

**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 2020**

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

---

<b>Contents</b>	<b>Page</b>
Independent auditor's report on review of condensed interim financial information	1
Condensed statement of financial position	2
Condensed statement of profit or loss and other comprehensive income	3
Condensed statement of changes in equity	4
Condensed statement of cash flows	5
Notes to the condensed interim financial information	6 – 12



KPMG Safi Al-Mutawa & Partners  
Al Hamra Tower, 25th Floor  
Abdulaziz Al Saqr Street  
P.O. Box 24, Safat 13001  
State of Kuwait  
Tel.: +965 2228 7000  
Fax: +965 2228 7444

# 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 statement of financial position as at 30 June 2020, the condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the 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 2020 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

Date: 11 August 2020

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

**Condensed statement of financial position**  
*as at 30 June 2020*

	Note	US\$ '000	
		30 June 2020	31 December 2019 (Audited)
<b>Assets</b>			
Property, plant and equipment		592,244	612,139
Right-of-use assets		13,059	13,674
Intangible assets		186,319	196,842
<b>Non-current assets</b>		<u>791,622</u>	<u>822,655</u>
Inventories		24,642	6,837
Due from related parties	4	61,645	109,746
Prepayments and other receivables		1,286	15,435
Notes receivable	4	-	23,650
Cash and bank balances	3	3,906	4,510
<b>Current assets</b>		<u>91,479</u>	<u>160,178</u>
<b>Total assets</b>		<u>883,101</u>	<u>982,833</u>
<b>Equity</b>			
Share capital		380,417	380,417
Statutory reserve		190,208	190,208
Retained earnings		71,522	269,683
<b>Total equity</b>		<u>642,147</u>	<u>840,308</u>
<b>Liabilities</b>			
Lease liability		12,018	12,402
<b>Non-current liabilities</b>		<u>12,018</u>	<u>12,402</u>
Loans and borrowings	4	-	80,559
Lease liability		609	1,536
Due to related parties	4	37,507	40,562
Accruals and other liabilities	7	117,675	7,264
Trade payables		236	202
Notes payable	4	72,909	-
<b>Current liabilities</b>		<u>228,936</u>	<u>130,123</u>
<b>Total liabilities</b>		<u>240,954</u>	<u>142,525</u>
<b>Total equity and liabilities</b>		<u>883,101</u>	<u>982,833</u>

The attached notes on pages 6 to 12 form an integral part of these condensed interim financial information.



Ramesh Ramachandran  
*President & Chief Executive Officer*



Dawood Al-Abduljalil  
*Chief Financial 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 2020*

	<b>US\$ '000</b>	
	<b>2020</b>	<b>2019</b>
Sales	235,411	317,380
Cost of sales	(160,984)	(191,153)
<b>Gross profit</b>	<b>74,427</b>	<b>126,227</b>
General, administrative and selling expenses	(1,733)	(2,385)
Foreign exchange gain	945	2,995
<b>Profit from operations</b>	<b>73,639</b>	<b>126,837</b>
Finance income	1,061	3,539
Finance costs	(2,181)	(5,867)
<b>Profit before contribution to Kuwait Foundation for the Advancement of Sciences (“KFAS”), Zakat and Board of Directors’ remuneration</b>	<b>72,519</b>	<b>124,509</b>
Contribution to KFAS	(546)	(1,244)
Contribution to Zakat	(424)	(715)
Board of Directors’ remuneration	(27)	(27)
<b>Net profit for the period</b>	<b>71,522</b>	<b>122,523</b>
Other comprehensive income	-	-
<b>Total comprehensive income for the period</b>	<b>71,522</b>	<b>122,523</b>

The attached notes on pages 6 to 12 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 2020**

	US\$ '000			Total
	Share capital	Statutory reserve	Retained earnings	
<b>Balances as at 1 January 2019 (audited)</b>	380,417	190,208	528,984	1,099,609
Net profit for the period	-	-	122,523	122,523
<b>Total comprehensive income</b>	-	-	122,523	122,523
Dividend declared and paid (note 7)	-	-	(528,984)	(528,984)
<b>Balance as at 30 June 2019</b>	<b>380,417</b>	<b>190,208</b>	<b>122,523</b>	<b>693,148</b>
<b>Balances as at 1 January 2020 (audited)</b>	380,417	190,208	269,683	840,308
Net profit for the period	-	-	71,522	71,522
<b>Total comprehensive income</b>	-	-	71,522	71,522
Dividend declared (note 7)	-	-	(269,683)	(269,683)
<b>Balance as at 30 June 2020</b>	<b>380,417</b>	<b>190,208</b>	<b>71,522</b>	<b>642,147</b>

The attached notes on pages 6 to 12 form an integral part of these condensed interim financial information.

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

**Condensed statement of cash flows**  
*for the six month period ended 30 June 2020*

	Note	US\$ '000	
		2020	2019
<b>Cash flows from operating activities</b>			
Net profit for the period		71,522	122,523
<i>Adjustments for:</i>			
Depreciation		26,341	38,316
Amortisation		10,916	10,907
Finance costs		2,181	5,867
Finance income		(1,061)	(3,539)
Provision for KFAS and Zakat		970	1,959
		<u>110,869</u>	<u>176,033</u>
<i>Changes in:</i>			
- inventories		(17,805)	(2,682)
- due from related parties		49,162	25,438
- due to related parties		(4,980)	(8,283)
- trade and other payables		34	14
- prepayments and other receivables		14,149	1,568
- accruals and other liabilities		902	(8,216)
		<u>152,331</u>	<u>183,872</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(5,831)	(2,774)
Purchase of intangible assets		(393)	(3,076)
Notes receivable		23,650	361,769
		<u>17,426</u>	<u>355,919</u>
<b>Cash flows from financing activities</b>			
Repayments of long term loan, net	4	(80,559)	(76,265)
Lease payments		(1,311)	(835)
Notes payable		72,909	61,961
Dividend paid	7	(161,400)	(528,984)
		<u>(170,361)</u>	<u>(544,123)</u>
<b>Net cash used in financing activities</b>			
<b>Net decrease in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of the period		4,510	15,101
<b>Cash and cash equivalents at end of the period</b>	3	<u>3,906</u>	<u>10,769</u>

The attached notes on pages 6 to 12 form an integral part of these condensed interim financial information.

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

**Notes to the condensed interim financial information**  
*for the six month period ended 30 June 2020*

---

**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 Al-Qurain Petrochemical Industries Company K.S.C. (“QPIC”).

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

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 11 August 2020.

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

**2. Basis of preparation**

a) Statement of compliance

These condensed interim financial information for the six months period ended 30 June 2020 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 2019 (“last annual financial statements”). They do not include all of the information required for a complete set of financial statements prepared in accordance with IFRS Standards. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company’s financial position and performance since the last annual financial statements. Operating results for the six month period ended 30 June 2020 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2020.

b) Judgments and estimates

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

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

c) Significant accounting policies

The accounting policies applied in these condensed interim financial information are the same as those applied in the Company’s financial statements as at and for the year ended 31 December 2019. A number of new standards are effective from 1 January 2020, but they do not have a material effect on the Company’s condensed interim financial information.



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

**Notes to the condensed interim financial information**  
*for the six month period ended 30 June 2020*

---

**3. Cash and bank balances**

	US\$ '000	
	30 June 2020	31 December 2019 (Audited)
Bank balances	3,906	4,510

**4. 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, 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.

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.

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 US\$ 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. During the period, this loan was fully repaid.

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

**Notes to the condensed interim financial information**  
*for the six month period ended 30 June 2020*

**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 2020 under these arrangements were a net liability of US\$ 72,909 thousands (31 December 2019: net asset of \$23,650). 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;

	<b>US\$ ‘000</b>	
	<b>30 June 2020</b>	<b>31 December 2019</b>
		<b>(Audited)</b>
<b>Notes receivables</b>		
Working capital loan to ME Global B.V.	-	23,650
<b>Notes payables</b>		
Working capital loan from ME Global B.V.	72,909	-
	<b>US\$ ‘000</b>	
	<b>30 June 2020</b>	<b>31 December 2019</b>
		<b>(Audited)</b>
<b>Due from related parties</b>		
Due from EQUATE	6,668	15,158
Due from PIC	4,014	2,005
Due from TKSC	3,037	4,316
Due from MEGlobal International FZE	47,62	88,261
Due from Kuwait Paraxylene Production Company K.S.C.C. ("KPPC")	297	6
	<u>61,645</u>	<u>109,746</u>
	<b>US\$ ‘000</b>	
	<b>30 June 2020</b>	<b>31 December 2019</b>
		<b>(Audited)</b>
<b>Loans and borrowings (from EQUATE)</b>		
Current portion	-	80,559

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

**Notes to the condensed interim financial information**  
*for the six month period ended 30 June 2020*

	US\$ '000	
	30 June 2020	31 December 2019
		(Audited)
<b>Movement in loans and borrowings</b>		
Balance at 1 January	80,559	235,269
Payment during the period	(81,073)	(155,878)
Loan origination fees	514	1,168
Balance at 30 June	-	80,559
	US\$ '000	
	30 June 2020	31 December 2019
		(Audited)
<b>Due to related parties</b>		
Due to EQUATE	13,539	13,242
Due to PIC	1,000	1,038
Due to KPPC	426	287
Due to KPC	19,873	25,321
Due to Kuwait Oil Company K.S.C. ("KOC")	2,617	622
Due to TKSC	52	52
	37,507	40,562
	US\$ '000	
	30 June 2020	31 December 2019
<b>Dividend payable (included in accruals and other liabilities)</b>		
Due to shareholders	108,283	-
	US\$ '000	
	30 June 2020	30 June 2019
<b>Transactions</b>		
<b>Sales</b>		
Sales of EG to MEGlobal	168,163	249,496
Sales to EQUATE, KPPC, TKSC and PIC	67,248	67,884
<b>Expenses</b>		
Feed gas purchased from KPC	59,191	71,535
Olefins II plant management fees to EQUATE	1,029	1,105
Toggling fees payments to KOC	3,978	2,457
Operating and utility cost reimbursed to EQUATE for running the Olefins II plant	59,185	67,901
Interest expense on long term loan and notes payable from EQUATE and MEGlobal B.V.	1,925	5,867
<b>Finance income</b>		
Interest income on notes receivable from MEGlobal B.V.	1,053	3,539

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

**Notes to the condensed interim financial information**  
*for the six month period ended 30 June 2020*

---

**5. Commitments and contingent liabilities**

The Company has a fixed gas purchase commitment with a related party of approximately US\$ 328,837 (31 December 2019: US\$ 406,505) 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 US\$ 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. During the period, EQUATE fully settled these loans.

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"). 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. The payments of all amounts due in respect of Sukuk is guaranteed by the Company and is listed on EURONEXT.

During the period, 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"). 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.

In the current period, the EQUATE Group established a US\$ 2 billion sukuk programme ("Sukuk 2"). The payments of all amounts due in respect of Sukuk is guaranteed by the Company. The trust certificates are not yet issued under Sukuk 2.

During the period, the Company has guaranteed a term and murabaha facility obtained by Equate Group from local financial institutions amounting to USD 300 million.

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

	<b>US\$ '000</b>	
	<b>30 June 2020</b>	<b>31 December 2019</b>
		<b>(Audited)</b>
Capital commitments	<u>2,050</u>	<u>4,809</u>

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

**Notes to the condensed interim financial information**  
*for the six month period ended 30 June 2020*

---

*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 2020 is as follows:

	<b>US\$ '000</b>	
	<b>30 June 2020</b>	<b>31 December 2019</b>
		<b>(Audited)</b>
<b>Short position</b>		
Euro	260,932	263,123
<b>Long position</b>		
Euro	138,030	130,256

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.

**6. 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 2019.

**7. Annual General Assembly**

At the annual general meeting held on 20 February 2020, the shareholders approved the Board of Directors recommendation to distribute cash dividend of 25.44 cents per share amounting to US\$ 269,683 thousands (2019: 49.90 cents per share amounting to US\$ 528,984 thousands). In the current period, the Company paid dividend amounting to US\$ 161,400 thousands (2019 : US\$ 528,984 thousands) and the balance amount of USD 108,283 is recognised as liability.

**Notes to the condensed interim financial information**  
*for the six month period ended 30 June 2020*

---

**8. Subsequent events**

Coronavirus (“COVID-19”) a global pandemic. The COVID-19 pandemic and related economic repercussions have created significant volatility, uncertainty and turmoil in the oil and gas and related industries. This outbreak and the related responses of governmental authorities to limit the spread of the virus have significantly reduced global economic activity, resulting in an unprecedented decline in the demand for commodities. This supply-and-demand imbalance coincided with decisions of various global oil producers to increase the production levels, putting severe downward pressure on commodity prices. These factors caused a swift and material deterioration in commodity prices during the period and have continued to have an effect subsequent to the period end. Due to COVID-19 measures, the Company experienced among other things decline in revenue and profit and employment uncertainty, all of which have had an impact the Company’s business operation and financial results.

The full extent and impact of the COVID-19 pandemic is unknown at this time and the degree to which it may impact the Company’s business operations and financial results will depend on future developments, which are highly uncertain and cannot be predicted with any degree of confidence, including: the duration, severity and geographic spread of the COVID-19 virus.