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

Independent auditor's review report and condensed interim financial information for the six month period ended 30 June 2019

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State of Kuwait

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

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

Introduction

We have reviewed the accompanying condensed interim financial information of The Kuwait Olefins Company K.S.C.C. ("the Company), which comprises the condensed statements of financial position as at 30 June 2019, the condensed statement 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 interim financial information. Management is responsible for the preparation and presentation of these condensed interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed interim financial information based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as at and for the six months ended 30 June 2019 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: 6 August 2019

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

Condensed statement of financial position
as at 30 June 2019

	Note	US$ '000 30 June 2019	US$ '000 31 December 2018 (Audited)
Assets			
Property, plant and equipment		631,062	666,604
Right-of-use assets	3	7,636	-
Intangible assets		207,748	215,579
Non-current assets		846,446	882,183
Inventories		13,066	10,384
Due from related parties	5	96,027	117,926
Prepayments and other receivables		71	1,639
Notes receivable	5	-	361,769
Cash and bank balances	4	10,769	15,101
Current assets		119,933	506,819
Total assets		966,379	1,389,002
Equity			
Share capital		380,417	380,417
Statutory reserve		190,208	190,208
Retained earnings		122,523	528,984
Total equity		693,148	1,099,609
Liabilities			
Loans and borrowings	5	-	79,391
Lease liability	3	6,742	-
Non-current liabilities		6,742	79,391
Loans and borrowings	5	159,004	155,878
Lease liability	3	539	-
Due to related parties	5	39,316	41,732
Accruals and other liabilities		5,401	12,138
Trade payables		268	254
Notes payable	5	61,961	-
Current liabilities		266,489	210,002
Total liabilities		273,231	289,393
Total equity and liabilities		966,379	1,389,002

The attached notes on pages 6 to 14 form an integral part of these condensed interim financial information.

Ramesh Ramachandran
President & Chief Executive Officer

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

Condensed statement of profit or loss and other comprehensive income
for the six month period ended 30 June 2019

	US$ '000	
	2019	**2018**
Sales	317,380	479,638
Cost of sales	(191,153)	(171,606)
Gross profit	126,227	308,032
General, administrative and selling expenses	(2,385)	(2,690)
Foreign exchange gain / (loss)	2,995	(53)
Profit from operations	126,837	305,289
Finance income	3,539	1,829
Finance costs	(5,867)	(5,801)
Profit before contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), Zakat and Board of Directors' remuneration	124,509	301,317
Contribution to KFAS	(1,244)	(3,041)
Contribution to Zakat	(715)	(1,749)
Board of Directors' remuneration	(27)	(37)
Net profit for the period	122,523	296,490
Other comprehensive income	-	-
Total comprehensive income for the period	122,523	296,490

The attached notes on pages 6 to 14 form an integral part of these condensed interim financial information.

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

Condensed statement of changes in equity
for the six month period ended 30 June 2019

	US$ '000			
	Share capital	**Statutory reserve**	**Retained earnings**	**Total**
Balances as at 1 January 2018 (audited)	380,417	190,208	359,519	930,144
Net profit for the period	-	-	296,490	296,490
Total comprehensive income	-	-	296,490	296,490
Dividend paid (note 8)	-	-	(359,519)	(359,519)
Balance as at 30 June 2018	380,417	190,208	296,490	867,115
Balances as at 1 January 2019 (audited)	380,417	190,208	528,984	1,099,609
Net profit for the period	-	-	122,523	122,523
Total comprehensive income	-	-	122,523	122,523
Dividend paid (note 8)	-	-	(528,984)	(528,984)
Balance as at 30 June 2019	380,417	190,208	122,523	693,148

The attached notes on pages 6 to 14 form an integral part of these condensed interim financial information.

Condensed statement of cash flows
for the six month period ended 30 June 2019

	Note	US$ '000 2019	2018
Cash flows from operating activities			
Net profit for the period		122,523	296,490
Adjustments for:			
Depreciation		38,316	37,787
Amortisation		10,907	10,823
Finance costs		5,867	5,801
Finance income		(3,539)	(1,829)
Provision for KFAS and Zakat		1,959	4,790
		176,033	353,862
Changes in:			
- inventories		(2,682)	15,419
- due from related parties		25,438	(84,823)
- trade and other receivables		-	159
- due to related parties		(8,283)	(49,056)
- trade and other payables		14	(55)
- prepayments and other receivables		1,568	(2,465)
- accruals and other liabilities		(8,216)	(5,548)
Net cash from operating activities		183,872	227,493
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,774)	(27,820)
Purchase of intangible assets		(3,076)	-
Finance income received		-	3,500
Notes receivable		361,769	(40,721)
Net cash used in investing activities		355,919	(65,041)
Cash flows from financing activities			
Repayments of long term loan, net	5	(76,265)	(72,625)
Finance costs paid		-	(4,989)
lease payments	3	(835)	-
Notes payable		61,961	-
Dividend paid	8	(528,984)	(359,519)
Net cash used in financing activities		(544,123)	(437,133)
Net decrease in cash and cash equivalents		(4,332)	(274,681)
Cash and cash equivalents at beginning of the period		15,101	332,978
Cash and cash equivalents at end of the period	4	10,769	58,297

The attached notes on pages 6 to 14 form an integral part of these condensed interim financial information.

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. ("DEH"), Petrochemical Industries Company K.S.C.C. ("PIC"), Boubyan Petrochemical Company K.S.C. ("BPC") and Al-Qurain Petrochemical Industries Company K.S.C. ("QPIC").

DEH is a subsidiary of the "The Dow Chemical Company". The word "DOW" further mentioned in this report refers to the "The Dow Chemical Company and its subsidiaries as a group".

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

These condensed interim financial information was authorised for issue by the President and Chief Executive Officer of the Company on 6 August 2019.

The address of the Company's registered office is East Ahmadi, Block 9, State of Kuwait.

2. Basis of preparation

a) Statement of compliance

These condensed interim financial information have been prepared in accordance with IAS 34 *Interim Financial Reporting*, and should be read in conjunction with the Company's last annual financial statements as at and for the year ended 31 December 2018 ("last annual financial statements"). They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last financial statements. Operating results for the six month period ended 30 June 2019 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

This is the first set of the Company's financial statements where IFRS 16 have been applied. Changes to significant accounting policies are described in Note 3.

b) Judgments and estimates

In preparing these condensed interim financial information, management has made judgements, estimates and assumptions 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 Company's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements except for the new significant judgements and key sources of estimation uncertainty related to application of IFRS 16, which are set out in note 3.

3. Significant accounting policies

The accounting policies used in the preparation of these condensed interim financial information are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2018, except for the adoption of new standards and new interpretations, and the amendments and annual improvements to IFRSs, relevant to the Company, which are effective for annual reporting period starting from 1 January 2019.

In the current period, the Company has not early adopted any standards, interpretations or amendments to standards that have been issued but not yet effective.

The changes in accounting policies are also expected to be reflected in the Company's financial statements as at and for the year ending 31 December 2019.

IFRS 16 *Leases*

The Company has adopted IFRS 16 'Leases' on the effective date 1 January 2019. The newly adopted standard replaces the previous accounting standard IAS 17 'Leases'. The accounting policies affected by this new standard are disclosed below.

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4, *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Company is the lessor.

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated. Lease liabilities and right of use of assets were both recorded at the present value of future lease payments, thus no impact was recorded on the opening retained earnings. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The Company has a land lease contract. Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Company; otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments were apportioned between interest (recognized as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalized and the lease payments were recognized as rent expense in profit or loss on a straight- line basis over the lease term. Any prepaid rent and accrued rent were recognized under trade and other receivables and trade and other payables, respectively. Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Company.

In measuring the present value of the lease liability under IFRS 16, the standard requires that the lessee's incremental borrowing rate be used as discount factor if the rate implicit in the lease cannot be readily determined. In establishing the Company's lease liabilities, the incremental borrowing rates used as discount factors in discounting payments are established based on a consistent approach reflecting the Company's borrowing rate i.e. 3.75% per annum, the currency of the obligation, the duration of the lease term.

The effect of adoption of IFRS 16 as at 1 January 2019 is as follows:

	USD 000's
Assets	
Right-of-use assets	7,968
Liabilities	
Lease liabilities	7,968

Accounting policy of IFRS 16- Leases

Set out below are the new accounting policies of the Company upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in- substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

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

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

The 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).

Set out below, are the carrying amounts of the Company's right-of-use assets and lease liabilities and the movements during the period ended 30 June 2019:

	Right-of-use asset	Lease liabilities
	USD '000	**USD '000**
As at 1 January 2019	7,968	7,968
Depreciation expense	(332)	-
Finance cost	-	148
Lease payments	-	(835)
As at 30 June 2019	**7,636**	**7,281**

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

	USD '000
Current	539
Non-current	6,742
As at 30 June 2019	**7,281**

4. Cash and bank balances

	US$ '000	
	30 June 2019	**31 December 2018 (Audited)**
Bank balances	10,769	15,101
Cash and bank balances	10,769	15,101

5. 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, QPIC, DOW and its affiliates.

During 2004, DOW 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.

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, DOW, 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.

On 17 April 2006, the Company signed a distribution agreement with MEGlobal International FZE Dubai (part of MEGlobal group, "MEGlobal") as distributor for EG produced by the Company. MEGlobal is a 100% owned subsidiary of EQUATE, a company owned by the shareholders.

On 31 May 2006, the Company signed term loan agreements with EQUATE, under which the Company was provided a USD 1.5 billion term loan by EQUATE. The term loans are repayable over a period of 11 years in biannual instalments starting from 15 December 2009 and carry coupon rate of LIBOR + 0.625% till 19 May 2013, LIBOR + 0.725% till 19 May 2016 and LIBOR + 0.825% till the maturity date.

Operational Facility – Under the cash management services provided by MEG B.V, the Group's subsidiaries and TKOC have an overnight cash sweeping facility with MEG B.V. Under this arrangement, the subsidiaries in EQUATE Group and TKOC sweeps selected bank accounts with MEG B.V. This allows the subsidiaries and TKOC either invest or borrow funds on an overnight basis. Under the terms of the agreement, the subsidiaries and TKOC can borrow or deposit with MEG B.V at 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 30 June 2019 under these arrangements were a net liability of USD 61,961 thousands. These are indefinite credit arrangements subject to termination by either party of which the interest is accrued monthly.

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

Details of related party transactions and balances are as follows;

	US$ '000	
	30 June 2019	**31 December 2018 (Audited)**
Notes receivables		
Working capital loan to ME Global B.V.	-	361,769
	-	361,769

	US$ '000	
	30 June 2019	**31 December 2018 (Audited)**
Due from related parties		
Due from EQUATE	6,049	9,068
Due from PIC	4,031	2,324
Due from TKSC	4,341	4,291
Due from MEGlobal International FZE	81,295	101,932
Due from Kuwait Paraxylene Production Company K.S.C.C. ("KPPC")	311	311
	96,027	117,926

	US$ '000	
	30 June 2019	**31 December 2018**
		(Audited)
Loans and borrowings (from EQUATE)		
Non-current portion	-	79,391
Current portion	159,004	155,878
	159,004	235,269

	US$ '000	
	30 June 2019	**31 December *2018***
		(Audited)
Movement in loans and borrowings		
Balance at 1 January	235,269	381,395
Payment during the period	(76,849)	(147,294)
Loan origination fees	584	1,168
Balance at 30 June	159,004	235,269

	US$ '000	
	30 June 2019	**31 December 2018**
		(Audited)
Due to related parties		
Due to EQUATE	13,092	16,990
Due to PIC	1,000	1,000
Due to KPPC	284	341
Due to KPC	24,326	21,080
Due to Kuwait Oil Company K.S.C	614	2,268
Due to DOW	-	53
	39,316	41,732

	US$ '000	
	30 June 2019	**31 December 2018**
		(Audited)
Notes payables		
Working capital loan from ME Global B.V.	61,961	-
	61,961	-

	US$ '000	
	30 June 2019	**30 June 2018**
Transactions		
Sales		
Sales of EG to MEGlobal	249,496	406,567
Sales to EQUATE, KPPC, TKSC and PIC	67,884	73,071
Expenses		
Feed gas purchased from KPC	71,535	61,766
Olefins II plant management fees to EQUATE	1,105	1,149
Toggling fees payments to KOC	2,457	3,714
Operating and utility cost reimbursed to EQUATE for running the Olefins II plant	67,901	56,537
Interest expense on long term loan from EQUATE	4,000	5,000

6. Commitments and contingent liabilities

The Company has a fixed gas purchase commitment with a related party of approximately US$ 335,293 (31 December 2018 US$ 372,572) per day until the agreement is cancelled in writing by both parties.

Pursuant to master loan agreement signed on 23 June 2016 which was amended on 13 December 2018, the EQUATE Group entered into a US$ 3 billion long term loan agreement ("Term Loan") with a consortium of banks. The Term Loan consisted of US $ 2 billion Tranche A 7-year bullet facility and USD 1 billion 5 year revolving credit facility. The Company is jointly and severally a guarantor along with EQUATE Group for the Term Loan and the credit facilities include customary covenants.

On 3 November 2016, the EQUATE Group established a US$ 4 billion Global Medium Term Note Programme (the "Programme") and issued notes amounting to US$ 2.25 billion (the "Notes"). The payments of all amounts due in respect of the Notes is unconditionally and irrevocably guaranteed, jointly and severally by the Company and EQUATE Group. The Notes are listed on Irish Stock Exchange ("ISE").

In December 2016, the EQUATE Group established a US$ 2 billion Sukuk programme (the "Sukuk") and issued Sukuk amounting to US$ 500 million on 21 February 2017. The Sukuk is guaranteed by the Company and is listed on ISE.

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

	US$ '000	
	30 June 2019	**31 December 2018 (Audited)**
Capital commitments	8,120	3,130

Forward foreign exchange contracts

The Company deals in forward foreign exchange contracts to manage its foreign currency positions and cash flows. The notional value of the contracts as at 30 June 2019 is as follows:

	US$ '000	
	30 June 2019	**31 December 2018**
		(Audited)
Short position		
Euro	224,394	130,000
Long position		
Euro	111,496	65,000

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 2 in fair value hierarchy.

7. Financial instruments - fair value measurement and risk management

Fair value measurement

Financial instruments comprise of financial assets and financial liabilities. Fair values of all financial instruments are not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having a short-term maturity it is assumed that the carrying amounts approximate to their fair value.

When measuring the fair value of an asset or a liability, the Company 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).

Financial risk management

All aspects of the Company's financial risk management objectives and policies are consistent with those disclosed in the financial statements for the year ended 31 December 2018.

8. Annual General Assembly

At the annual general meeting held on 10 March 2019, the shareholders approved the Board of Directors recommendation to distribute cash dividend of 49.90 cents per share amounted to US$ 528,984 thousands (2018: 33.91 cents per share amounted to US$ 359,519 thousands).