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 2021

The Kuwait Olefins Company K.S.C.C.
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 statement of financial position as at 30 June 2021, 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 month ended 30 June 2021 are not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

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

Kuwait: 15 August 2021

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

Condensed statement of financial position
as at 30 June 2021

		US$ '000	
	Note	30 June 2021	31 December 2020 (Audited)
Assets			
Property, plant and equipment		563,044	585,593
Intangible assets		234,272	246,862
Right-of-use assets		11,816	12,442
Non-current assets		809,132	844,897
Inventories		6,575	4,239
Due from related parties	3	52,082	106,031
Prepayments and other receivables		8,007	1,617
Bank balances		72	60
Current assets		66,736	111,947
Total assets		875,868	956,844
Equity			
Share capital		380,417	380,417
Statutory reserve		190,208	190,208
Retained earnings		166,330	173,186
Total equity		736,955	743,811
Liabilities			
Lease liability		10,295	11,111
Non-current liabilities		10,295	11,111
Lease liability		1,579	1,557
Accruals and other liabilities		9,924	16,279
Due to related parties	3	31,284	116,521
Trade payables		354	1,804
Notes payable	3	85,477	65,761
Current liabilities		128,618	201,922
Total liabilities		138,913	213,033
Total equity and liabilities		875,868	956,844

The attached notes on pages 6 to 11 form an integral part of these condensed interim financial information.

Nadia Al-Hajji
Nadia Al-Hajji
Chairperson

Naser Aldousari
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 2021

	US$ '000	
	2021	**2020**
Sales	327,758	235,411
Cost of sales	(154,772)	(160,984)
Gross profit	172,986	74,427
General, administrative and selling expenses	(2,192)	(1,733)
Foreign exchange gain	177	945
Profit from operations	170,971	73,639
Finance income	976	1,061
Finance costs	(2,875)	(2,181)
Profit before contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), Zakat and Board of Directors' remuneration	169,072	72,519
Contribution to KFAS	(1,724)	(546)
Contribution to Zakat	(991)	(424)
Board of Directors' remuneration	(27)	(27)
Net profit for the period	166,330	71,522
Other comprehensive income	-	-
Total comprehensive income for the period	166,330	71,522

The attached notes on pages 6 to 11 form an integral part of these condensed interim financial information.

The Kuwait Olefins Company K.S.C.C.
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Condensed statement of changes in equity
for the six month period ended 30 June 2021

	US$ '000			
	Share capital	**Statutory reserve**	**Retained earnings**	**Total**
Balances as at 1 January 2020 (audited)	380,417	190,208	269,683	840,308
Net profit for the period	-	-	71,522	71,522
Total comprehensive income	-	-	71,522	71,522
Dividend declared (note 6)	-	-	(269,683)	(269,683)
Balance as at 30 June 2020	380,417	190,208	71,522	642,147
Balances as at 1 January 2021 (audited)	380,417	190,208	173,186	743,811
Net profit for the period	-	-	166,330	166,330
Total comprehensive income	-	-	166,330	166,330
Dividend declared (note 6)	-	-	(173,186)	(173,186)
Balance as at 30 June 2021	380,417	190,208	166,330	736,955

The attached notes on pages 6 to 11 form an integral part of these condensed interim financial information.

The Kuwait Olefins Company K.S.C.C.
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Condensed statement of cash flows
for the six month period ended 30 June 2021

	Note	US$ '000 2021	US$ '000 2020
Cash flows from operating activities			
Net profit for the period		166,330	71,522
Adjustments for:			
Depreciation		24,302	26,341
Amortisation		12,706	10,916
Finance costs		2,875	2,181
Finance income		(976)	(1,061)
Provision for KFAS and Zakat		2,715	970
		207,952	110,869
Changes in:			
- Inventories		(2,336)	(17,805)
- due from related parties		53,949	49,162
- prepayments and other receivables		(6,390)	14,149
- accruals and other liabilities		(9,070)	902
- due to related parties		(85,237)	(4,980)
- trade and other payables		(1,450)	34
Net cash from operating activities		157,418	152,331
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,127)	(5,831)
Purchase of intangible assets		(116)	(393)
Notes receivable		-	23,650
Net cash (used in) / generated from investing activities		(1,243)	17,426
Cash flows from financing activities			
Repayments of long term loan, net		-	(80,559)
Finance costs paid		(241)	-
Lease payments		(794)	(1,311)
Notes payable		18,058	72,909
Dividend paid	6	(173,186)	(161,400)
Net cash used in financing activities		(156,163)	(170,361)
Net increase / (decrease) in cash and cash equivalents		12	(604)
Cash and cash equivalents at beginning of the period		60	4,510
Cash and cash equivalents at end of the period		72	3,906

The attached notes on pages 6 to 11 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. ("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 Chairperson and President & Chief Executive Officer on 15 August 2021.

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 2021 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 2020 ("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 2021 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2021.

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 2020. A number of new standards and amendments standards are effective from 1 January 2021, but they did not have any material effect on the Company's condensed interim financial information.

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2021 with earlier application permitted. The Company has not early adopted any of the forthcoming new or amended standards in preparing these condensed interim financial information.

3. 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 Petrochemical Company K.S.C.C (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.

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 EQUATE Group entities and TKOC sweeps selected bank accounts with MEG B.V. This allows EQUATE Group entities and TKOC either to invest or borrow funds on an overnight basis. Under the terms of the agreement, EQUATE Group entities and TKOC can borrow or deposit with MEG B.V at interest rate of LIBOR plus a positive spread set agreed between the managements of EQUATE Group and TKOC. The spread is determined taking into consideration the economic factors such as the creditworthiness of counterpart, characteristics of the debt financing arrangement etc. Amounts outstanding as at 30 June 2021 under these arrangements were a net liability of US$ 85,477 thousand (2020: net liability of US$ 65,761 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 related party transactions and balances are as follows.

	US$ '000	
	30 June 2021	**31 December 2020**
		(Audited)
Notes payables		
Working capital loan from ME Global B.V.	85,477	65,761
Due from related parties		
Due from EQUATE	46,085	39,071
Due from PIC	1,333	1,672
Due from TKSC	3,714	3,800
Due from MEGlobal International FZE	67	61,281
Due from Dow	660	-
Due from Kuwait Paraxylene Production Company K.S.C.C. ("KPPC")	223	207
	52,082	106,031
Due to related parties		
Due to EQUATE	10,711	92,847
Due to KPPC	337	325
Due to KPC	19,163	7,821
Due to Kuwait Oil Company K.S.C. ("KOC")	1,073	15,528
	31,284	116,521

	US$ '000	
	30 June 2021	**31 December 2020**
		(Audited)
Dividend payable (included in accruals and other liabilities)		
Due to shareholders	683	683

	US$ '000	
	30 June 2021	**30 June 2020**
Transactions		
Sales		
Sales of EG to MEGlobal	269,381	168,163
Sales to EQUATE, KPPC, TKSC and PIC	58,377	67,248
Expenses		
Feed gas purchased from KPC	55,330	59,191
Olefins II plant management fees to EQUATE	1,225	1,029
Toggling fees payments to KOC	4,472	3,978
Operating and utility cost reimbursed to EQUATE for running the Olefins II plant	60,987	59,185
Interest expense on long term loan and notes payable from EQUATE and MEGlobal B.V.	2,634	1,925
Finance income		
Interest income on notes receivable from MEGlobal B.V.	976	1,053

4. Commitments and contingent liabilities

The Company has a fixed gas purchase commitment with a related party of approximately US$ 308,503 (31 December 2020: US$ 328,837) 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") which included fixed interest rate notes amounting to US$ 1,000 million with a 5 years tenor maturing in March 2022 and fixed interest rate notes amounting to US$ 1,250 million with a 10 years tenor maturing in November 2026. During the period, the EQUATE Group bought back notes worth USD 572 million from GMTN 1 and has outstanding balance of USD 1,677 million as at reporting date. 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 with a 7 years tenor maturing in February 2024. The payments of all amounts due in respect of Sukuk 1 is guaranteed by the Company and Sukuk 1 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”) which included notes amounting to US$ 1,000 million with a 5 years tenor maturing in May 2025 and notes amounting to US$ 600 million with a 10 years tenor maturing in May 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.

In May 2020, the EQUATE Group also updated the US$ 2 billion Sukuk 1 (“Sukuk 2”). No trust certificates are issued under Sukuk 2.

During 2020, the EQUATE Group borrowed a 3-year Term and Murabaha loan amounting to US$ 300 million from local banks. This loan has been guaranteed by the Company.

During the current period, the EQUATE Group updated the US$ 4 billion GMTN 1 (“GMTN 3”) 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 addition to the above, the Company had the following commitments and contingent liabilities outstanding as at 30 June:

	US$ ‘000	
	30 June 2021	**31 December 2020 (Audited)**
Capital commitments	1,501	1,640

5. 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).

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 2021 is as follows:

	US$ '000	
	30 June 2021	**31 December 2020**
		(Audited)
Short position		
Euro	339,256	308,387
Long position		
Euro	165,802	154,715

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. The fair value of the forward foreign exchange contract as at 30 June 2021 amounting to US$ 2,479 thousand (31 December 2020:US$ 3,500 thousand).

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 2020.

6. Annual General Assembly

At the annual general meeting held on 2 March 2021, the shareholders approved the Board of Directors recommendation to distribute cash dividend of 16.34 cents per share amounting to US$ 173,186 thousands (2019: 25.44 cents per share amounting to US$ 269,683 thousands). In the current period, the Company paid dividend amounting to US$ 173,186 thousands (2020: US$ 161,400 thousands).

7. Covid-19 update

On 11 March 2020, the World Health Organisation characterised the outbreak of COVID-19 as a global pandemic and recommended containment and mitigation measures. Since then, extraordinary actions have been taken by the State of Kuwait to contain and combat the outbreak and spread of COVID-19. These actions include travel bans, quarantines, "stay-at-home" orders, and similar mandates for many individuals to substantially restrict daily activities and for many businesses to curtail or cease normal operations. Whilst the restrictions are easing it remains unclear when the COVID-19 pandemic will abate.

The Board of Directors continue to monitor the situation and its impact on the Company's operation and financial position. As at the reporting date, the Board of Directors and management do not expect that the impact of COVID-19 will result in a material uncertainty in the Company's business.