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

Combined financial statements of EQUATE Group and TKOC
State of Kuwait

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Independent auditor's report

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

Opinion

We have audited the combined financial statements of Equate Petrochemical Company K.S.C.C ("EQUATE") and its subsidiaries (together "EQUATE Group") and The Kuwait Olefins Company K.S.C.C. ("TKOC") (together referred to as "the Reporting Entity"), which comprise the combined statement of financial position as at 31 December 2021, the combined statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the combined financial position of the Reporting Entity as at 31 December 2021, and its combined financial performance and its combined cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Emphasis of matter- Basis of preparation

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

KPMG Safi Al-Mutawa & Partners, a Kuwaiti Public Accountant and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

8 March 2022

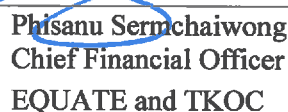
Combined statement of financial position of
EQUATE Group and TKOC
State of Kuwait

as at 31 December 2021

	Notes	USD million 2021	2020
Assets			
Property, plant and equipment	*4*	2,952	3,096
Goodwill	*5*	1,689	1,689
Intangible assets	*6*	292	332
Right-of-use assets	*7*	351	377
Deferred tax assets	*8*	68	74
Deferred charges and other assets	*9*	897	889
Non-current assets		6,249	6,457
Inventories	*11*	225	197
Due from related parties	*10*	43	55
Trade and other receivables	*12*	1,000	523
Deferred charges and other assets	*9*	49	42
Cash and bank balances	*13*	1,276	733
Current assets		2,593	1,550
Total assets		8,842	8,007
Equity			
Share capital		1,080	1,080
Treasury shares		(450)	(450)
Statutory reserve		540	540
Retained earnings		1,109	358
Remeasurement of retirement benefit obligation		(13)	(41)
Foreign currency translation reserve		23	34
Hedge reserve		1	-
Total equity		2,290	1,521
Liabilities			
Loans and borrowings	*14*	4,326	4,621
Deferred income	*15*	156	165
Lease liabilities	*7*	294	316
Deferred tax liabilities	*8*	168	168
Retirement benefit obligation	*16*	413	436
Long term incentives		3	3
Non-current liabilities		5,360	5,709
Long term incentives		4	4
Loans and borrowings	*14*	427	-
Lease liabilities	*7*	65	65
Deferred income	*15*	17	17
Due to related parties	*10*	82	206
Trade and other payables	*17*	597	485
Current liabilities		1,192	777
Total liabilities		6,552	6,486
Total equity and liabilities		8,842	8,007

The accompanying notes on pages 8 to 58 form an integral part of these combined financial statements

Naser Aldousari
President and Chief Executive Officer
EQUATE and TKOC



Phisanu Sermchaiwong
Chief Financial Officer
EQUATE and TKOC

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

for the year ended 31 December 2021

	Notes	USD million	
		2021	**2020**
Sales	*22*	4,159	2,917
Cost of sales	*18*	(2,723)	(2,309)
Gross profit		1,436	608
Management fee	*10*	6	6
Reservation right fees		17	15
General, administrative and selling expenses	*19*	(77)	(57)
Other (expenses) / income		(1)	2
Foreign exchange loss		(1)	(4)
Profit from operations		1,380	570
Finance income		2	4
Finance costs		(239)	(227)
Profit before contribution to Kuwait Foundation for the Advancement of Sciences (“KFAS”), Zakat, tax on subsidiaries and Board of Directors’ remuneration		1,143	347
Contribution to KFAS	*20*	(12)	(3)
Contribution to Zakat	*21*	(8)	(3)
Tax on subsidiaries	*8*	(14)	17
Board of Directors’ remuneration		(0)	(0)
Net profit for the year		1,109	358
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of retirement benefit obligation	*16*	39	(9)
Remeasurement of outstanding leave balance obligation and others		(11)	-
Items that are or may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(11)	14
Change in fair value of cash flow hedge		1	-
Other comprehensive income for the year		18	5
Total comprehensive income for the year		1,127	363

The accompanying notes on pages 8 to 58 form an integral part of these combined financial statements.

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

for the year ended 31 December 2021

	USD million							
	Share capital	**Treasury shares**	**Statutory reserve**	**Retained earnings**	**Remeasurement of retirement benefit obligations**	**Foreign currency translation reserve**	**Hedge reserve**	**Total**
Balances as at 1 January 2020	1,080	(450)	540	638	(32)	20	-	1,796
Net profit for the year	-	-	-	358	-	-	-	358
Other comprehensive income	-	-	-	-	(9)	14	-	5
Total comprehensive income	-	-	-	358	(9)	14	-	363
Dividends paid	-	-	-	(638)	-	-	-	(638)
Balance as at 31 December 2020	1,080	(450)	540	358	(41)	34	-	1,521
Balances as at 1 January 2021	1,080	(450)	540	358	(41)	34	-	1,521
Net profit for the year	-	-	-	1,109	-	-	-	1,109
Other comprehensive income / (loss)	-	-	-	-	28	(11)	1	18
Total comprehensive income	-	-	-	1,109	28	(11)	1	1,127
Dividends paid	-	-	-	(358)	-	-	-	(358)
Balance as at 31 December 2021	1,080	(450)	540	1,109	(13)	23	1	2,290

The accompanying notes on pages 8 to 58 form an integral part of these combined financial statements.

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

for the year ended 31 December 2021

	Notes	USD million	
		2021	**2020**
Cash flows from operating activities			
Net profit for the year		1,109	358
Adjustments for:			
Depreciation	*4 & 7*	287	308
Amortisation of intangible and deferred assets	*6 & 9*	85	82
Reservation right fees	*15*	(17)	(15)
Deferred income tax	*8*	2	(25)
Finance costs		239	227
Finance income		(2)	(4)
Provision for retirement benefit obligation	*16*	42	42
Foreign exchange gain on retirement benefit	*16*	1	(2)
Provision for long term incentives		3	2
		1,749	973
Changes in:			
Inventories		(29)	(16)
Due from related parties		12	2
Trade and other receivables		(478)	(6)
Due to related parties		(124)	89
Trade and other payables		130	62
Retirement benefit obligation paid	*16*	(27)	(34)
Long term incentives paid		(3)	(2)
Net cash from operating activities		1,230	1,068
Cash flows from investing activities			
Purchase of property, plant and equipment	*4*	(111)	(217)
Addition to deferred assets	*9*	(60)	-
Payment for intangibles		-	0
Investment in staff saving scheme		(2)	(3)
Maturity of short term deposits		-	0
Finance income received		8	8
Net cash used in investing activities		(165)	(212)
Cash flows from financing activities			
Repayment of long-term loan	*14*	(75)	(1,900)
Buy back of bonds	*14*	(572)	-
Proceeds from issue of conventional bond	*14*	699	1,600
Proceeds from bilateral loans	*14*	75	300
Loan origination fees paid		(5)	(10)
Finance costs paid		(247)	(218)
Payment of lease liabilities	*7*	(41)	(63)
Dividends paid		(358)	(637)
Net cash used in financing activities		(524)	(928)
Net change in cash and cash equivalents		541	(72)
Cash and cash equivalents at beginning of the year		678	750
Cash and cash equivalents at end of the year	*13*	1,219	678

The accompanying notes on pages 8 to 58 form an integral part of these combined financial statements.

1. Reporting entity

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

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

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

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

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

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

The combined financial statements as at and for the year ended 31 December 2021 comprise of the consolidated financial statements of EQUATE Group and TKOC. List of directly and indirectly owned subsidiaries of EQUATE are as follows:

Name of entity	Country of incorporation	Principal business	Percentage of holdings	
			31 December 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%
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%
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%
Held through MEGC				
Alberta & Orient Glycol Company ULC	Canada	Manufacturing and sales of EG	100%	100%

These combined financial statements were authorised for issue by President and Chief Executive Officer of the Reporting Entity on 8 March 2022.

2. Basis of preparation

a) Basis of accounting and combination

These combined financial statements have been prepared by combining consolidated financial statements of EQUATE Group and financial statements of TKOC for the year ended 31 December 2021, prepared in accordance with International Financial Reporting Standards (IFRS).

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

These combined financial statements have been prepared as following:

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

- Share capital and reserves are aggregated;

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

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

b) Basis of measurement

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

c) Functional and presentation currency

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

d) Use of judgements and estimates

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

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

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

e) Changes in accounting policies

The below amendment to standards and interpretations became effective on 1 January 2021, but it does not have material effect on the Reporting Entity's financial statements.

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).
The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued; and
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

3. Significant accounting policies

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

a) Basis of consolidation

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

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

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

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

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

Profit or loss and each component of the other comprehensive income are attributed to the shareholders of the Reporting Entity and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to

the financial statements of subsidiaries to bring their accounting policies into line with the Reporting Entity's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Reporting Entity are eliminated in full on consolidation.

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

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

Business combination under common control

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

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

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

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

b) Property, plant and equipment

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:

	2021	**2020**
Buildings, waterway improvements and roads	5 to 40 years	5 to 40 years
Plant and equipment	1 to 25 years	1 to 25 years
Office furniture and equipment	5 years	5 years
Catalysts	2 years	2 years

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

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

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

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

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

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

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a

discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

c) Goodwill

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

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

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

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

d) Intangible assets

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

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

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

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

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

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

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

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

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

e) 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 Reporting Entity's business model for managing them. With the exception of deposits and due from a related party that do not contain a significant financing component or for which the Reporting Entity has applied the practical expedient, the Reporting Entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs.

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

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

Subsequent measurement

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

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

Financial assets at amortised cost

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

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

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

(a) Business model assessment

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

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

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

(b) The SPPI test

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

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

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

In contrast, contractual terms that introduce a more than de minimum exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and profit on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Further, financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Income from loans and advances, foreign exchange gains and losses and impairment are recognised in the statement of income. Any gain or loss on derecognition is recognised in the combined statement of income.

Financial assets at FVOCI (debt instruments)

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

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Financial assets designated at FVOCI (equity instruments)

Upon initial recognition, the Reporting Entity can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.
Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Reporting Entity benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment. The Reporting Entity does not carry any equity instrument designated at fair value through OCI.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are

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

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

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

Derecognition

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

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

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

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

Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Reporting Entity's financial liabilities include loans and borrowings, due to related parties, trade payables and 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 Reporting Entity that are not designated as hedging instruments in hedge relationships as defined by IFRS 9.

Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the combined statement of profit or loss.

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

Derecognition

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

iii) Offsetting of financial instruments

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

iv) Derivative financial instruments and hedge accounting

The Reporting Entity uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency risks, interest rate 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.

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.

At the inception of a hedge relationship, the Reporting Entity formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Reporting Entity will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from such economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Reporting Entity actually hedges and the quantity of the hedging instrument that the Reporting Entity actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the combined 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 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 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 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 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 statement of profit or loss.

The Reporting Entity 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.

For all other hedged forecast transactions, the amount accumulated in the hedge reserve and the cost of hedge reserve is reclassified to combined statement of 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 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 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 non-derivative is recognised immediately in combined statement of profit or loss. The amount recognised in OCI is fully or partially reclassified to combined statement of profit or loss as a reclassification adjustment on disposal or partial disposal of the foreign operation, respectively.

f) Leases

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

As a lessee

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

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

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

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

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

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

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

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

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

Short-term leases and leases of low-value assets

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

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

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

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

g) Inventories

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

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

h) Cash and cash equivalents

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

i) Treasury shares

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

j) Retirement obligations

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

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

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

k) Provisions

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

l) Revenue recognition

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

Revenue from sale of products:

Revenue from the sale of products is recognised when a customer obtains control of those products, which normally is when title passes at point of delivery, based on the contractual terms of the agreements. The Reporting Entity determines that the customer obtains control of the goods based on the following factors:

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

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

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

Revenue from shipping and handling services

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

Variable pricing – preliminary pricing

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

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

Interest income

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

m) 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 Reporting Entity is the weighted average of the borrowing costs applicable to the outstanding borrowings during the period. Borrowing costs that are not directly attributable to the acquisition, construction, or production of qualifying assets are recognised in the combined statement of profit or loss using the effective interest method in the period in which they are incurred.

n) Income taxes

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

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

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

o) Reservation right fees

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

p) Government Grants

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

q) Translation of foreign currencies

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

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

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

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

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

r) Operating segments

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

s) Critical accounting judgements and key sources of estimation uncertainty

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

Retirement Benefit Obligation

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

Determination of functional currency

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

Acquisition accounting

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

Deferred tax assets

The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and are recorded on the statement of financial position. Deferred income tax assets are recorded to the extent that realization of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes reasonable judgments and estimates based on taxable profits and expectations of future income. As tax losses do not expire in Germany and Italy, utilization of these tax losses require management to consider taxable profits well into the future. This significant long-term view increases the uncertainty of such projections.
As a result of this and certain limits on annual tax loss usage, the Reporting Entity limits its consideration of German and Italian tax losses to 10 years, which is considered a more foreseeable future, even though the ability to potentially utilize the tax losses extends beyond this period.

Key sources of estimation uncertainty

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

Measurement of fair values of financial instruments

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

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

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

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

Measurement of ECLs

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

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

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

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

Impairment of other tangible and intangible assets and useful lives

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

Impairment of goodwill

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

Legal contingencies

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

t) Standards and interpretations issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Reporting Entity's financial statements are disclosed below. The Reporting Entity intends to adopt these standards, if applicable, when they become effective.

- IFRS 17 – Insurance Contracts;
- Amendments to IAS 1: Classification of Liabilities as Current or Non-current;
- Reference to the Conceptual Framework – Amendments to IFRS 3;
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16;
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37;
- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter;
- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities;
- IAS 41 Agriculture – Taxation in fair value measurements;
- Definition of Accounting Estimates - Amendments to IAS 8;
- Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

The new standards and amendments are not expected to have a material impact on the Reporting Entity's combined 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 2020	562	5,815	171	57	66	6,671
Additions	-	142	-	2	73	217
Transfers	162	(116)	6	-	(52)	-
Disposal	-	(28)	-	-	-	(28)
Foreign currency translation	7	7	-	-	-	14
Balance at 31 December 2020	731	5,820	177	59	87	6,874
Additions	-	20	1	3	87	111
Transfers	-	100	5	10	(115)	-
Foreign currency translation	-	(8)	-	-	-	(8)
Balance at 31 December 2021	731	5,932	183	72	59	6,977
Accumulated depreciation and impairment losses						
Balance at 1 January 2020	106	3,243	146	45	-	3,540
Charge for the year	27	218	11	8	-	264
Disposal	-	(28)	-	-	-	(28)
Foreign currency translation	-	2	-	-	-	2
Balance at 31 December 2020	133	3,435	157	53	-	3,778
Charge for the year	22	218	13	5	-	258
Foreign currency translation	-	(11)	-	-	-	(11)
Balance at 31 December 2021	155	3,642	170	58	-	4,025
Carrying amounts						
At 31 December 2020	598	2,385	20	6	87	3,096
At 31 December 2021	576	2,290	13	14	59	2,952

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

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

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

5. Goodwill

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

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

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

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

	2021	2020
Weighted Average Cost of Capital (WACC)	6.36%	8.01%
Terminal value growth rate	1% to 2.5%	1% to 2.5%
Budgeted EBITDA growth rate (average of next five years)	7%	12%

WACC was estimated based on estimated rate of return (cost of equity) and cost of debt, with a possible debt leveraging of 69% (2020: 77%) at the market interest of 3.67% (2020: 3.77%).

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

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

Based on the impairment analysis as at 31 December 2021, 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 2020	337	320	88	11	31	787
Additions	-	-	-	-	-	-
Balance at 31 December 2020	337	320	88	11	31	787
Additions	-	-	-	-	-	-
Balance at 31 December 2021	337	320	88	11	31	787
Accumulated amortisation and impairment losses						
Balance at 1 January 2020	265	131	-	1	18	415
Charge for the year	6	32	-	1	1	40
Balance at 31 December 2020	271	163	-	2	19	455
Charge for the year	6	32	-	1	1	40
Balance at 31 December 2021	277	195	-	3	20	495
Carrying amounts						
At 31 December 2020	66	157	88	9	12	332
At 31 December 2021	60	125	88	8	11	292

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

7. Right of use assets and lease liabilities

The Reporting Entity leases many assets including land, plants, equipment and vehicles. The leases typically run for a period of 2-24 years, with an option to renew the lease after that date. The weighted average rate applied is within the range of 3.25% to 4.33% (2020: 3.25% - 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 2020	585	587
Depreciation charge for the year	(44)	-
Addition	5	5
Derecognition	(169)	(171)
Finance cost	-	23
Lease payments	-	(63)
As at 31 December 2020	377	381
Depreciation charge for the year	(29)	-
Addition	3	3
Derecognition	-	-
Finance cost	-	16
Lease payments	-	(41)
As at 31 December 2021	351	359

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

	USD million	
	2021	**2020**
Interest on lease liabilities	16	23
Depreciation charge for the year	29	44

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

	USD million	
	2021	**2020**
Current	65	65
Non-current	294	316
	359	381

8. Deferred tax assets and liabilities

The provision for income taxes consists of the following:

	USD million	
	2021	**2020**
Income tax-net		
Current	12	8
Deferred	2	(25)
	14	(17)

Net income taxes paid in 2021 were USD 15 million (2020: USD 18 million). This represents deferred tax assets and liabilities of subsidiaries.

	USD million	
	2021	**2020**
Deferred tax assets		
Post – retirement benefit obligations	5	9
Tax losses	168	156
Glycol capacity reservation agreement	40	42
Interest	10	6
Property, plant and equipment	(158)	(142)
Others	3	3
	68	74
Deferred tax liabilities		
Intangible assets	(33)	(37)
Property, plant and equipment	(96)	(88)
Others	(39)	(43)
	(168)	(168)

At 31 December 2021, the EQUATE Group has unused significant tax losses of USD 919 million (2020: USD 926 million) available for offset against the future profits, with no expiration dates.

Reconciliation of effective tax rate as follows:

		USD million 2021		**USD million 2020**
Profit before tax from continuing operation		1,123		341
Tax using the Company's domestic tax rate	0%	0	0%	0
Effect of different tax rates of subsidiaries operating in other jurisdictions		(1)		(44)
Tax effect of expenses that are not deductible in determining taxable profit		5		21
Tax effect of previous year losses for which deferred tax assets have been unrecognized		10		6
Recognition of previously unrecognised tax losses		-		0
Tax expense / (benefits)		14		(17)

9. Deferred charges and other assets

	USD million	
	2021	2020
Ethylene supply agreement – Canadian plants	252	266
Ethylene subscription rights - Oyster creek plant	641	664
Ethylene Supply Agreement - Light hydro carbon (LHC 1) turnaround, Canadian plant	53	-
Others	-	1
	946	931
Classified as: -		
Current	49	42
Non-current	897	889
	946	931

- *Ethylene supply agreement -Canadian plants*: This represents amounts paid to Dow towards the Ethylene supply rights for various Canadian Plants.
- *Ethylene subscription rights – Oyster Creek Plant*: The EQUATE Group, under the Ethylene Subscription Agreement, has committed to purchase and obligates DOW to supply 20% 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.
- *Light Hydro Carbon Turnaround Cracker* - During the year, the Group paid US$ 60 million, its share in Dow's LHC1 turnaround. This addition is presented as deferred assets and amortised on a systematic and rational basis over a period of 8 years.

10. Related party transactions

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

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

EQUATE owns and operates petrochemical complexes in Kuwait, North America and Europe through its subsidiary MEGlobal and the Greater EQUATE joint venture which holds under one fully-integrated operational umbrella each of EQUATE, The Kuwait Styrene Company ("TKSC"), Kuwait Paraxylene Production Company ("KPPC") and The Kuwait Olefins Company ("TKOC").

EQUATE provides operating, maintenance and other services to the above entities for which the Company receives a fixed management fee over and above the actual operating cost under the Operations, Maintenance and Services Agreement ("OMSA") and received a reservation right fee that equals the total capital construction costs incurred by the Company on the new utilities and infrastructure facilities under the Materials and Utility Supply Agreement ("MUSA").

On 2 December 2004, EQUATE 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 EQUATE with TKOC, TKSC, KARO and PIC for the provision of various services to the Olefins II projects. An agreement to amend MUSA and service agreements ("primary agreements") was signed between the parties to the primary agreements on 8 February 2006 releasing KARO from its obligations and liabilities under the primary agreements and appointing Kuwait Paraxylene Production Company K.S.C.C. ("KPPC") in place of KARO to assume and perform all obligations of KARO as if KPPC were and had been a party to the primary agreements. KPPC is a 100% owned subsidiary of KARO.

During 2020, EQUATE acquired a sea cooling tower from PIC for a consideration of USD 105 million. The output 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 entities and TKOC have an overnight cash sweeping facility with MEG B.V. Under this arrangement, the EQUATE Group and TKOC sweep selected bank accounts with MEG B.V. This allows the subsidiaries and TKOC either to invest or borrow funds on an overnight basis. Under the terms of the agreement, the subsidiaries and TKOC can borrow or deposit with MEG B.V at an interest rate of LIBOR plus a positive spread set by the management of the Group, accrued on monthly basis. The spread is determined based on the creditworthiness of the counterpart and characteristics of the debt financing agreement. These are indefinite credit arrangements subject to termination by either party.

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

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

a) Supply by Union Carbide Corporation ("UCC") of technology and licences relating to manufacture of PE and EG;
b) Feed gas and fuel agreement with PIC
c) Supply by the EQUATE Group of certain materials and services required by PIC to operate and maintain the polypropylene plant
d) Excess EG Marketing Agreement
e) General Services Agreement
f) Secrecy Agreement
g) Long Term Land Lease Agreement
h) Site Services Agreement
i) Employee Seconding Agreement
j) Catalyst License Agreement
k) Binding Term sheet – Gulf Coast
l) Other Assignment and Assumption Agreements
m) Ethylene supply agreement by MEGC with DEHBV/TDCC.
n) Feedstock supply agreement by MEGC with DEHBV/TDCC for the USGC Project
o) Master service agreement with DEHBV/TDCC
p) Ethylene Oxide (EO)/EG Swap Agreement (MEGC)
q) Technology License Intellectual Property (IP) Agreement (MEGC)
r) Catalyst Supply Agreement (MEGC)
s) Storage Sublease (MEGC)
t) Ground Lease (MEGC)

u) Utilities Services Agreements (MEGC)
v) Technical Services Agreement (MEGC)

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

		USD million	
		2021	**2020**
a)	**Sales and management fee**		
	Polypropylene plant management fees from PIC	1	1
	Styrene plant management fees from TKSC	2	2
	Aromatics Plant management fees from KPPC	3	3
	Sale of ethylene, utilities and services to KPPC, TKSC and PIC	50	50
	Operating cost reimbursed by PIC for running of Polypropylene plant	7	20
	Operating and utility cost reimbursed by TKSC for running of Styrene plant	50	40
	Operating and utility cost reimbursed by KPPC for running of Aromatics plant	74	61
b)	**Purchases and expenses**		
	Feed gas and fuel gas purchased from KPC	357	334
	Catalyst and other raw materials purchased from DEHBV	-	10
	Ethylene Purchase from Dow Chemical Canada ULC	235	193
	Ethylene Purchase from TDCC	240	149
	Service cost reimbursed to Dow Chemical Canada ULC	102	62
	Service cost reimbursed to TDCC	43	12
	Service cost reimbursed to DEHBV	-	36
	Glycol purchase from TDCC	165	107
	Purchase of sea cooling water from PIC	-	21
	Catalyst purchased from UNIVATION	12	9
	Operating costs reimbursed to EMC	2	2
	Staff secondment costs reimbursed to DEHBV	-	3
	Toggling fees payments to Kuwait Oil Company K.S.C.C. (“KOC”)	9	9
c)	**Key management compensation**		
	Salaries, short term and terminal benefits	5	3
	Terminal benefits	0	0

	USD million	
	2021	**2020**
d) Due from related parties		
Due from PIC	2	8
Due from UCC	3	0
Due from TDCC	4	1
Due from Dow Chemical Canada ULC	8	9
Due to Dow Europe GMBH	2	2
Due from TKSC	11	27
Due from KPPC	13	5
Due from KARO	-	0
Due from KPC	0	1
Due from Kuwait National Petroleum Corporation K.S.C.C.	0	2
Due from Others	0	0
	43	55
e) Due to related parties		
Due to KPC	60	67
Due to PIC	3	95
Due to Kuwait Oil Company K.S.C	4	23
Due to TDCC	1	2
Due to Dow Olefinverbund GMBH	-	1
Due to Dow Chemical Canada ULC	7	1
Due to Dow Canada Limited	1	1
Due to DEHBV	3	8
Due to Dow Chemical China Investment Co	-	4
Due to KPPC	2	1
Due to UNIVATION	-	0
Due to TKSC	1	1
Others	0	2
	82	206

11. Inventories

	USD million	
	2021	**2020**
Raw materials and consumables	43	47
Finished goods	111	85
Spare parts	71	65
	225	197
Provision for obsolete and slow moving inventories	(0)	0
	225	197

12. Trade and other receivables

	USD million	
	2021	**2020**
Trade receivables	827	373
Less: Provision for ECL	(9)	(9)
Prepayments and other	182	159
	1,000	523

13. Cash and bank balances

	USD million	
	2021	**2020**
Cash balances	0	0
Bank balances	129	253
Term deposits	1,147	480
Total cash and bank balances	1,276	733
Less: Amount reserved relating to staff saving scheme (Note 17)	(57)	(55)
Cash and cash equivalent for the statement of cash flows	1,219	678

The effective interest rate on time deposits as at 31 December 2021 was 0.33% (31 December 2020: 1.16%) per annum.

14. Loans and borrowings

The movement in loans and borrowings is as follows:

	USD million	
	2021	**2020**
Balance at 1 January	4,621	4,607
Loan origination fee	(5)	(10)
Amortization for the year	10	24
Repayment of long-term loan	(75)	(1,900)
Issue of conventional bonds	699	1,600
Buy back of bonds	(572)	-
New loan facilities (Murabaha and Term loan facility)	75	300
Balance at 31 December	4,753	4,621

At the reporting date, the following loans and borrowings were outstanding:

	USD million	
	2021	**2020**
i) Fixed interest rate Notes (GMTN 1) amounting to US$ 428 million (net of discount of US$ 1 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. During the year, the EQUATE Group bought back Notes (GMTN 1) 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.	427	983
ii) Fixed interest rate Notes (GMTN 1) amounting to US$ 1,250 million (net of discount of US$ 15 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%.	1,235	1,235
iii) Fixed interest rate Notes (GMTN 2) amounting to US$ 1,000 million having a term of 5 years, maturing in May 2025, with an effective interest rate and coupon rate of 5.000% per annum payable on a semi-annual basis.	1,000	1,000
iv) Fixed interest rate Notes (GMTN 2) amounting to US$ 600 million having a term of 10 years, maturing in May 2030, with an effective interest rate and coupon rate of 5.875% per annum payable on a semi-annual basis.	600	600
v) Fixed interest rate Notes (GMTN 3) amounting to US$ 700 million (net of discount of US$ 1 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 semiannual basis.	699	-
vi) Fixed profit rate Sukuk amounting to US$ 500 million 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.	500	500
vii) Term loan facility amounting to US$ 225 million having a term of 3 years, maturing in June 2023, with an effective interest rate of LIBOR + 1.60% per annum payable on a quarterly basis.	225	225
viii) Murabaha facility amounting to US$ 150 million having a term of 3 years, maturing in June 2023, with an effective profit rate of LIBOR + 2.65% per annum payable on a quarterly basis.	-	75
ix) Murabaha facility amounting to US$ 150 million having a term of 3 years, maturing in December 2024, with an effective profit rate of LIBOR + 1.50% per annum payable on a quarterly basis. Out of which, the EQUATE Group has withdrawn US$ 75 million during the year.	75	-
	4,761	4,618

During the year, the EQUATE Group updated the GMTN 1 and on 28 April 2021 EQUATE B.V issued notes amounting to US$ 700 million with 7 years tenor maturing in 2028. The note is described in v) above.

The effective interest rate as at 31 December 2021 on the term and murabaha loans is 2.45% (31 December 2020: 2.70%).

As at 31 December 2021, medium term notes described in i), ii), iii) and iv) above are quoted at 100.387, 109.10, 109.34 and 121.50 respectively (31 December 2020: 102.18, 111.93, 113.00 and 124.87 respectively). The medium term notes described in v) are quoted at 100.4. These quotes are based on level 1 inputs of fair value. All the notes are listed on EURONEXT.

As at 31 December 2021, Sukuk described in vi) are quoted at 105.66 (31 December 2020: 106.91), based on level 1 inputs of fair value and listed in EURONEXT.

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. Additionally, the existing revolver facility commitment was reduced to US$ 500 million maturing in June 2022. In 2021, the EQUATE Group has extended the US$ 500 million revolving facility until 2024.

The payments due in respect of medium term notes described in i), ii), iii), iv) and v), sukuk described in vi), term loan described in vii) as well as Murabaha facility described in ix) above are unconditionally and irrevocably guaranteed, jointly and severally, and not severally, by the Company and TKOC.

In 2021, the EQUATE Group early settled the Murabaha term loan facility amounting to USD 75 million and secured a new 3 years Murabaha facility amounting to US$ 150 million, of which US 75 million was withdrawn, with Murabaha working capital facility amounting to US$100 million valid until 2024. Additionally, the EQUATE Group secured a new bilateral revolving facility amounting $200 million valid until 2024 with two years extension option.

15. Deferred income

Deferred income comprises of the following:

	USD million	
	2021	**2020**
Reservation right fees for Olefins II project	124	142
Reservation right fees for Sea Cooling Tower	32	33
Government grants	16	6
Others	1	1
	173	182

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

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

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

During the year, the EQUATE Group recognized a Grant of USD 12 million as receivable from Alberta Petrochemicals Incentive Program (APIP) against the LHC-1 expansion project Investment with Dow Chemical Canada ULC. The government grants are presented as deferred income and recognized to income on a systematic and rational basis over a period of 13 years.

	USD million	
	2021	**2020**
Non-current portion of deferred income	156	165
Current portion of deferred income	17	17
	173	182

16. Retirement benefit obligation

The most recent actuarial valuation of the present value of various defined benefit obligations were carried out at 31 December 2021. 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:

	2021	**2020**
Economic assumptions		
Discount rate	2.60% - 3.50%	2.58% - 3.25%
Expected rate of increase in		
- Basic salary & variable allowances including overtime and incentives	3.5% - 6%	3.5% - 6%
- Average annual & quarterly incentives	19% p.a	23% p.a
Long-term inflation	2% - 3.0% p.a	2% - 2.5% 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 combined statement of profit or loss is as follows:

	USD million	
	2021	**2020**
Current service costs	28	24
Interest on obligation	14	18
	42	42

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

	USD million	
	2012	**2020**
Cost of sales	36	36
General, administrative and selling expenses	6	6
	42	42

Movement in the retirement benefit obligation is as follows:

	USD million	
	2021	**2020**
Retirement benefit obligation as at 1 January	436	421
Included in the combined statement of profit or loss		
Current service costs	28	24
Interest on obligation	14	18
	42	42
Included in other comprehensive income		
Re measurement (gain) / loss		
- Experience adjustment	(18)	1
- Actuarial changes arising from changes in economic assumptions	(21)	8
	(39)	9
Benefits paid	(27)	(34)
Foreign currency translation adjustment	1	(2)
Retirement benefit obligation as at 31 December	413	436

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

Reconciliation of fair value of Plan Assets of the subsidiaries

	USD million	
	2021	**2020**
Defined benefit obligation of the subsidiaries	113	125
Fair value of plan assets of the subsidiaries	(90)	(83)
Net retirement benefit	23	42

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	
	2021	**2020**
Discount rate	(9)	(10)
Basic salary & variable allowances including overtimes and	8	9

17. Trade and other payables

	USD million	
	2021	**2020**
Trade payables	206	203
Staff incentives	38	1
Staff saving schemes	47	45
Staff leave and other employee benefits	45	17
Accrual for KFAS and Zakat	23	15
Income tax	69	30
Accrued turnaround and capital expense	5	18
Interest payable	35	57
Others	129	99
	597	485

18. Cost of sales

	USD million	
	2021	**2020**
Materials	1,659	1,303
Distribution expenses	289	289
Staff cost	212	150
Depreciation and amortisation	364	381
Others	199	186
	2,723	2,309

19. General, administrative and selling expenses

	USD million	
	2021	**2020**
Staff costs	33	22
Depreciation	8	9
Selling expenses	28	22
Others	8	4
	77	57

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

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

21. Contribution to Zakat

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

22. Additional Business and Geographical Information

Basis for segmentation

The Reporting Entity 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 comprising 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 similar industries. In addition to PMC business, Reporting Entity is engaged in managing operations of petrochemical plants of certain related parties, which did not meet the quantitative threshold for reportable segment.

Information about reportable segments

	USD million					
	2021			**2020**		
	PMC	**Others**	**Total**	**PMC**	**Others**	**Total**
External segment revenue	3,974	185	4,159	2,736	181	2,917
EBITDA	1,683	52	1,735	858	87	945
Net profit for the period	1,085	24	1,109	323	35	358
Interest income	(2)	-	(2)	(4)	(0)	(4)
Interest expenses	235	4	239	215	12	227
Depreciation, amortization and reservation rights	331	24	355	334	41	375
Income tax expenses/ KFAS/ ZAKAT	34	-	34	(10)	(1)	(11)

Revenue by product/ services and geography

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

	USD million				
Revenue by product / services and geography	**EG**	**PE**	**PET**	**Others**	**Total**
31 December 2021					
Americas	575	-	-	-	575
North Asia	1,197	286	-	-	1,483
India sub-continental	550	74	-	-	624
Europe	318	139	356	-	813
Rest of the World	122	357	-	185	664
External revenue	2,762	856	356	185	4,159
31 December 2020					
Americas	340	-	-	-	340
North Asia	897	297	-	-	1,194
India sub-continental	260	41	-	-	301
Europe	213	61	270	-	544
Rest of the World	99	258	-	181	538
External revenue	1,809	657	270	181	2,917

* Rest of the World includes revenue from sale of products in Kuwait of USD 63 million (2020: USD 45 million).

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

Timing of revenue recognition

	USD million	
	2021	**2020**
Products transferred at a point in time	3,740	2,525
Products and services transferred over time	234	211
Revenue from contracts with customers	3,974	2,736
Other revenue	185	181
	4,159	2,917

	USD million				
EBITDA by product line	**EG**	**PE**	**PET**	**Others**	**Total**
31 December 2021	1,164	491	28	52	1,735
31 December 2020	558	296	4	87	945

23. Financial risk management

Overview

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

- credit risk
- liquidity risk
- market risk

Financial management framework

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

The Board of Directors of the Reporting Entity has overall responsibility for the establishment and oversight of the Reporting Entity's risk management framework. The Board has established the Finance Committee, which is responsible for developing and monitoring the Reporting Entity's risk management policies. The Committee reports regularly to the Board of Directors on its activities.

The Audit Committee oversees how management monitors compliance with the Reporting Entity's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Reporting Entity. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

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

Credit risk

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

Exposure to credit risk

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

	USD million	
	2021	**2020**
Trade receivables	818	364
Due from related parties	43	55
Other receivables	170	159
Bank balances	1,276	733
	2,307	1,311

Trade receivables

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

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

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of trade receivables. The average credit period on sales is 45 days (2020: 44 days) except for some customers where a longer credit period has been approved. The average age of these receivables is 47days (2020: 48 days). The Reporting Entity has provided fully for all receivables over 90 days because historical experience is that, such receivables past due beyond 90 days are generally not recoverable. Trade receivables between 60 days and 90 days are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience and historical data of payment statistics.

Included in the Reporting entity's trade receivables balance are debtors with a carrying amount of USD 9 million (2020: USD 9 million) which are past due and fully impaired.

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

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

	USD million	
	2021	**2020**
Domestic and Gulf Cooperation Council Countries	15	23
North America	89	28
Asia	537	174
Europe	86	66
Other regions	91	73
	818	364

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

	USD million			
	2021		2020	
	Non-credit impaired	*Credit impaired*	*Non-credit*	*Credit impaired*
Not due	815	-	333	-
Past due				
- Secured with collaterals	3	8	27	8
- Not secured	-	1	4	1
Gross carrying amount	818	9	364	9
Loss allowance	-	(9)	-	(9)
	818	-	364	-

Due from related parties

Transactions with related parties are carried out on a negotiated contract basis. The related parties are with high credit rating and repute in the market. Impairment on the due from a related party have been measured on the basis of lifetime expected credit losses. The Reporting Entity considers that these have low credit risk based on historical experiences, available press information and experienced credit judgment. As on 31 December 2021, these are neither impaired nor due.

Bank balances and time deposits

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

Liquidity risk

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

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

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

	USD million					
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total	Carrying amount
As at 31 December 2021						
Trade and other payables	597	-	-	-	597	597
Due to related parties	82	-	-	-	82	82
Loans and borrowings	621	410	3,220	1,445	5,696	4,753
Lease liabilities	43	47	150	264	504	359
Total	1,343	457	3,370	1,709	6,879	5,791
As at 31 December 2020						
Trade and other payables	485	-	-	-	485	485
Due to related parties	206	-	-	-	206	206
Loans and borrowings	177	1,174	764	3,459	5,574	4,621
Lease liabilities	44	46	150	264	504	381
Total	912	1,220	914	3,723	6,769	5,693

Market risk

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

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

Foreign currency risk

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

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

	USD million				
	Euro	Canadian Dollar	Kuwait Dinar	Other	Total
31 December 2021					
Assets	67	157	87	5	316
Liabilities	(37)	(165)	(609)	(4)	(815)
Net exposure	30	(8)	(522)	1	(499)
31 December 2020					
Assets	253	15	70	64	402
Liabilities	(268)	(31)	(598)	(17)	(914)
Net exposure	(15)	(16)	(528)	47	(512)

The following exchange rates were applied to translate the monetary assets and liabilities at 31 December 2021:

	Reporting date Mid-spot rate	
	2021	**2020**
Euro	0.883	0.814
Canadian Dollar	0.787	0.785
Kuwaiti Dinar	0.302	0.303

Foreign currency sensitivity analysis

As at 31 December 2021, 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 25 million (2020: USD 26 million).

Foreign currency exposure risks are managed by dealing in forward contracts within approved limits. As at 31 December 2021, the Reporting Entity had following net notional forward exchange contracts (off balance sheet exposure)

	USD million	
	2021	**2020**
Long position		
KD	1,037	827
CAD	121	107
Others	42	69

	USD million	
	2021	**2020**
Short position		
KD	461	419
CAD	62	94
Others	97	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 31 December 2021 amounting to US$ 4 million (2020: US$ 12.5 million).

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 Reporting Entity 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.

	USD million	
	2021	**2020**
Cash flow hedge		
Notional amount:	7	1
Fair value	1	-

Fair value hedge

At 31 December 2021, the Reporting Entity had an interest rate swap agreement in place with a notional amount of USD 100 million (2020: Nil) whereby the Reporting Entity receives a fixed rate of interest of 1.6985 % and pays interest at a variable rate equal to LIBOR+ 0.0152 % on the notional amount. The swap is being used to hedge the exposure to changes in the fair value of its fixed rate GMTN notes.

There is an economic relationship between the hedged item and the hedging instrument as the terms of the interest rate swap match the terms of the fixed rate GNTM notes (i.e., notional amount, maturity, payment and reset dates). The Reporting Entity has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the interest rate swap is identical to the hedged risk component. To test the hedge effectiveness, the Reporting Entity uses the hypothetical derivative method and compares the changes in the fair value of the hedging instrument against the changes in fair value of the hedged item attributable to the hedged risk.

The hedge ineffectiveness can arise from:

- Different interest rate curve applied to discount the hedged item and hedging instrument
- Differences in timing of cash flows of the hedged item and hedging instrument
- The counterparties' credit risk differently impacting the fair value movements of the hedging instrument and hedged items.

	USD million	
	2021	**2020**
Fair value hedge		
Notional amount:	100	-
Fair value	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 31 December 2021, that are not carried at fair value, are not materially different from their carrying values.

Interest rate risk

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

Interest rate sensitivity analysis

During the year, if interest rates on USD denominated borrowings had been 10 basis points higher / lower with all other variables held constant, profit for the previous year would have been USD 0.3 million (2020: USD 1.1 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

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

Determination of fair values

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

The fair value of financial assets and financial liabilities (excluding derivative instruments, medium term notes and Sukuk) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions. The fair value of forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (level II inputs). The fair value of medium term notes and Sukuk are determined using quoted prices (level I inputs). All other financial instruments are classified as Level III.

24. Commitments and contingent liabilities

Commitments

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

The EQUATE Group under the "Excess EG Marketing agreement" has made a commitment to purchase EG from Dow an annual volume up to 2024.
The EQUATE Group under the Ethylene Supply Agreement has a commitment to purchase and obligates DCC ULC to supply a contract quantity of ethylene each year through 2024 with an additional two five year extensions through to 2034 in respect of the 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 ("the subsidiary") has entered into short term arrangements to obtain the right to use 8,486,043 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 and are guaranteed by MEGlobal BV. The subsidiary pays lease fees for these arrangements which are expensed over the terms of such arrangements. The subsidiary also bears the risk of loss of silver resulting from usage. The subsidiary 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 31 December 2021 under such arrangements:

	31 December 2021			**31 December 2020**		
Bank	**Credit Limit US$ million**	**Qty (TOZ)**	**Silver Value US$ million**	**Credit Limit US$ million**	**Qty (TOZ)**	**Silver Value US$ million**
HSBC	175	6,414,889	155	175	7,713,550	167
Sumitomo	100	2,071,154	57	100	2,071,154	50
Standard Chartered	85	-	-	85	-	-
Citibank	40	-	-	40	-	-
Total	**400**	**8,486,043**	**212**	**400**	**9,784,704**	**217**

In addition to the above, the Reporting Entity had the following commitments and contingent liabilities outstanding as at 31 December 2021:

	USD million	
	2021	**2020**
Letters of credit and letters of guarantee	16	5
Capital commitments	14	27

Contingent liabilities

Corporation Income Tax Assessment from the Canadian Revenue Agency

Following the completion of audit report for the tax years 2013, 2014, 2015, 2016 and 2017, ME Global Canada ULC received a Corporation Income Tax re-assessment from the Canada Revenue Agency (CRA) for a transfer pricing adjustment amounting to CAD 61.6 million (US$ 48.5 million) for 2013, CAD 75 million (US$ 59 million) for 2014, CAD 75.8 million (US$ 60 million) for 2015, CAD 82.3 (US $64.8) million for 2016 and CAD 140.49 (US$ 110.13) million for 2017. This has resulted in additional assessed federal, provincial, Part XIII tax impact and penalties of CAD 37.8 million (US$ 29.7 million) for 2013, tax impact of CAD 45.8 million (US$ 36 million) for 2014, tax impact of CAD 45.7 million (US$ 36 million) for 2015 and federal tax impact of CAD 15.8 million (US$12.4 million) for 2016. The re-assessment notice for 2017 is not issued till date.

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 also of the view that no additional tax liabilities is required for these commitment. The Management is awaiting to get a date for the hearing from the appeals officer.

25. COVID-19

The outbreak of Novel Coronavirus (COVID-19) continues to progress and evolve. While COVID-19 is a health crisis, it has caused socioeconomic disruption on a global scale. More countries have imposed travel bans on millions of people, and more people in more locations are placed with quarantine measures. The restrictions were partially lifted in some jurisdictions at the end of the year 2020. However, due to several waves of COVID-19 pandemic and cases diagnosed with new variants of the virus, some jurisdictions reimposed lockdowns and movement restrictions during 2021.

The Reporting Entity is carefully monitoring the evolving situation around the spread of t COVID-19 and its impact on the business.

The impact of COVID-19 on the recoverability of receivables from customers has been considered. While the methodologies applied in the base expected credit loss calculations remain unchanged from those applied in the prior financial year, the assumptions used for the expected credit loss calculation ("ECL") as at 31 December 2021 were updated by the Reporting Entity to reflect the economic uncertainties that resulted due to the COVID-19.

The Reporting Entity conducts an annual impairment review of goodwill as outlined in note 5. While the ongoing economic uncertainty from the COVID-19 global pandemic has impacted the cash flow forecasts and estimate and assumptions inherent in the goodwill impairment test, the results of the annual impairment test determined the goodwill allocated to the cash-generating units (CGUs) is recoverable and no impairment as of 31 December 2021.

The management of the Reporting Entity is of the view that there is no material impact of COVID-19 on the carrying amounts of assets and liabilities as at 31 December 2021, especially contingent liabilities under IAS 37 Provisions, contingent liabilities and contingent assets. As the crisis evolves and the market conditions are unpredictable, the recorded amounts remain sensitive to market fluctuations.