

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



**Condensed consolidated interim financial information and
independent auditor's report for the six-month period ended
30 June 2022**



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

The Board of Directors
EQUATE Petrochemical Company K.S.C.C.
State of Kuwait

Introduction

We have reviewed the accompanying condensed consolidated interim financial information of EQUATE Petrochemical Company K.S.C.C. ("the Company") and its subsidiaries (together "the Group") which comprises the condensed consolidated statement of financial position as at 30 June 2022, the condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the condensed consolidated interim financial information. Management is responsible for the preparation and presentation of these condensed consolidated interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed consolidated interim financial information based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at and for the six-month ended 30 June 2022 are not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

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

Kuwait: 15 August 2022

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



Condensed consolidated statement of financial position
as at 30 June 2022

	Note	US\$ million	
		30 June 2022	31 December 2021 (Audited)
Assets			
Property, plant and equipment		2,324	2,406
Goodwill		1,689	1,689
Intangible assets		225	238
Right-of-use assets		328	340
Deferred tax assets		64	68
Deferred charges and other assets		864	897
Non-current assets		5,494	5,638
Inventories		235	222
Notes receivables from a related party	5	94	-
Due from related parties	5	42	52
Trade and other receivables		874	988
Deferred charges and other assets		55	49
Cash and bank balances	3	385	1,276
Current assets		1,685	2,587
Total assets		7,179	8,225
Equity			
Share capital		700	700
Treasury shares		(450)	(450)
Statutory reserve		350	350
Retained earnings		218	743
Remeasurement of retirement benefit obligation		(13)	(13)
Foreign currency translation reserve		17	23
Hedge reserve		19	1
Total equity		841	1,354
Liabilities			
Loans and borrowings	4	4,101	4,326
Deferred income		285	304
Lease liability		271	284
Deferred tax liabilities		158	168
Retirement benefit obligation		412	413
Long term incentives		3	3
Non-current liabilities		5,230	5,498
Loans and borrowings	4	225	427
Long term incentives		2	4
Lease liability		63	63
Deferred income		37	38
Due to related parties	5	165	162
Notes payables to a related party	5	-	107
Trade and other payables		616	572
Current liabilities		1,108	1,373
Total liabilities		6,338	6,871
Total equity and liabilities		7,179	8,225

The attached notes on pages 7 to 22 form an integral part of these condensed consolidated interim financial information.

Nadia Al-Hajji

Nadia Al-Hajji
 Chairperson

Naser Aldousari

Naser Aldousari
 President & Chief Executive Officer

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



Condensed consolidated statement of profit or loss and other comprehensive income
for the six month period ended 30 June 2022

		US\$ million	
		2022	2021
Sales	6	2,287	2,082
Cost of sales		(1,742)	(1,549)
Gross profit		545	533
Management fee	5	5	5
Reservation right fees		19	22
General, administrative and selling expenses		(36)	(33)
Other income		(0)	0
Foreign exchange gain / (loss)		3	(1)
Profit from operations		536	526
Finance income		2	3
Finance costs		(109)	(130)
Profit before contribution to Kuwait Foundation for the Advancement of Sciences (“KFAS”), Zakat, tax on subsidiaries and Board of Directors’ remuneration		429	399
Contribution to KFAS		(4)	(4)
Contribution to Zakat		(2)	(2)
Tax on subsidiaries		(22)	(17)
Board of Directors’ remuneration		(0)	(0)
Net profit for the period		401	376
Other comprehensive income			
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Foreign currency translation differences		(6)	(2)
Fair value of cash flow hedge		18	(0)
Other comprehensive income / (loss) for the period		12	(2)
Total comprehensive income for the period		413	374

The attached notes on pages 6 to 20 form an integral part of these condensed consolidated interim financial information.



Condensed consolidated statement of changes in equity
for the six month period ended 30 June 2022

	US\$ million							
	Share capital	Treasury shares	Statutory reserve	Retained earnings	Remeasurement of retirement benefit obligation	Foreign currency translation reserve	Hedge reserve	Total
Balances as at 1 January 2021 (audited)	700	(450)	350	185	(41)	34	-	778
Net profit for the period	-	-	-	376	-	-	-	376
Other comprehensive loss	-	-	-	-	-	(2)	(0)	(2)
Total comprehensive income for the period	-	-	-	376	-	(2)	(0)	374
Dividends paid (Note 9)	-	-	-	(185)	-	-	-	(185)
Balance as at 30 June 2021	700	(450)	350	376	(41)	32	(0)	967
Balances as at 1 January 2022 (audited)	700	(450)	350	743	(13)	23	1	1,354
Net profit for the period	-	-	-	401	-	-	-	401
Other comprehensive loss	-	-	-	-	-	(6)	18	12
Total comprehensive income for the period	-	-	-	401	-	(6)	18	413
Dividends paid (Note 9)	-	-	-	(926)	-	-	-	(926)
Balance as at 30 June 2022	700	(450)	350	218	(13)	17	19	841

The attached notes on pages 6 to 20 form an integral part of these condensed consolidated interim financial information.



Condensed consolidated statement of cash flows
for the six month period ended 30 June 2022

	Note	US\$ million	
		2022	2021
Cash flows from operating activities			
Net profit for the period		401	376
<i>Adjustments for:</i>			
Depreciation		117	119
Amortisation of intangible and deferred assets		44	38
Reservation right fees		(19)	(22)
Finance costs		109	130
Finance income		(2)	(3)
Provision for retirement benefit obligation		22	22
Foreign exchange loss on retirement benefit obligations		(5)	6
Provision for long term incentives		4	1
		<u>671</u>	<u>667</u>
<i>Changes in:</i>			
Inventories		(12)	(14)
Due from related parties		10	97
Trade and other receivables		114	(355)
Deferred charges and other assets		0	(6)
Due to related parties		2	(154)
Trade and other payables		72	28
Retirement benefit obligation paid		(18)	(19)
Long term incentives paid		(6)	(3)
Net cash from operating activities		<u>833</u>	<u>241</u>
Cash flows from investing activities			
Purchase of property, plant and equipment		(36)	(15)
Investment in staff saving scheme		(2)	(1)
Long term loans repaid by related parties		(107)	-
Finance income received		3	5
Notes receivables from a related party		(94)	(20)
Net cash used in investing activities		<u>(236)</u>	<u>(31)</u>
Cash flows from financing activities			
Proceeds from issue of new notes	4	-	699
Loan origination fee paid	4	(2)	(4)
Buy back of notes	4	(428)	(572)
Lease payments		(21)	(21)
Finance costs paid		(113)	(132)
Dividends paid	9	(926)	(185)
Net cash used in financing activities		<u>(1,490)</u>	<u>(215)</u>
Net decrease in cash and cash equivalents		(893)	(5)
Cash and cash equivalents at beginning of the period		1,219	678
Cash and cash equivalents at end of the period	3	<u>326</u>	<u>673</u>

The attached notes on pages 6 to 20 form an integral part of these condensed consolidated interim financial information.



1. Reporting entity

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

The Company is owned by Dow Europe Holding B.V. (“DEHBV”), Petrochemical Industries Company K.S.C. (“PIC”), Boubyan Petrochemical Company K.S.C. (“BPC”) and Al-Qurain Petrochemical Industries Company K.S.C. (“QPIC”).

DEHBV is a subsidiary of The Dow Chemical Company (“TDCC”).

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

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

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

This condensed consolidated interim financial information comprise the financial information of the Company and its following directly and indirectly owned subsidiaries (together referred as “the Group” or “EQUATE Group” and individually “the Group entities”).

A list of significant directly owned subsidiaries are as follows:

Name of entity	Country of incorporation	Principal business	Percentage of holdings	
			30 June 2022	31 December 2021
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 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 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%



Notes to the condensed consolidated interim financial information
for the six-month period ended 30 June 2022

This condensed consolidated interim financial information was authorised for issue by the Chairman and President and Chief Executive Officer of the Group on 15 August 2022.

2. Basis of preparation

a) Statement of compliance

These condensed consolidated interim financial information for the six months period ended 30 June 2022 have been prepared in accordance with IAS 34 *Interim Financial Reporting* and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 December 2021 ("last annual consolidated financial statements"). They do not include all of the information required for a complete set of financial statements prepared in accordance with IFRS Standards. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements. Operating results for the six-month period ended 30 June 2022 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2022.

b) Judgments and estimates

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

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

c) Significant accounting policies

The accounting policies applied in this condensed consolidated interim financial information are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2021 except for the amendments to IFRS which are effective for annual accounting period starting from 1 January 2022, but they did not have any material effect on the Group's condensed consolidated interim financial information.

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted. The Group has not early adopted any of the forthcoming new or amended standards in preparing this condensed consolidated interim financial information.



3. Cash and bank balances

	US\$ million	
	30 June 2022	31 December 2021 (Audited)
Cash balances	-	-
Bank balances	175	129
Term deposits	210	1,147
Total cash and bank balances	385	1,276
Less: Amount reserved relating to staff saving scheme	(59)	(57)
Cash and cash equivalents for the statement of cash flows	326	1,219

The effective interest rate on time deposits as at 30 June 2022 was 0.36% (as at 31 December 2021: 0.33%) per annum.

4. Loans and borrowings

The movement in loans and borrowings is as follows:

	US\$ million	
	30 June 2022	31 December 2021 (Audited)
Balance at 1 January	4,753	4,621
Loan origination fee	(2)	(5)
Amortization for the period	3	10
Repayment of long-term loan	-	(75)
Issue of conventional bonds	-	699
Buy back of bonds	(428)	(572)
Loan facilities (Murabaha and Term loan facility)	-	75
Balance at 30 June	4,326	4,753
Non-current	4,101	4,326
Current	225	427
	4,326	4,753



Notes to the condensed consolidated interim financial information
for the six-month period ended 30 June 2022

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

	US\$ million	
	June 2022	December 2021 (Audited)
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, matured in March 2022, with an effective interest rate of 3.338% and carrying a coupon rate of 3% per annum payable on a semi-annual basis.	-	427
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	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.	150	225
viii) 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.	150	75
	4,334	4,761

In 2021, the 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.



Notes to the condensed consolidated interim financial information
for the six-month period ended 30 June 2022

The effective interest rate as at 30 June 2022 on the term and murabaha loans is 2.49% (31 December 2021: 2.45%).

As at 30 June 2022, medium term notes described in i), ii), iii), iv) and v) above are quoted at NA, 98.34, 100.96, 105.64 and 88.94 respectively (31 December 2021: 100.387, 109.10, 109.34, 121.50 and 100.4 respectively). These quotes are based on level 1 inputs of fair value. All the notes are listed on EURONEXT.

As at 30 June 2022, Sukuk described in vi) are quoted at 99.81 (31 December 2021: 105.66), based on level 1 inputs of fair value and listed in EURONEXT.

During 2020, the 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 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 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, with Murabaha working capital facility amounting to US\$100 million valid until 2024. Additionally, the Group secured a new bilateral revolving facility amounting \$200 million valid until 2024 with two years extension option.

5. Related party transactions

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

EQUATE Marketing Company 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 Company. The Company reimburses all the actual expenses incurred by EMC.

The Company 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").

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



During 2005, services agreements were signed between DEHBV, PIC and the Company with TKOC, TKSC, KARO and PIC for the provision of various services to the Olefins II projects. An agreement to amend the MUSA and service agreements (“primary agreements”) was signed between the parties to the primary agreements on 8 February 2006 releasing KARO from its obligations and liabilities under the primary agreements and appointing Kuwait Paraxylene Production Company K.S.C.C. (“KPPC”) in place of KARO to assume and perform all obligations of KARO as if KPPC were and had been a party to the primary agreements. KPPC is a 100% owned subsidiary of KARO.

During 2021, the Company acquired a sea cooling tower from PIC for a consideration of US\$ 105 million. Previously, the sea cooling tower was leased by the Company and accounted under IFRS 16 and accordingly the right of use assets and the respective lease liability was derecognised, and the sea cooling tower was recognised as a property, plant and equipment in the financial statements. The outputs from the sea cooling tower is reserved by TKOC, TKSC and KPPC for reservation right fees received.

Operational Facility – Under the cash management services provided by MEG B.V, the Group entities and TKOC have an overnight cash sweeping facility with MEG B.V. Under this arrangement, the Company, the Group entities and TKOC sweep selected bank accounts with MEG B.V. This allows the Group entities and TKOC either to invest or borrow funds on an overnight basis. Under the terms of the agreement, the Group entities 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 and TKOC, accrued on a monthly basis. The spread is determined based on the creditworthiness of counterpart and characteristics of the debt financing arrangement. At 30 June 2022, an amount of US\$ 94 is due from TKOC to the Group under this arrangement (31 December 2021: US\$ 107 million payable to TKOC). These are indefinite credit arrangements subject to termination by either party.

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

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

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



Notes to the condensed consolidated interim financial information
for the six-month period ended 30 June 2022

- 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.

	US\$ million	
	30 June 2022	30 June 2021
a) Sales and management fee		
Polypropylene plant management fees from PIC	0	1
Olefins plant management fees from TKOC	2	1
Styrene plant management fees from TKSC	1	1
Aromatics plant management fees from KPPC	2	2
Operating cost reimbursed by PIC for running of Polypropylene plant	2	4
Operating and utility cost reimbursed by TKOC for running of Olefins plant	69	61
Operating and utility cost reimbursed by TKSC for running of Styrene plant	30	26
Operating and utility cost reimbursed by KPPC for running of Aromatics plant	36	37
Interest income on long-term loan and notes receivables from TKOC	1	3



Notes to the condensed consolidated interim financial information
for the six-month period ended 30 June 2022

b) Purchases and expenses

Feed gas and fuel gas purchased from KPC	127	111
Purchase of Ethylene Glycol from TKOC	260	269
Ethylene purchase from Dow Chemical Canada ULC	153	110
Ethylene purchase from TDCC	158	53
Service cost reimbursed to Dow Chemical Canada ULC	50	7
Service cost reimbursed to TDCC	4	4
Service cost reimbursed to DEHBV	6	18
Glycol purchased from TDCC	86	73
Catalyst purchased from UNIVATION	3	6
Operating costs reimbursed to EMC	1	1
Staff secondment costs reimbursed to DEHBV	1	1
Ethylene and other purchases from TKOC	44	38
Interest expenses on notes payables from TKOC	-	1

c) Key management compensation

Salaries, short term and terminal benefits	3	3
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US\$ million	
30 June 2022	31 December 2021
	(Audited)

d) Notes receivable

Working capital facility with TKOC	94	-
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US\$ million	
30 June 2022	31 December 2021
	(Audited)

e) Due from related parties

Due from PIC	-	1
Due from UCC	15	3
Due from TKOC	11	16
Due from TKSC	10	6
Due from KPPC	-	13
Due from KPC	-	0
Due from KNPC	-	0
Due from TDCC	2	3
Due from Dow Chemical Canada ULC	-	8
Due to Dow Europe GMBH	4	2
Due from Others	0	0
	42	52



Notes to the condensed consolidated interim financial information
for the six-month period ended 30 June 2022

	US\$ million	
	30 June 2022	31 December 2021 (Audited)
f) Notes payable		
Working capital facility with TKOC	-	107
	US\$ million	
	30 June 2022	31 December 2021 (Audited)
g) Due to related parties		
Due to KPC	63	37
Due to KOC	4	2
Due to PIC	2	3
Due to KPPC	0	1
Due to TKSC	0	1
Due to TKOC	75	106
Due to TDCC	5	1
Due to Dow Olefinverbund GMBH	-	-
Due to Dow Chemical Canada ULC	6	7
Due to Dow Canada Limited	3	1
Due to DEHBV	6	3
Due to Dow Chemical China Investment Co	-	-
Others	1	-
	165	162

6. Additional Business and Geographical Information

Basis for segmentation

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

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



Information about reportable segments

	30 June 2022			30 June 2021		
	(US\$ million)			(US\$ million)		
	PMC	Others	Total	PMC	Others	Total
External segment revenue	2,146	141	2,287	1,951	131	2,082
EBITDA	665	13	678	649	12	661
Net profit for the period	398	3	401	370	6	376
Interest income	(2)	-	(2)	(3)	-	(3)
Interest expenses	107	2	109	128	2	130
Depreciation, amortization and reservation rights	134	8	142	131	4	135
Income tax/ KFAS/ Zakat	28	0	28	23	0	23

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, Singapore and United States of America. The geographical information analyses the Group's revenue by the Company's country of domicile and other countries. In presenting the geographical information, the segment revenue has been based on geographic location of customers.

	EG	PE	PET	Others	Total
	(US\$ million)	(US\$ million)	(US\$ million)	(US\$ million)	(US\$ million)
30 June 2022					
Americas	305	-	-	-	305
North-East Asia	590	106	-	-	696
India sub-continental	304	54	-	-	358
Europe	175	89	264	-	528
Rest of the World*	56	203	-	141	400
External revenue	1,430	452	264	141	2,287
30 June 2021					
Americas	265	-	-	-	265
North-East Asia	648	165	-	-	813
India sub-continental	236	34	-	-	270
Europe	146	62	157	-	365
Rest of the World*	58	180	-	131	369
External revenue	1,353	441	157	131	2,082

* Rest of the World includes revenue from Kuwait of US\$ 35 million (2021: US\$ 30 million).

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



Timing of revenue recognition

	US\$ million	
	30 June 2022	30 June 2021
Products transferred at a point in time	1,985	1,848
Products and services transferred over time	161	103
Revenue from contracts with customers	2,146	1,951
Other revenue	141	131
	<u>2,287</u>	<u>2,082</u>

EBITDA by product line	EG (US\$ million)	PE (US\$ million)	PET (US\$ million)	Others (US\$ million)	Total (US\$ million)
30 June 2022	382	250	33	13	678
30 June 2021	380	260	9	12	661

7. Financial instruments

Fair value measurement

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

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

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

Forward foreign exchange contracts

Foreign currency exposure risks are managed by dealing in forward contracts within the pre-approved limits. The Group deals in forward foreign exchange contracts to manage its foreign currency positions and cash flows.



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As at 30 June 2022, the Group had following net notional forward exchange contracts (off balance sheet exposure):

	US\$ million	
	30 June 2022	31 December 2021 (Audited)
Long position		
KD	907	1,037
CAD	89	121
Euro	63	41
Others	15	10
Short position		
KD	367	461
CAD	56	62
Euro	44	78
Others	44	28

The fair value of forward foreign exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate. These are classified as Level II. The fair value of the forward foreign exchange contract as at 30 June 2022 amounting to US\$ 1.5 million (31 December 2021: US\$ 4 million).

Cash flow hedge

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

The hedge ineffectiveness can arise from:

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



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- 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.

	US\$ million	
	30 June 2022	31 December 2021
Notional amount:	2	7
Fair value	0	1

The Group 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

- ii) At 30 June 2022, the Group had an interest rate swap agreement in place with a notional amount of US\$ 360 million (2021: US\$ 100 million) whereby the Group receives a fixed rate of interest of 1.87% and pays interest at a variable rate equal to SOFR+ margin on the notional amount. The swap is being used to hedge the changes in the value of the company forecasted cash flow arising from the issuance of future debt instruments against benchmark interest risk changes.

There is an economic relationship between the hedged item and the hedging instrument as there is an expectation that the value of the hedging instrument and the value of the hedged item would move in the opposite direction as a result of the common underlying or hedged risk. The Group 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 Group 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.

	US\$ million	
	30 June 2022	31 December 2021
Notional amount:	360	100
Fair value	19	0



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The Group 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 Group as at 30 June 2022, that are not carried at fair value, are not materially different from their carrying values.

Financial risk management

All aspects of the Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2021.

8. Commitments and contingent liabilities

The Group has a fixed gas purchase commitment with a related party of approximately US\$ 1 million (31 December 2021: US\$ 1 million) per day until the agreement is cancelled in writing by both parties.

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

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

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

MEGlobal Americas Inc., MEGlobal Canada ULC and its wholly owned subsidiary Alberta & Orient Glycol Company ULC ("the subsidiaries") has entered into short term arrangements to obtain the right to use 8,585,796 troy ounces (2021: 8,486,043 troy ounces) of silver with a variety of banks. The title and ownership of the silver rests with banks. These arrangements mature over various dates in 2021-2022 and are guaranteed by MEGlobal BV. The subsidiaries pays lease fees for these arrangements which are expensed over the terms of such arrangements. The subsidiaries also bears the risk of loss of silver resulting from usage.

The following summarizes the quantity and value of silver outstanding as at 30 June 2022 under such arrangements:

Bank	30 June 2022			31 December 2021		
	Credit Limit US\$ million	Qty (TOZ)	Silver Value US\$ million	Credit Limit US\$ million	Qty (TOZ)	Silver Value US\$ million
HSBC	175	5,614,295	128	175	6,414,889	155
Sumitomo	114	2,971,501	64	100	2,071,154	57
Standard Chartered	-	-	-	85	-	-
Citibank	-	-	-	40	-	-
Total	289	8,585,796	192	400	8,486,043	212



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In addition to the above, the Group had the following commitments and contingent liabilities outstanding as at 30 June 2022:

	US\$ million	
	30 June 2022	31 December 2021 (Audited)
Letters of credit and letters of guarantee	12	16
Capital commitments	30	14

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\$ 47.7 million) for 2013, CAD 75 million (US\$ 58.1 million) for 2014, CAD 75.8 million (US\$ 58.7 million) for 2015, CAD 82.3 (US \$ 63.7 million) for 2016 and CAD 140.49 (US\$ 108.8 million) for 2017. This has resulted in additional assessed federal, provincial, Part XIII tax impact and penalties of CAD 37.8 million (US\$ 29.3 million) for 2013, tax impact of CAD 45.8 million (US\$ 35.5 million) for 2014, tax impact of CAD 45.7 million (US\$ 35.4 million) for 2015 and tax impact of CAD 42.70 million (US\$ 33.1 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 this commitment. The Management is awaiting to get a date for the hearing from the appeals officer.

9. Annual General Assembly

At the Company's Annual General Meeting held on 2 March 2022, the shareholders approved the Board of Directors recommendation to distribute cash dividend of 9.02 cents per share amounted to US\$ 743 million (2020: 9.02 cents per share amounted to US\$ 185 million). During the period, the Group paid dividend amounting to US\$ 926 million (30 June 2021: US\$ 185 million).