

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

**Financial Statements and
Independent auditor's report for the year ended
31 December 2021**

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

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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

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 2021, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant 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 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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, 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 and its Executive Regulations and the Company's Memorandum and Articles of Association. 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 and its Executive Regulations, or of the Company's Memorandum and Articles of Association during the year ended 31 December 2021 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 "A"
of KPMG Safi Al-Mutawa & Partners
Member firm of KPMG International

Kuwait: 17 February 2022

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

Statement of financial position
as at 31 December 2021

	Notes	US\$ '000	
		2021	2020
Assets			
Property, plant and equipment	5	545,910	585,593
Intangible assets	6	221,567	246,862
Right-of-use assets	7	11,190	12,442
Non-current assets		<u>778,667</u>	<u>844,897</u>
Inventories	8	3,091	4,239
Due from related parties	13	112,617	106,031
Prepayments and other receivables		11,993	1,617
Notes receivables	13	106,508	-
Bank balances		69	60
Current assets		<u>234,278</u>	<u>111,947</u>
Total assets		<u>1,012,945</u>	<u>956,844</u>
Equity			
Share capital	9	380,417	380,417
Statutory reserve	9	190,208	190,208
Retained earnings		366,553	173,186
Total equity		<u>937,178</u>	<u>743,811</u>
Liabilities			
Lease liabilities	7	10,117	11,111
Non-current liabilities		<u>10,117</u>	<u>11,111</u>
Lease liabilities	7	1,570	1,557
Accruals and other liabilities		22,917	16,279
Due to related parties	13	41,102	116,521
Trade payables		61	1,804
Notes payable	13	-	65,761
Current liabilities		<u>65,650</u>	<u>201,922</u>
Total liabilities		<u>75,767</u>	<u>213,033</u>
Total equity and liabilities		<u>1,012,945</u>	<u>956,844</u>

The attached notes on pages 8 to 33 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 2021

	Notes	US\$' 000	
		2021	2020
Sales	10	721,381	471,535
Cost of sales	11	(334,469)	(292,500)
Gross profit		<u>386,912</u>	<u>179,035</u>
General, administrative and selling expenses	12	(5,153)	(2,256)
Foreign exchange (loss) gain		(6,833)	1,486
Profit from operation		<u>374,926</u>	<u>178,265</u>
Finance income		1,377	1,523
Finance cost	7&13	(3,718)	(3,923)
Profit before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), Zakat and Board of Directors' remuneration		<u>372,585</u>	<u>175,865</u>
Contribution to KFAS		(3,780)	(1,581)
Contribution to Zakat		(2,173)	(1,019)
Board of Directors' remuneration		(79)	(79)
Net profit for the year		<u>366,553</u>	<u>173,186</u>
Other comprehensive income		-	-
Total comprehensive income for the year		<u><u>366,553</u></u>	<u><u>173,186</u></u>

The attached notes on pages 8 to 33 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 2021

	US\$ '000			
	Share capital	Statutory reserve	Retained earnings	Total
Balance as at 1 January 2020	380,417	190,208	269,683	840,308
Net profit for the year	-	-	173,186	173,186
Total comprehensive income for the year	-	-	173,186	173,186
Dividend declared (Note 9)	-	-	(269,683)	(269,683)
Balance as at 31 December 2020	<u>380,417</u>	<u>190,208</u>	<u>173,186</u>	<u>743,811</u>
Balance as at 1 January 2021	380,417	190,208	173,186	743,811
Net profit for the year	-	-	366,553	366,553
Total comprehensive income for the year	-	-	366,553	366,553
Dividend declared (Note 9)	-	-	(173,186)	(173,186)
Balance as at 31 December 2021	<u>380,417</u>	<u>190,208</u>	<u>366,553</u>	<u>937,178</u>

The attached notes on pages 8 to 33 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 2021

	Notes	US\$ '000	
		2021	2020
Cash flows from operating activities			
Net profit for the year		366,553	173,186
<i>Adjustments for:</i>			
Depreciation and amortization	5, 6 & 7	74,067	76,684
Finance costs	7 & 13	3,718	3,923
Finance income		(1,377)	(1,523)
Provision for KFAS and Zakat		5,953	2,600
		<u>448,914</u>	<u>254,870</u>
<i>Changes in:</i>			
- Inventories		1,148	2,598
- due from related parties		(6,586)	3,715
- prepayments and other receivables		(10,376)	13,818
- accruals and other liabilities		685	5,732
- due to related parties		(75,419)	75,959
- trade payables		(1,743)	1,602
		<u>356,623</u>	<u>358,294</u>
Net cash from operating activities			
Cash flows from investing activities			
Addition of property, plant and equipment	5	(7,722)	(27,073)
Acquisition of intangible assets	6	(115)	(71,853)
Net movement in notes receivables	13	(106,508)	23,650
Finance income received		1,377	1,523
		<u>(112,968)</u>	<u>(73,753)</u>
Net cash used in investing activities			
Cash flows from financing activities			
Repayment of loans and borrowings		-	(80,559)
Payment of lease liabilities	7	(1,463)	(1,784)
Net movement in notes payable	13	(65,761)	65,761
Finance costs paid		(3,236)	(3,409)
Dividend paid	9	(173,186)	(269,000)
		<u>(243,646)</u>	<u>(288,991)</u>
Net cash used in financing activities			
Net change in bank balances			
		9	(4,450)
Bank balances as at 1 January		60	4,510
Bank balances as at 31 December		<u>69</u>	<u>60</u>

The attached notes on pages 8 to 33 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 2021

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 Dow Chemical Company (“TDCC”).

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

These financial statements were approved for issue by Board of Directors on 8 February 2022 and are subject to approval of shareholders at the forthcoming Annual General Meeting.

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

2. Basis of preparation

a) Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), 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 or amortised cost basis, except for derivative financial instruments which are measured at fair value.

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 IFRSs 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.

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.

Notes to financial statements

for the year ended 31 December 2021

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 below amendment to standards and interpretations became effective on 1 January 2021, but it does not have material effect on the Company's financial statements:

Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate ("IBOR") is replaced with an alternative nearly risk-free interest rate ("RFR").

The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued; and
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

4. Significant accounting policies

The Company has consistently applied these significant 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, FVOCI, or 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.

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 market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Notes to financial statements
for the year ended 31 December 2021

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.

(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).

Notes to financial statements

for the year ended 31 December 2021

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.

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.

Notes to financial statements

for the year ended 31 December 2021

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.

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.

Notes to financial statements

for the year ended 31 December 2021

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.

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.

Notes to financial statements

for the year ended 31 December 2021

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.

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.

Notes to financial statements

for the year ended 31 December 2021

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:

	2021	2020
Buildings and roads	5%	5%
Plant and equipment	4%	4%
Office furniture and equipment	12.5% - 20%	12.5% - 20%
Catalyst	50%	50%

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.

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.

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for the year ended 31 December 2021

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.

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 and catalysts 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 i.e., FOB ("Free On Board") shipping point. The transfer of the control occurs when the product is delivered to the freight carrier. 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.

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for the year ended 31 December 2021

Variable pricing – preliminary pricing

Certain products in certain markets may be sold with variable pricing arrangements. Such arrangements determine that a preliminary price is charged to the customer at the time of transfer of the control of products, while the price of products can only be determined by reference to a time period ending after that time. In such cases, and irrespective of the formula used for determining preliminary and final prices, revenue is recorded at the time of transfer of control of products at an amount representing the expected final amount of consideration that the Company receives. Where the Company records receivable for the preliminary price, subsequent changes in the estimated final price will not be recorded as revenue until such point in time at which the final price is determined.

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.

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for the year ended 31 December 2021

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.

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.

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.

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for the year ended 31 December 2021

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.

Determination of functional currency

Functional currency is the currency of the primary economic environment in which the Company operates. When indicators of the primary economic environment are mixed, management uses its judgment to determine the functional currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. The management have determined that the functional currency of the Company is US\$ since the majority of the Company’s transactions are denominated in US\$. Sales and Purchases are also received and paid in US\$.

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).

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:

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).

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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.

Measurement of ECLs

The measurement of ECLs on financial assets involves complex estimations. ECLs are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represent the difference between cashflows due to the Company in accordance with the contract and the cashflows that the Company expects to receive. The key elements in the measurement of ECL include probability of default, loss given default and exposure at default.

The Probability of Default (“PD”) is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the financial asset has not been previously derecognized and is still in the portfolio.

The Exposure at Default (“EAD”) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities.

The Loss Given Default (“LGD”) is an estimate of the loss arising in the case where a default occurs at a given time.

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.

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Annual Improvements to IFRS Standards 2018-2020;
- Property Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Reference to the Conceptual Framework (Amendments to IFRS 3);
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1);
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts;
- Disclosure of Accounting Estimates ((Amendments to IAS 8);
- Deferred Tax related to Assets And Liabilities arising from a Single Transaction (Amendments to IAS 12); and
- 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 financial statements of the Company 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 2020	10,096	1,229,688	23,209	18,923	3,039	1,284,955
Additions	-	-	-	6,150	20,923	27,073
Transfers	-	3,920	1,071	-	(4,991)	-
Write off	-	(208)	-	-	-	(208)
Balance as at 31 December 2020	10,096	1,233,400	24,280	25,073	18,971	1,311,820
Additions	-	-	-	-	7,722	7,722
Transfers	-	5,145	-	-	(5,145)	-
Balance as at 31 December 2021	10,096	1,238,545	24,280	25,073	21,548	1,319,542
Accumulated depreciation and impairment losses						
Balance as at 1 January 2020	5,365	626,106	22,422	18,923	-	672,816
Charge for the year	178	47,084	207	6,150	-	53,619
Related to write off	-	(208)	-	-	-	(208)
Balance as at 31 December 2020	5,543	672,982	22,629	25,073	-	726,227
Charge for the year	339	46,686	380	-	-	47,405
Balance as at 31 December 2021	5,882	719,668	23,009	25,073	-	773,632
Carrying amounts						
As at 31 December 2020	4,553	560,418	1,651	-	18,971	585,593
As at 31 December 2021	4,214	518,877	1,271	-	21,548	545,910

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	
	2021	2020
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	411,715
As at 31 December	<u>508,229</u>	<u>508,114</u>
Accumulated amortisation and impairment losses		
As at 1 January	261,252	239,419
Charge	25,410	21,833
As at 31 December	<u>286,662</u>	<u>261,252</u>
Carrying amounts	<u>221,567</u>	<u>246,862</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 13).

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%.

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

(i) Right of use asset

	US\$ '000	
	2021	2020
Balance at 1 January	12,442	13,674
Depreciation charge for the year	(1,252)	(1,232)
Balance at 31 December	<u>11,190</u>	<u>12,442</u>

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(ii) Lease Liabilities

	US\$ '000	
	2021	2020
Balance at 1 January	12,668	13,938
Finance cost	482	514
Payment of lease liabilities	(1,463)	(1,784)
Balance at 31 December	<u>11,687</u>	<u>12,668</u>

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

	US\$ '000	
	2021	2020
Current	1,570	1,557
Non-Current	10,117	11,111
	<u>11,687</u>	<u>12,668</u>

(iii) Amounts recognised in profit or loss

	US\$ '000	
	2021	2020
Interest on lease liabilities (included in finance cost)	482	514
Depreciation on right of use asset (included in cost of sales)	1,252	1,232

(iv) Amounts recognised in statement of cash flows

	US\$ '000	
	2021	2020
Total cash outflow for leases	1,463	1,784

8. Inventories

	US\$ '000	
	2021	2020
Raw materials and consumables	1,661	3,489
Finished goods	1,430	750
	<u>3,091</u>	<u>4,239</u>

9. Share capital

As at 31 December 2021 and 2020, the authorised share capital of the Company comprises 1,060 million authorised, issued and fully paid up shares of 100 fils each in cash.

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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 AGM 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

The Board of Directors proposed a cash dividend of US\$ 366,553 thousand for the year ended 31 December 2021 (2020: US\$ 173,186 thousand) which is subject to the approval of shareholders at the Annual General Assembly.

At annual general meeting held on 2 March 2021, the shareholders approved the dividend for the year ended 31 December 2020 amounting to US\$ 173,186 thousand (2019: US\$ 269,683 thousand) representing 16.34 cents (2019: 25.44 cents) per share.

10. Sales

	US \$ '000	
	2021	2020
<i>Type of products</i>		
Ethylene	123,262	122,439
Ethylene glycol	598,119	349,096
	<u>721,381</u>	<u>471,535</u>
<i>Geographical region</i>		
Kuwait	123,262	122,439
Netherlands	598,119	349,096
	<u>721,381</u>	<u>471,535</u>

11. Cost of sales

	US\$ '000	
	2021	2020
Materials	163,150	138,445
Distribution expenses	9,958	9,024
Service cost	87,294	68,347
Depreciation and amortisation (Note 5, 6 & 7)	74,067	76,684
	<u>334,469</u>	<u>292,500</u>

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12. General, administrative and selling expenses

	US\$ '000	
	2021	2020
Marketing and sales	877	635
Administration	4,276	1,621
	5,153	2,256

13. 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.

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.

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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 counterparty, characteristics of the debt financing arrangement etc. Amounts outstanding as at 31 December 2021 amounted to net asset of US\$ 106,508 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 significant related party transactions and balances are as follows:

	US\$ '000	
	2021	2020
Notes receivables		
Working capital loan to ME Global B.V.	106,508	-
	<u>106,508</u>	<u>-</u>
Notes payable		
Working capital loan from ME Global B.V.	-	65,761
	<u>-</u>	<u>65,761</u>
Due from related parties		
Due from EQUATE	105,389	39,071
Due from PIC	1,338	1,672
Due from TKSC	4,990	3,800
Due from ME Global International FZE	-	61,281
Due to DOW Chemical Company	634	-
Due from Kuwait Paraxylene Production Company K.S.C.C. (“KPPC”)	266	207
	<u>112,617</u>	<u>106,031</u>
Due to related parties		
Due to EQUATE	16,491	92,847
Due to PIC	-	-
Due to KPPC	139	325
Due to KPC	23,002	7,821
Due to Kuwait Oil Company K.S.C. (“KOC”)	1,470	15,528
	<u>41,102</u>	<u>116,521</u>
Dividend payable (included in accruals and other liabilities)	<u>683</u>	<u>683</u>

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	US\$ '000	
	2021	2020
Sales		
Sales of EG to MEGlobal	598,119	349,097
Sales to EQUATE, KPPC, TKSC and PIC	123,262	122,439
Expenses		
Feed gas purchased from KPC	124,541	102,727
Olefins II plant management fees to EQUATE	2,485	2,059
Toggling fees payments to KOC	9,020	8,633
Operating and utility cost reimbursed to EQUATE for running the Olefins II plant	124,648	118,422
Interest expense on notes payable from ME Global B. V	3,236	675
Finance income		
Interest income on notes receivable from ME Global B.V	1,377	1,523

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.

14. 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.

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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.

The Company deals in forward exchange contracts within approved limits to manage its foreign currency positions and cash flows. The notional value of the contracts (off balance sheet exposure) as at 31 December 2021 are:

	<u>US\$ '000</u>	
	<u>2021</u>	<u>2020</u>
Short position		
Euro	9,104	308,387
Long position		
Euro	9,057	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 31 December 2021 amounting to US\$ 15 thousand (2020: (US\$ 3,500 thousand).

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 2021 (US\$' 000)	<u>Euro</u>	<u>Kuwaiti Dinar</u>	<u>Total</u>
Assets	-	-	-
Liabilities	-	(10,709)	(10,709)
Net long / (short) exposure	-	(10,709)	(10,709)
31 December 2020 (US\$' 000)	<u>Euro</u>	<u>Kuwaiti Dinar</u>	<u>Total</u>
Assets	158,257	410	158,667
Liabilities	-	(24,963)	(24,963)
Net long / (short) exposure	158,257	(24,553)	133,704

The following exchange rates were applied to translate monetary assets and liabilities at 31 December 2021:

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(US\$)	Reporting date	
	Mid-spot rate	
	2021	2020
Euro	0.883	0.815
Kuwaiti Dinar	0.303	0.303

Foreign currency sensitivity analysis

As at 31 December 2021, 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\$ 535 thousand (2020: US\$ 6,685 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 significant interest-bearing financial instruments, except for the lease liabilities as at 31 December 2021.

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.

Exposure to credit risk

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

	US\$ '000	
	2021	2020
Notes receivables	106,508	-
Due from related parties	112,617	106,031
Other receivables	74	76
Bank balances	69	60
	<u>219,268</u>	<u>106,167</u>

Trade and other receivables

The average credit period on sales is 60 days (2020: 60 days). As at the statement of financial position date, there are no trade receivables.

The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Company uses other publicly available financial information and its own trading records to rate its major customers. The Company's exposure to and the credit ratings of its counterparties are continuously monitored, and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management annually.

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The balances are neither due nor impaired.

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 13.

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 2021 and 31 December 2020, 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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	Less than 1 year	1-2 years	Above 2 years	Total	Carrying amount
As at 31 December 2021					
Trade payables	61	-	-	61	61
Due to related parties	41,102	-	-	41,102	41,102
Accruals and other liabilities	22,917	-	-	22,917	22,917
Lease liabilities	1,570	1,648	11,631	14,849	11,687
Total	65,650	1,648	11,631	78,929	75,767
As at 31 December 2020					
Trade payables	1,804	-	-	1,804	1,804
Due to related parties	116,521	-	-	116,521	116,521
Accruals and other liabilities	16,279	-	-	16,279	16,279
Notes payable	66,761	-	-	66,761	65,761
Lease liabilities	1,557	1,635	11,537	14,729	12,668
Total	202,922	1,635	11,537	216,094	213,033

15. 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.

16. 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.

17. Commitments and contingencies

The Company has a fixed gas purchase commitment with a related party of approximately US\$ 345,949 (31 December 2020: US\$ 328,837) per day until the agreement is cancelled in writing by both parties.

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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 year, 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") whereby notes amounting to US\$ 1,000 million having term of 5 years maturing in 2022 and notes amounting to US\$ 1,250 million having term of 10 years maturing in November 2026. During the year, 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 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.

In May 2020, 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 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 the year, the EQUATE Group updated the US\$ 4 billion GMTN 1 ("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 10 million. These are classified as level 2 in fair value hierarchy.

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

	<u>US\$ '000</u>	
	<u>2021</u>	<u>2020</u>
Capital commitments	<u>380</u>	<u>1,640</u>

18. COVID-19

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.

In response to COVID-19, the Company has implemented active prevention programs at its sites and contingency plans in order to minimize the risks related to COVID-19 and to continue business operations. The global economy experienced a recovery in 2021, reflecting accelerated economic activity in key energy and markets coupled with improved outlook for global energy demand. This resulted in steady increase in price of crude oil and petrochemical products. Given that petrochemical products sales account for a substantial portion of the Company’s revenue, the increased prices have positively impacted Company’s financial performance during the current year ended 31 December 2021.

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 does not expect that the impact of COVID-19 will result in a material uncertainty in the Company’s business.