair values of derivative financial instruments, together with the notional amounts. Notional amounts represent amounts to which a price is applied to determine the amounts of cash flows to be exchanged and do not represent the potential gain or loss associated with the market or credit risk of such instruments.

	<b>US\$ million</b>	
	<b>30 June 2021</b>	<b>31 December 2020</b>
	<b>(Audited)</b>	
<i>Cash flow hedge</i>		
Notional amount:	4	1
Fair value	(0)	0

The Reporting Entity uses the level 2 hierarchy inputs to measure the fair value of derivative financial instruments. The carrying amounts of financial assets and financial liabilities that are liquid or have a short-term maturity are approximately equal to their fair value

The fair values of all financial instruments carried by the Reporting Entity as at 30 June 2021, that are not carried at fair value, are not materially different from their carrying values.

*Financial risk management*

All aspects of the Reporting Entity's financial risk management objectives and policies are consistent with those disclosed in the combined financial statements of EQUATE Group and financial statements of TKOC for the year ended 31 December 2020.

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**8. Commitments and contingent liabilities**

The Reporting Entity has a fixed gas purchase commitment with a related party of approximately US\$ 1 million (31 December 2020: US\$ 1 million) per day until the agreement is cancelled in writing by the parties.

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

The EQUATE Group under the Ethylene Supply Agreement has a commitment to purchase and obligates DCC ULC to supply a contract quantity of ethylene each year through 2024 with an additional two five year extensions through to 2034 in respect of manufacturing plants in Alberta.

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

MEGlobal International FZE has entered into short term arrangements to obtain the right to use 8,886,367 troy ounces (2020: 9,784,704 troy ounces) of silver with a variety of banks. The title and ownership of the silver rests with banks. These arrangements mature over various dates in 2021-22 and are guaranteed by MEGlobal BV. MEGlobal International FZE pays lease fees for these arrangements which are expensed over the terms of such arrangements and it also bears the risk of loss of silver resulting from usage. Further, MEGlobal International FZE has assigned the right to use silver to MEGlobal Americas Inc., MEGlobal Canada ULC and its wholly owned subsidiary Alberta & Orient Glycol Company ULC. for utilization in its manufacturing operations on similar terms.

The following summarizes the quantity and value of silver outstanding at 30 June 2021 under such arrangements:

Bank	30 June 2021			31 December 2020		
	Credit Limit US\$ million	Qty (TOZ)	Silver Value US\$ million	Credit Limit US\$ million	Qty (TOZ)	Silver Value US\$ million
HSBC	180	6,815,213	177	175	7,713,550	167
Sumitomo	100	2,071,154	57	100	2,071,154	50
Standard Chartered	85	-	-	85	-	-
Citibank	40	-	-	40	-	-
Total	405	8,886,367	234	400	9,784,704	217

In addition to the above, the Reporting Entity had the following commitments and contingent liabilities outstanding as at 30 June 2020:

	US\$ million	
	30 June 2021	31 December 2020 (Audited)
Letters of credit and letters of guarantee	5	5
Capital commitments	18	27

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*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 (US\$ 48.2 million) for 2013, CAD\$ 75 million (US\$ 58.7 million) for 2014 and CAD \$75.8 million (US\$ 59.2 million) for 2015. This has resulted in additional assessed federal, provincial and Part XIII tax impact of CAD\$ 31.6 million (US\$ 24.7 million) for 2013, tax impact of CAD\$ 38.3 million (US\$ 30 million) for 2014 and tax impact of CAD\$ 38.1 million (US\$ 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. The management is awaiting to get a date for the hearing from the appeals officer.

**9. Covid-19 update**

On 11 March 2020, the World Health Organization characterized the outbreak of Covid-19 as a global pandemic and recommended containment and mitigation measures. Since then, extraordinary actions have been taken by the governments around the world, including State of Kuwait, to contain and combat the outbreak and spread of Covid-19. These actions include travel bans, quarantines, “stay-at-home” orders, and similar mandates for many individuals to substantially restrict daily activities and for many businesses to curtail or cease normal operations. Whilst the restrictions are easing it remains unclear when the Covid-19 pandemic will abate.

The Reporting Entity continue to monitor the situation and its impact on the operation and financial position. As at the reporting date, the Reporting Entity does not expect that the impact of Covid-19 will result in a material uncertainty in its business operation. The Reporting Entity's projections show that the Reporting Entity has sufficient resources to continue in operational existence and its going concern position remains unaffected from Covid-19. Therefore, these combined condensed interim financial information have been prepared on a going concern basis.