

**The Kuwait Olefins Company K.S.C.C.
State of Kuwait**

**Financial Statements and
Independent auditor's report for the year ended
31 December 2023**

The Kuwait Olefins Company K.S.C.C.
State of Kuwait

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Independent auditor's report

The Shareholders

The Kuwait Olefins Company K.S.C.C.
State of Kuwait

Opinion

We have audited the financial statements of The Kuwait Olefins Company K.S.C.C. ("the Company"), which comprise the statement of financial position as at 31 December 2023, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

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 Financial Statements* section of our report. We are independent of the Company 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.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report is the Board of Directors report included in the Company's annual report but does not include the financial statements and our auditor's report thereon.

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

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

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



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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company'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 Company'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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.



Report on Other Legal and Regulatory Requirements

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the financial statements include the information required by the Companies Law No. 1 of 2016, as amended and its Executive Regulations and the Company's Memorandum and Articles of Association, as amended. In our opinion, proper books of account have been kept by the Company, an inventory count was carried out in accordance with recognized procedures and the accounting information given in the board of directors' report agrees with the books of accounts of the Company. We have not become aware of any violations of the provisions of the Companies Law No. 1 of 2016, as amended and its Executive Regulations, or of the Company's Memorandum and Articles of Association, as amended during the year ended 31 December 2023 that might have had a material effect on the business of the Company or on its financial position.

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

Kuwait: 21 February 2024


The Kuwait Olefins Company K.S.C.C.
State of Kuwait

Statement of financial position
as at 31 December 2023

	Notes	US\$ '000	
		2023	2022
Assets			
Property, plant and equipment	5	461,461	502,071
Intangible assets	6	170,744	196,155
Right-of-use assets	7	13,064	9,957
Non-current assets		645,269	708,183
Inventories	8	7,103	4,011
Due from related parties	14	53,781	52,249
Prepayments and other receivables		7,705	10,102
Notes receivables	14	17,279	-
Bank balances		87	358
Current assets		85,955	66,720
Total assets		731,224	774,903
Equity			
Share capital	9	380,417	380,417
Statutory reserve	9	190,208	190,208
Retained earnings		80,798	83,049
Total equity		651,423	653,674
Liabilities			
Lease liabilities	7	12,535	9,267
Non-current liabilities		12,535	9,267
Lease liabilities	7	1,441	1,158
Accruals and other liabilities		14,775	19,166
Due to related parties	14	50,965	45,225
Trade payables		85	153
Notes payable	14	-	46,260
Current liabilities		67,266	111,962
Total liabilities		79,801	121,229
Total equity and liabilities		731,224	774,903

The attached notes on pages 8 to 34 form an integral part of these financial statements.


Nadia Al Hajji
Chairperson


Naser Aldousari
President & Chief Executive Officer

The Kuwait Olefins Company K.S.C.C.
State of Kuwait

Statement of profit or loss and other comprehensive income
for the year ended 31 December 2023

	Notes	US\$' 000	
		2023	2022
Sales	10	552,527	611,056
Cost of sales	11	(350,968)	(364,282)
Gross profit		201,559	246,774
General, administrative and selling expenses	12	(4,103)	(4,362)
Foreign exchange gain		1	290
Profit from operation		197,457	242,702
Finance income		3,107	2,802
Finance cost	7 & 14	(2,439)	(1,777)
Profit before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), Zakat and Board of Directors' remuneration		198,125	243,727
Contribution to KFAS	13	(1,981)	(2,469)
Contribution to Zakat		(1,139)	(1,420)
Board of Directors' remuneration		(79)	(79)
Net profit for the year		194,926	239,759
Other comprehensive income		-	-
Total comprehensive income for the year		194,926	239,759

The attached notes on pages 8 to 34 form an integral part of these financial statements.

The Kuwait Olefins Company K.S.C.C.
State of Kuwait

Statement of changes in equity
for the year ended 31 December 2023

	US\$ '000			
	Share capital	Statutory reserve	Retained earnings	Total
Balance as at 1 January 2022	380,417	190,208	366,553	937,178
Net profit for the year	-	-	239,759	239,759
Total comprehensive income for the year	-	-	239,759	239,759
Dividend paid (Note 9)	-	-	(523,263)	(523,263)
Balance as at 31 December 2022	<u>380,417</u>	<u>190,208</u>	<u>83,049</u>	<u>653,674</u>
Balance as at 1 January 2023	380,417	190,208	83,049	653,674
Net profit for the year	-	-	194,926	194,926
Total comprehensive income for the year	-	-	194,926	194,926
Dividend paid (Note 9)	-	-	(197,177)	(197,177)
Balance as at 31 December 2023	<u>380,417</u>	<u>190,208</u>	<u>80,798</u>	<u>651,423</u>

The attached notes on pages 8 to 34 form an integral part of these financial statements.

The Kuwait Olefins Company K.S.C.C.
State of Kuwait

Statement of cash flows
for the year ended 31 December 2023

	Notes	US\$ '000	
		2023	2022
Cash flows from operating activities			
Net profit for the year		194,926	239,759
<i>Adjustments for:</i>			
Depreciation and amortization	5, 6 & 7	78,927	78,637
Finance costs	7 & 14	2,439	1,777
Finance income		(3,107)	(2,802)
Provision for KFAS	13	1,981	2,469
Provision for Zakat		1,139	1,420
		<u>276,305</u>	<u>321,260</u>
<i>Changes in:</i>			
- Inventories		(3,092)	(920)
- Due from related parties		(1,532)	60,368
- Prepayments and other receivables		2,397	1,891
- Accruals and other liabilities		(7,511)	(7,640)
- Due to related parties		5,740	4,123
- Trade payables		(68)	92
		<u>272,239</u>	<u>379,174</u>
Net cash from operating activities			
Cash flows from investing activities			
Addition of property, plant and equipment	5	(11,245)	(8,153)
Net movement in notes receivables	14	(17,279)	106,508
Finance income received		3,107	2,802
		<u>(25,417)</u>	<u>101,157</u>
Net cash (used in) / from investing activities			
Cash flows from financing activities			
Payment of lease liabilities	7	(1,735)	(1,697)
Net movement in notes payable	14	(46,260)	46,260
Finance costs paid		(1,921)	(1,342)
Dividend paid	9	(197,177)	(523,263)
		<u>(247,093)</u>	<u>(480,042)</u>
Net cash used in financing activities			
Net change in bank balances		(271)	289
Bank balances as at 1 January		<u>358</u>	<u>69</u>
Bank balances as at 31 December		<u><u>87</u></u>	<u><u>358</u></u>

The attached notes on pages 8 to 34 form an integral part of these financial statements.

The Kuwait Olefins Company K.S.C.C.
State of Kuwait

Notes to financial statements
for the year ended 31 December 2023

1. Reporting entity

The Kuwait Olefins Company K.S.C.C. (“the Company”) is a Closed Kuwaiti Shareholding Company incorporated in the State of Kuwait on 10 October 2004. The Company is registered in the commercial register under number 103722 dated 10 October 2004.

The Company is owned by DOW Europe Holding B.V. (“DEHBV”), Petrochemical Industries Company K.S.C.C. (“PIC”), Boubyan Petrochemical Company K.S.C. (“BPC”) and Kuwait Projects Company (Holding) (“KIPCO”).

DEHBV is a subsidiary of The Dow Chemical Company (“TDCC”) and PIC is a subsidiary of Kuwait Petroleum Corporation (“KPC”).

The Company is engaged in the manufacture and sale of ethylene and ethylene glycol (“EG”).

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

These financial statements were approved for issue by Board of Directors on 13 February 2024 and are subject to approval of shareholders at the forthcoming Annual General Meeting.

2. Basis of preparation

a) Statement of Compliance

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

b) Basis of measurement

The financial statements have been prepared on the historical cost.

c) Functional and presentation Currency

These financial statements are presented in United States Dollars (“US\$”) which is the functional currency of the Company. The Company’s functional currency is not the currency of the country in which it is domiciled as majority of the transactions of the Company are denominated in US\$. All financial information presented in US\$ has been rounded to the nearest thousand. A separate set of financial statements is presented in Kuwaiti Dinar (“KD”) for purpose of submission to the Ministry of Commerce and Industry, State of Kuwait.

d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS Accounting Standards 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.

Notes to financial statements

for the year ended 31 December 2023

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.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in Note 4(m).

3. Changes in accounting policy

The accounting policies adopted in the preparation of these financial statements are consistent with those used in the previous financial year, except for the adoption of the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2023 (unless otherwise stated). The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

New standards, interpretations, and amendments adopted by the Company

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 replaces IFRS 4 Insurance Contracts. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them as well as to certain guarantees and financial instruments with discretionary participation features; a few scope exceptions will apply. The overall objective of IFRS 17 is to provide a comprehensive accounting model for insurance contracts that is more useful and consistent for insurers, covering all relevant accounting aspects. IFRS 17 is based on a general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

The new standard has no material impact on the Company's financial statements.

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

The Company also adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from 1 January 2023. The amendments require the disclosure of 'material' rather than 'significant', accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information for users to understand other information in the financial statements.

The amendments has no material impact on the Company's financial statements.

Notes to financial statements

for the year ended 31 December 2023

Definition of Accounting Estimates (Amendments to IAS 8)

The amendments to IAS 8 clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments has no material impact on the Company's financial statements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

These amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases. For leases, an entity is required to recognise the associated deferred tax assets and liabilities from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, an entity applies the amendments to transactions that occur on or after the beginning of the earliest period presented.

The amendments has no impact on the Company's financial statements.

International Tax Reform – Pillar Two Model Rules – Amendments to IAS 12

These amendments provide a temporary mandatory exception from deferred tax accounting for the top-up tax, which is effective immediately, and require new disclosures about the Pillar Two exposure.

These amendments has no impact on the Company's financial statements.

4. Material accounting policies

The Company has consistently applied these material accounting policies set out below in the preparation of the financial statements, except for the changes described in Note 3 above.

a) 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, fair value through other comprehensive income ("FVOCI"), or fair value through profit or loss ("FVTPL").

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

Notes to financial statements

for the year ended 31 December 2023

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 marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company 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 Company 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 statement of profit or loss when the asset is derecognised, modified or impaired. The Company's financial assets at amortised cost includes due from related parties, other receivables, notes receivables and bank balances.

(a) Business model assessment

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Company'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 Company's original expectations, the Company 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.

Notes to financial statements

for the year ended 31 December 2023

(b) The SPPI test

As a second step of its classification process, the Company 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 Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

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

Financial assets at FVOCI (debt instruments)

The Company 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 statement of profit or loss. The Company does not carry any debt instruments at fair value through OCI.

Financial assets designated at FVOCI (equity instruments)

Upon initial recognition, the Company 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.

Notes to financial statements

for the year ended 31 December 2023

Gains and losses on these financial assets are never recycled to statement of 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 Company 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 Company 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 Company 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 Company's statement of financial position) when:

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

When the Company 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 Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company 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 Company has retained.

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

Notes to financial statements
for the year ended 31 December 2023

Impairment of financial assets

The Company 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 Company 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 Company 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 of ECL, the Company determines whether the financial asset is in one of the three stages in order to determine the amount of ECL to recognise:

Stage 1: 12 months ECL

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

Stage 2: Lifetime ECL – not credit impaired

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

Stage 3: Lifetime ECL – credit impaired

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

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

For other receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company has elected to measure loss allowances at an amount equal to 12-month ECLs for the bank balances, notes receivables 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.

Notes to financial statements
for the year ended 31 December 2023

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

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

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 Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9.

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

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Company has not designated any financial liability as at fair value through profit or loss.

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Derecognition

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

iii) Offsetting of financial instruments

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

b) Property, plant and equipment

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

Depreciation is calculated based on the estimated useful lives of the applicable assets on a straight-line basis commencing when the assets are ready for their intended use, at the following annual rates:

	2023	2022
Buildings and roads	5%	5%
Plant and equipment	4%	4%
Office furniture and equipment	12.5% - 20%	12.5% - 20%
Catalyst	25%	25%

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 Company'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.

Notes to financial statements

for the year ended 31 December 2023

The replacement costs of major components and overhaul costs which improve the economic benefit that can be generated are capitalised by the Company. The Company 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 statement of profit or loss.

c) Intangible assets

Intangible assets consist of technology and licences for the manufacture of ethylene and ethylene glycol, and reservation right fees paid for the rights on offtake from certain plant, equipment and facilities owned, developed and operated by Equate Petrochemical Company K.S.C.C. ("EQUATE"). Intangibles are measured at cost less accumulated amortisation and any accumulated impairment losses.

Costs that are directly associated with identifiable non-monetary assets controlled by the Company and that will probably generate economic benefits exceeding cost beyond one year are recognised as intangible assets.

The intangible assets are amortised from the date of commencement of commercial production on a straight-line basis over twenty years. 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.

d) Impairment of tangible and intangible assets

The carrying amounts of tangible and intangible assets are reviewed at each financial position date to determine whether there is any indication of impairment. If any such indication exists, an impairment loss is recognized in the statement of profit and loss, being the difference between carrying value and the asset's recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

An asset is impaired if its carrying amount exceeds its estimated recoverable amount. The recoverable amount of an asset is the higher of an asset's fair value less cost to sell and value in use. Fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

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 statement of profit or loss.

e) Cash and bank balances

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.

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f) 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 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.

g) Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognized revenue when it transfers control over a good or service to a customer.

Revenue is measured at a fair value of the consideration received or receivable, taking into account defined terms of payment in a contract and net of applicable discounts.

Revenue from sale of products:

Revenue from the sale of ethylene, ethylene glycol and other 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 Company's terms of sale are included in its contracts of sale, order confirmation documents and invoices. Each such sale normally represents a single performance obligation. The Company satisfies its performance obligations at a point in time.

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.

h) Provisions for liabilities

A provision is recognised if, as a result of a past event, the Company 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.

i) 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 Company 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 statement of profit or loss using the effective interest method in the period in which they are incurred.

j) Leases

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

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

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain 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
- lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company 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 Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company 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 statement of profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

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Short-term leases and leases of low-value assets

The Company 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 that are considered of low value (i.e., below US\$ 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.

Judgement in determining the lease term of contracts with renewal options

The Company 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 Company 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 Company 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).

k) Foreign currencies transactions

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

Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost in a foreign currency 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 statement of profit or loss.

l) Contribution to Kuwait Foundation for the Advancement of Sciences (“KFAS”) and Zakat

The Company is legally required to contribute to the KFAS and Zakat. The Company’s contributions to KFAS and Zakat are recognised as an expense in the period during which the Company’s contribution is legally required. KFAS is calculated at 1% of the net profit for the year of the Company after deducting the transfer to statutory reserve. Zakat is calculated at 1% on the net profit for the year attributable to Kuwaiti shareholders of the Company after allowable deductions.

m) Critical accounting judgements and key sources of estimation uncertainty

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

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:

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Measurement of fair values of financial instruments

The Company 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.

n) 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 Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

- Non-current Liabilities with Covenants – Amendments to IAS 1
- Classification of Liabilities as Current or Non-current - Amendments to IAS 1
- Lease Liability in a Sale and Leaseback – Amendments to IFRS 16
- Supplier Finance Arrangements – Amendments to IAS 7 and IFRS 7
- Lack of Exchangeability – Amendments to IAS 21
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28

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

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5. Property, plant and equipment

US\$ '000

Cost	Buildings and roads	Plant and equipment	Office furniture and equipment	Catalysts	Assets under construction	Total
Balance as at 1 January 2022	10,096	1,238,545	24,280	25,073	21,548	1,319,542
Additions	-	92	-	3,661	4,400	8,153
Transfers	-	3,029	-	15,797	(18,826)	-
Balance as at 31 December 2022	10,096	1,241,666	24,280	44,531	7,122	1,327,695
Additions	-	25	9	-	11,211	11,245
Transfers	-	1,693	229	-	(1,922)	-
Balance as at 31 December 2023	10,096	1,243,384	24,518	44,531	16,411	1,338,940
Accumulated depreciation and impairment losses						
Balance as at 1 January 2022	5,882	719,668	23,009	25,073	-	773,632
Charge for the year	339	46,814	380	4,459	-	51,992
Balance as at 31 December 2022	6,221	766,482	23,389	29,532	-	825,624
Charge for the year	339	46,264	388	4,864	-	51,855
Balance as at 31 December 2023	6,560	812,746	23,777	34,396	-	877,479
Carrying amounts						
As at 31 December 2022	3,875	475,184	891	14,999	7,122	502,071
As at 31 December 2023	3,536	430,638	741	10,135	16,411	461,461

Depreciation is allocated to cost of sales as it entirely relates to the Olefins Plant. The Company's plant was constructed on a land leased from Government of Kuwait and this renewable lease is valid until May 2031.

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6. Intangible assets

	US\$ '000	
	2023	2022
Cost		
Licence fees paid to Technip USA Corporation (“TECHNIP”)	2,210	2,210
Licence fees paid to “Union Carbide Chemicals & Plastics Tech Corporation”	31,472	31,472
Licence fees paid to “Dow Europe Holding B.V.”	62,353	62,353
Licence fees paid to UOP Limited	364	364
Reservation right fees paid to EQUATE	411,830	411,830
As at 31 December	<u>508,229</u>	<u>508,229</u>
Accumulated amortisation and impairment losses		
As at 1 January	312,074	286,662
Charge for the year	25,411	25,412
As at 31 December	<u>337,485</u>	<u>312,074</u>
Carrying amounts	<u>170,744</u>	<u>196,155</u>

Licence fees paid to TECHNIP and to UOP Limited represent the amounts incurred for the acquisition of Ethylene technology. Licence fees paid to Union Carbide Chemicals & Plastics Tech Corporation and Dow Europe Holding B.V. represent the amount incurred for acquisition of Glycol technology. Licence fees are being amortised over 20 years. Amortisation of intangible assets is allocated to cost of sales.

Reservation right fees represent the fees for rights on offtake from certain plant, equipment and facilities owned, developed and operated by EQUATE (Note 14).

7. Leases

The Company leases land from government of Kuwait. The leases are for 25 years, with an option to renew the leases after the date. The weighted average rate applied in determination of incremental borrowing rate is 3.72% - 4.10% (2022: 3.72%).

Information about leases for which the Company is a lessee is presented below:

(i) Right of use asset

	US\$ '000	
	2023	2022
Balance at 1 January	9,957	11,190
Lease modification	4,768	-
Depreciation	(1,661)	(1,233)
Balance at 31 December	<u>13,064</u>	<u>9,957</u>

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(ii) Lease Liabilities

	US\$ '000	
	2023	2022
Balance at 1 January	10,425	11,687
Lease modification	4,768	-
Finance cost	518	435
Payment of lease liabilities	(1,735)	(1,697)
Balance at 31 December	<u>13,976</u>	<u>10,425</u>

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

	US\$ '000	
	2023	2022
Current	1,441	1,158
Non-current	12,535	9,267
	<u>13,976</u>	<u>10,425</u>

(iii) Amounts recognised in profit or loss

	US\$ '000	
	2023	2022
Interest on lease liabilities (included in finance cost)	518	435
Depreciation on right of use asset (included in cost of sales)	1,661	1,233

(iv) Amounts recognised in statement of cash flows

	US\$ '000	
	2023	2022
Total cash outflow for leases	1,735	1,697

8. Inventories

	US\$ '000	
	2023	2022
Raw materials and consumables	3,690	1,086
Finished goods	3,413	2,925
	<u>7,103</u>	<u>4,011</u>

9. Share capital

The share capital of the Company comprises 1,060 million authorised, issued and fully paid-up shares of Fils 100 each in cash (2022: 1,060 million authorised, issued and fully paid-up shares of Fils 100 each in cash) (1,000 Fils equals 1 Kuwaiti Dinar).

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Statutory reserve

In accordance with the Companies Law No. 1 of 2016, as amended and the Company's Articles of Association, 10% of the net profit for the year before tax and board of director's remuneration is required to be transferred to statutory reserve. until the reserve totals 50% of the paid-up share capital. The reserve is not available for distribution except for payment of a dividend of 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividends.

During 2013, the shareholders in the Annual General Meeting resolved to discontinue the transfer to statutory reserve as the reserve reached 50% of the Company's paid up share capital. Accordingly, there are no transfers to the statutory reserve during the year.

Proposed dividend

At the Annual General Meeting held on 20 February 2023 and 22 March 2022, the shareholders authorized the Board of Directors to approve and distribute interim dividends pertaining to the net profits for the year ending 31 December 2023 and 2022 respectively.

The following dividends were approved by the Board of Directors and paid by the Company during the year:

	US \$ '000	
	2023	2022
Interim dividend for the current year	114,128	156,710
Outstanding dividend from the prior year	83,049	366,553
Dividend paid during the year	<u>197,177</u>	<u>523,263</u>

The remaining USD 50,798 thousand out of the current year profit of USD 194,926 thousand representing 18.39 cents per share (2022: USD 83,049 thousand out of the profit of USD 239,759 thousand representing 22.62 cents per share) is subject to approval by the Board of Directors.

10. Sales

	US \$ '000	
	2023	2022
<i>Type of products</i>		
Ethylene	138,380	126,951
Ethylene glycol	414,147	484,105
	<u>552,527</u>	<u>611,056</u>

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11. Cost of sales

	US\$ '000	
	2023	2022
Materials	182,539	186,992
Distribution expenses	8,311	8,518
Service cost	81,191	90,135
Depreciation and amortisation (Note 5, 6 & 7)	78,927	78,637
	<u>350,968</u>	<u>364,282</u>

12. General, administrative and selling expenses

	US\$ '000	
	2023	2022
Marketing and sales	857	925
Administration	3,246	3,437
	<u>4,103</u>	<u>4,362</u>

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

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

The movement for KFAS provision is as follows:

	US\$ '000	
	2023	2022
Balance at 1 January	6,247	3,778
Accruals	1,981	2,469
Payment	(3,681)	-
Balance at 31 December	<u>4,547</u>	<u>6,247</u>

14. Related party transactions

In the normal course of business, the Company enters into transactions with its shareholders PIC (wholly owned by Kuwait Petroleum Corporation (“KPC”)), BPC, KIPCO, DEHBV and its affiliates.

During 2004, DEHBV and PIC initiated a number of joint venture petrochemical projects (“Olefins II projects”) in Kuwait to manufacture polyethylene, ethylene glycol and styrene monomer. The Olefins II projects consists of the EQUATE expansion project, the incorporation and development of the Company and The Kuwait Styrene Company (“TKSC”).

On 2 December 2004, the Company signed a Materials and Utilities Supply Agreement (“MUSA”) with EQUATE. Under the terms of the MUSA, the Company contributed reservation right fees to EQUATE that represent 45.32% of the capital construction costs incurred by EQUATE on the new utilities and infrastructure facilities developed and owned by EQUATE. The percentage contribution of reservation right fee is based on the usage percentage of the new utilities and infrastructure facilities by the Company.

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On 2 December 2004, the Company signed an Operations, Maintenance and Services Agreement (“OMSA”) with EQUATE. Under the terms of the OMSA, the Company receives various services from EQUATE in respect of the Olefins II operations.

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

During 2005, Services Agreements were signed between the Company, DEHBV, PIC and EQUATE for the provision of various services to the Company during the development of the Plant under construction. Since then, the plant has been constructed and it is fully operational.

During 2020, EQUATE acquired a Sea Cooling Tower from PIC. Pursuant to MUSA and other agreements, the Company contributed reservation right fees to EQUATE that represent 68.11% of acquisition costs incurred by EQUATE on the Sea Cooling Tower acquired and owned by EQUATE. The percentage contribution of reservation right fees is based on the usage percentage of Sea Cooling Tower by the Company.

Operational Facility – Under the cash management services provided by MEG B.V, EQUATE Group entities and TKOC have an overnight cash sweeping facility with MEG B.V. Under this arrangement, the subsidiaries of EQUATE Group and TKOC sweeps selected bank accounts with MEG B.V. This allows EQUATE Group 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 interest rate of LIBOR plus a positive spread set by the Management. The spread is determined taking into consideration of economic factors such as the creditworthiness of counterpart, characteristics of the debt financing arrangement etc. Amounts outstanding as at 31 December 2023 amounted to net assets of US\$ 17,279 thousand (2022: net liability of US\$ 46,260 thousand). These are indefinite arrangements subject to termination by either party of which the interest is accrued monthly.

All transactions with related parties are carried out on a negotiated contract basis. Details of significant related party transactions and balances are as follows:

	US\$ '000	
	2023	2022
Notes receivables		
Working capital loan to ME Global B.V.	<u>17,279</u>	<u>-</u>
Notes payable		
Working capital loan from ME Global B.V.	<u>-</u>	<u>46,260</u>

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	US\$ '000	
	2023	2022
Due from related parties		
Due from EQUATE	47,858	47,162
Due from PIC	1,228	1,075
Due from TKSC	2,878	2,230
Due from DOW Chemical Company	1,610	1,610
Due from Kuwait Paraxylene Production Company K.S.C.C. (“KPPC”)	207	172
	<u>53,781</u>	<u>52,249</u>
Due to related parties		
Due to EQUATE	15,502	12,044
Due to KPPC	475	223
Due to KPC	32,865	30,800
Due to Kuwait Oil Company K.S.C. (“KOC”)	2,123	2,158
	<u>50,965</u>	<u>45,225</u>
Sales		
Sales of EG to EQUATE	414,147	484,105
Sales to EQUATE, KPPC, TKSC and PIC	138,380	126,951
Expenses		
Feed gas purchased from KPC	116,634	130,631
Olefins II plant management fees to EQUATE	2,389	2,388
Tugging fees payments to KOC	8,673	9,166
Operating and utility cost reimbursed to EQUATE for running the Olefins II plant	132,190	136,221
Interest expense on notes payable from ME Global B.V.	1,915	1,342
Facility Fee FAB Supply Chain Financing	6	-
Finance income		
Interest income on notes receivable from ME Global B.V.	749	360
Guarantee interest from EQUATE	2,253	2,425

Board of Directors’ remuneration

The provision for the Board of Directors’ remuneration was made according to Article 198 of the Companies Law No.1 of 2016, as amended and its Executive Regulations and is subject to the approval of Annual General Meeting.

15. Financial risk management

Overview

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

- market risk
- credit risk
- liquidity risk

Financial management framework

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

The Company continuously reviews its risk exposures and takes measures to limit it to acceptable levels. Risk management is carried out by the senior management under policies approved by the board of directors. Senior management identifies and evaluates financial risks in close co-operation with the operating units.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

The significant financial risks that the Company is exposed to are discussed below:

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and the equity prices will affect the Company'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 Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

Foreign currency risk

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

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

31 December 2023 (US\$' 000)	Euro	Kuwaiti Dinar	Total
Assets	91	14	105
Liabilities	-	(43,357)	(43,357)
Net exposure	91	(43,343)	(43,252)

31 December 2022 (US\$' 000)	Euro	Kuwaiti Dinar	Total
Assets	48	95	143
Liabilities	(36)	(33,604)	(33,640)
Net exposure	12	(33,509)	(33,497)

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

(US\$)	Reporting date	
	Mid-spot rate	
	2023	2022
Euro	0.905	0.937
Kuwaiti Dinar	0.307	0.306

Foreign currency sensitivity analysis

As at 31 December 2023, if the US\$ had weakened/strengthened by 5% against the Euro and Kuwaiti Dinar with all other variables held constant, profit for the year would have been higher / lower by US\$ 2,163 thousand (2022: US\$ 1,675 thousand).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Company's financial instrument will fluctuate because of changes in market interest rates. The interest rate risk is not significant.

The Company doesn't have any relevant significant interest-bearing financial instruments, except for the lease liabilities as at 31 December 2023.

Credit risk

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

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Exposure to credit risk

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

	US\$ '000	
	2023	2022
Notes receivables	17,279	-
Due from related parties	53,781	52,249
Other receivables	13	13
Bank balances	87	358
	<u>71,160</u>	<u>52,620</u>

Due from related parties

The Company sells all its products to related parties. Transactions with related parties are carried out on a negotiated contract basis. While note receivable represents balances on account of cash sweeping arrangement with a related party as disclosed in Note 14.

The related parties are with high credit rating and repute in the market. Impairment on the due from a related party and deposits have been measured on the basis of lifetime expected credit losses. The Company considers that these have low credit risk based on historical experiences, available press information and experienced credit judgment. As on 31 December 2023, these are neither impaired nor due.

Bank balances

The credit risk on bank balances is considered negligible, since the counterparties are reputable banks and financial institutions that have low credit risk based on the external credit ratings.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company'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 Company'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 Company's short, medium and long-term funding and liquidity management requirements. The Company 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 Company's non-derivative financial liabilities based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months approximate their carrying balances as the impact of discounting is not significant.

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	<u>Less than 1</u> <u>year</u>	<u>1-2 years</u>	<u>Above 2</u> <u>years</u>	<u>Total</u>	<u>Carrying</u> <u>amount</u>
As at 31					
December 2023					
Trade payables	85	-	-	85	85
Due to related parties	50,965	-	-	50,965	50,965
Accruals and other liabilities	14,775	-	-	14,775	14,775
Lease liabilities	1,957	2,161	11,826	15,944	13,976
Total	<u>67,782</u>	<u>2,161</u>	<u>11,826</u>	<u>81,769</u>	<u>79,801</u>
As at 31					
December 2022					
Trade payables	153	-	-	153	153
Due to related parties	45,225	-	-	45,225	45,225
Accruals and other liabilities	19,166	-	-	19,166	19,166
Notes payable	46,260	-	-	46,260	46,260
Lease liabilities	1,553	1,553	9,317	12,423	10,425
Total	<u>112,357</u>	<u>1,553</u>	<u>9,317</u>	<u>123,227</u>	<u>121,229</u>

16. Fair value

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 Company 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) 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). All other financial instruments are classified as level III.

17. Capital management

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

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

18. Commitments and contingencies

The Company has a fixed gas purchase commitment with a related party of approximately US\$ 323,983 (31 December 2022: US\$ 362,863) per day until the agreement is cancelled in writing by both parties.

On 3 November 2016, the EQUATE Group established a US\$ 4 billion Global Medium Term Note Programme (“GMTN 1”) and issued notes amounting to US\$ 2.25 billion (“GMTN 1 Notes”) whereby notes amounting to US\$ 1,000 million having term of 5 years have matured in 2022 and notes amounting to US\$ 1,250 million having term of 10 years maturing in November 2026. The payments of all amounts due in respect of GMTN 1 Notes is unconditionally and irrevocably guaranteed, jointly and severally by the Company and EQUATE Group. GMTN 1 Notes are listed on EURONEXT.

In December 2016, the EQUATE Group established a US\$ 2 billion Sukuk programme (Sukuk 1) and issued Sukuk amounting to US\$ 500 million on 21 February 2017 having term of 7 years. The payments of all amounts due in respect of Sukuk is guaranteed by the Company and is listed on EURONEXT.

In May 2020, the EQUATE Group established a US\$ 4 billion Global Medium Term Note Programme (“GMTN 2”) and issued notes amounting to USD 1.6 billion (“GMTN 2 Notes”) whereby notes amounting to US\$ 1,000 million having term of 5 years maturing in 2025 and notes amounting to US\$ 600 million having term of 10 years maturing in 2030. The payments of amounts due in respect of GMTN 2 notes is unconditionally and irrevocably guaranteed, jointly and severally, and not severally, by the Company and EQUATE Group. GMTN 2 notes are listed on EURONEXT.

During 2020, EQUATE Group has obtained a 3-year term and murabaha loans amounting to US\$ 300 million from the local financial institution. The Loan facility has been guaranteed by the Company.

During 2021, the EQUATE Group updated the US\$ 4 billion Global Medium Term Note Programme (“GMTN3”) and issued notes amounting to USD 700 million (“GMTN 3 Notes”) with a 7 years tenor maturing in April 2028. The payments of amounts due in respect of GMTN 3 notes is unconditionally and irrevocably guaranteed, jointly and severally, and not severally, by the Company and EQUATE Group. GMTN 3 notes are listed on EURONEXT.

In regard to GMTN 1, GMTN 2 and GMTN 3, the fair value of the guarantee provided by the Company amounts to USD 6 million. These are classified as level 2 in fair value hierarchy.

The Company has entered into short term arrangements to obtain the right to use 2,134,637 troy ounces (2022: 5,430,310 troy ounces) of silver with a variety of banks. The title and ownership of the silver rests with banks.

The Company pays lease fees for these arrangements which are expensed over the terms of such arrangements and also bears the risk of loss of silver resulting from usage.

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The following summarizes the quantity and value of silver outstanding at 31 December 2023 under such arrangements:

Bank	31 December 2023		31 December 2022	
	Qty (TOZ)	Silver Value US\$ '000	Qty (TOZ)	Silver Value US\$ '000
HSBC	2,134,637	45,105	2,134,637	41,401
Mitsubishi	-	-	3,295,673	77,089
Total	2,134,637	45,105	5,430,310	118,490

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

	US\$ '000	
	2023	2022
Letters of credit and guarantees	10	-
Capital commitments	199	142