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

Financial Statements and
Independent auditor's report for the year ended
31 December 2022

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Independent auditor's report

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

Opinion

We have audited the financial statements of The Kuwait Olefins Company K.S.C.C. ("the Company"), which comprise the statement of financial position as at 31 December 2022, 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 2022, and its financial performance and its cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

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

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

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

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

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the financial statements include the information required by the Companies Law No. 1 of 2016 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 2022 that might have had a material effect on the business of the Company or on its financial position.

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

Kuwait: 20 February 2023

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

Statement of financial position
as at 31 December 2022

	Notes	US$ '000 2022	US$ '000 2021
Assets			
Property, plant and equipment	5	502,071	545,910
Intangible assets	6	196,155	221,567
Right-of-use assets	7	9,957	11,190
Non-current assets		708,183	778,667
Inventories	8	4,011	3,091
Due from related parties	13	52,249	112,617
Prepayments and other receivables		10,102	11,993
Notes receivables	13	-	106,508
Bank balances		358	69
Current assets		66,720	234,278
Total assets		774,903	1,012,945
Equity			
Share capital	9	380,417	380,417
Statutory reserve	9	190,208	190,208
Retained earnings		83,049	366,553
Total equity		653,674	937,178
Liabilities			
Lease liabilities	7	9,267	10,117
Non-current liabilities		9,267	10,117
Lease liabilities	7	1,158	1,570
Accruals and other liabilities		19,166	22,917
Due to related parties	13	45,225	41,102
Trade payables		153	61
Notes payable	13	46,260	-
Current liabilities		111,962	65,650
Total liabilities		121,229	75,767
Total equity and liabilities		774,903	1,012,945

The attached notes on pages 8 to 32 form an integral part of these financial statements.

Nadia Al-Hajji
Nadia Al-Hajji
Chairperson

Naser Aldousari
President & Chief Executive Officer

Statement of profit or loss and other comprehensive income
for the year ended 31 December 2022

		US$' 000	
	Notes	**2022**	**2021**
Sales	10	611,056	721,381
Cost of sales	11	(364,282)	(334,469)
Gross profit		246,774	386,912
General, administrative and selling expenses	12	(4,362)	(5,153)
Foreign exchange gain / (loss)		290	(6,833)
Profit from operation		242,702	374,926
Finance income		2,802	1,377
Finance cost	7&13	(1,777)	(3,718)
Profit before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), Zakat and Board of Directors' remuneration		243,727	372,585
Contribution to KFAS		(2,469)	(3,780)
Contribution to Zakat		(1,420)	(2,173)
Board of Directors' remuneration		(79)	(79)
Net profit for the year		239,759	366,553
Other comprehensive income		-	-
Total comprehensive income for the year		239,759	366,553

The attached notes on pages 8 to 32 form an integral part of these financial statements.

Statement of changes in equity
for the year ended 31 December 2022

	US$ '000			
	Share capital	**Statutory reserve**	**Retained earnings**	**Total**
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 paid (Note 9)	-	-	(173,186)	(173,186)
Balance as at 31 December 2021	380,417	190,208	366,553	937,178
Balance as at 1 January 2022	380,417	190,208	366,553	937,178
Net profit for the year	-	-	239,759	239,759
Total comprehensive income for the year	-	-	239,759	239,759
Dividend paid (Note 9)	-	-	(523,263)	(523,263)
Balance as at 31 December 2022	380,417	190,208	83,049	653,674

The attached notes on pages 8 to 32 form an integral part of these financial statements.

Statement of cash flows

for the year ended 31 December 2022

	Notes	US$ '000 2022	US$ '000 2021
Cash flows from operating activities			
Net profit for the year		239,759	366,553
Adjustments for:			
Depreciation and amortization	5, 6 & 7	78,637	74,067
Finance costs	7 & 13	1,777	3,718
Finance income		(2,802)	(1,377)
Provision for KFAS and Zakat		3,889	5,953
		321,260	448,914
Changes in:			
- Inventories		(920)	1,148
- due from related parties		60,368	(6,586)
- prepayments and other receivables		1,891	(10,376)
- accruals and other liabilities		(7,640)	685
- due to related parties		4,123	(75,419)
- trade payables		92	(1,743)
Net cash from operating activities		379,174	356,623
Cash flows from investing activities			
Addition of property, plant and equipment	5	(8,153)	(7,722)
Acquisition of intangible assets	6	-	(115)
Net movement in notes receivables	13	106,508	(106,508)
Finance income received		2,802	1,377
Net cash from / (used in) investing activities		101,157	(112,968)
Cash flows from financing activities			
Payment of lease liabilities	7	(1,697)	(1,463)
Net movement in notes payable	13	46,260	(65,761)
Finance costs paid		(1,342)	(3,236)
Dividend paid	9	(523,263)	(173,186)
Net cash used in financing activities		(480,042)	(243,646)
Net change in bank balances		289	9
Bank balances as at 1 January		69	60
Bank balances as at 31 December		358	69

The attached notes on pages 8 to 32 form an integral part of these financial statements.

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 15 February 2023 and are subject to approval of shareholders at the forthcoming Annual General Meeting.

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

2. Basis of preparation

a) <u>Statement of Compliance</u>

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) <u>Basis of measurement</u>

The financial statements have been prepared on the historical cost except for derivative financial instruments which are measured at fair value.

c) <u>Functional and presentation Currency</u>

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) <u>Use of estimates and judgments</u>

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.

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

3. Changes in accounting policy

The accounting policies adopted in the preparation of these financial statements are consistent with those used in the previous financial year, except for the adoption of new standards effective as of 1 January 2022. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

New standards, interpretations, and amendments adopted by the Company

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022 (unless otherwise stated). The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

An onerous contract is a contract under which the unavoidable of meeting the obligations under the contract costs (i.e., the costs that the Company cannot avoid because it has the contract) exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract and costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

These amendments had no impact on the financial statements of the Company.

Reference to the Conceptual Framework – Amendments to IFRS 3

The amendments replace a reference to a previous version of the IASB’s Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 Business Combinations to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

These amendments had no impact on the financial statements of the Company as there were no contingent assets, liabilities and contingent liabilities within the scope of these amendments arisen during the year.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

These amendments had no impact on the financial statements of the Company as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement.

These amendments had no impact on the financial information of the Company as there were no modifications of the Company's financial instruments during the year.

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

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments),
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments),
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments),
- Financial assets at FVTPL.

Financial assets at amortised cost

The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in statement of profit or loss when the asset is derecognised, modified or impaired. The Company's financial assets at amortised cost includes due from related parties, other receivables, notes receivables and bank balances.

(a) Business model assessment

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel; and
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

(b) The SPPI test

As a second step of its classification process, the Company assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

Principal for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Further, financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Income from loans and advances, foreign exchange gains and losses and impairment are recognised in the statement of profit or loss. Any gain or loss on derecognition is recognised in the statement of profit or loss.

Financial assets at FVOCI (debt instruments)

The Company measures debt instruments at FVOCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to statement of profit or loss. The Company does not carry any debt instruments at fair value through OCI.

Financial assets designated at FVOCI (equity instruments)

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment. The Company does not carry any equity instrument designated at fair value through OCI.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. The Company does not carry any financial assets at FVTPL.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

Impairment of financial assets

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Company has established a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument. Under the general approach of ECL, the Company determines whether the financial asset is in one of the three stages in order to determine the amount of ECL to recognise:

Stage 1: 12 months ECL
For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognised.

Stage 2: Lifetime ECL – not credit impaired
For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Stage 3: Lifetime ECL – credit impaired
Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under IAS 39, the Group methodology for specific provisions remains largely unchanged.

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

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

The Company has elected to measure loss allowances at an amount equal to 12-month ECLs for the bank balances, notes receivables and due from related parties, for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

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

The Company evaluates the probability of default considering the period of past due receivables. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Company's financial liabilities include accruals and other liabilities due to related parties, trade payable and notes payable.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

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

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) <u>Property, plant and equipment</u>

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

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

	2022	**2021**
Buildings and roads	5%	5%
Plant and equipment	4%	4%
Office furniture and equipment	12.5% - 20%	12.5% - 20%
Catalyst	25%	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.

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 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.

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.

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.

Judgement in determining the lease term of contracts with renewal options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

k) <u>Foreign currencies transactions.</u>

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

Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the statement of profit or loss.

l) <u>Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS") and Zakat</u>

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) <u>Critical accounting judgements and key sources of estimation uncertainty</u>

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

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date are discussed below:

Measurement of fair values of financial instruments

The Company uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement.

For financial instruments carried at amortized cost, fair values are not materially different from their carrying values and are used only for disclosure purpose. Fair value of such financial instruments are classified under level 3 determined based on discounted cash flow basis, with most significant inputs being the discount rate that reflects the credit risk of counterparties.

n) Standards and interpretations issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

- IFRS 17 – Insurance Contracts;
- Classification of Liabilities as Current or Non-current - Amendments to IAS 1.
- Definition of Accounting Estimate - Amendments to IAS 8;
- Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2.
- Sale or Contribution of Assets between an investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28.
- Deferred Tax related to Assets and Liabilities arising from a single transaction - Amendments to IAS 12;

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

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 2021	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
Additions	-	92	-	3,661	4,400	8,153
Transfers	-	3,029	-	15,797	(18,826)	-
Balance as at 31 December 2022	10,096	1,241,666	24,280	44,531	7,122	1,327,695
Accumulated depreciation and impairment losses						
Balance as at 1 January 2021	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
Charge for the year	339	46,814	380	4,459	-	51,992
Balance as at 31 December 2022	6,221	766,482	23,389	29,532	-	825,624
Carrying amounts						
As at 31 December 2021	4,214	518,877	1,271	-	21,548	545,910
As at 31 December 2022	3,875	475,184	891	14,999	7,122	502,071

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.

6. Intangible assets

	US$ '000	
	2022	**2021**
Cost		
Licence fees paid to Technip USA Corporation ("TECHNIP")	2,210	2,210
Licence fees paid to "Union Carbide Chemicals & Plastics Tech Corporation"	31,472	31,472
Licence fees paid to "Dow Europe Holding B.V."	62,353	62,353
Licence fees paid to UOP Limited	364	364
Reservation right fees paid to EQUATE	411,830	411,830
As at 31 December	508,229	508,229
Accumulated amortisation and impairment losses		
As at 1 January	286,662	261,252
Charge for the year	25,412	25,410
As at 31 December	312,074	286,662
Carrying amounts	196,155	221,567

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% (2021: 3.72%).

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

(i) Right of use asset

	US$ '000	
	2022	**2021**
Balance at 1 January	11,190	12,442
Depreciation charge for the year	(1,233)	(1,252)
Balance at 31 December	9,957	11,190

(ii) Lease Liabilities

	US$ '000	
	2022	**2021**
Balance at 1 January	11,687	12,668
Finance cost	435	482
Payment of lease liabilities	(1,697)	(1,463)
Balance at 31 December	10,425	11,687

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

	US$ '000	
	2022	**2021**
Current	1,158	1,570
Non-current	9,267	10,117
	10,425	11,687

(iii) Amounts recognised in profit or loss

	US$ '000	
	2022	**2021**
Interest on lease liabilities (included in finance cost)	435	482
Depreciation on right of use asset (included in cost of sales)	1,233	1,252

(iv) Amounts recognised in statement of cash flows

	US$ '000	
	2022	**2021**
Total cash outflow for leases	1,697	1,463

8. Inventories

	US$ '000	
	2022	**2021**
Raw materials and consumables	1,086	1,661
Finished goods	2,925	1,430
	4,011	3,091

9. Share capital

As at 31 December 2022 and 2021, the authorised share capital of the Company comprises 1,060 million authorised, issued and fully paid up shares of 100 fils each in cash.

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$ 239,759 thousand for the year ended 31 December 2022 (2021: US$ 366,553 thousand) which is subject to the approval of shareholders at the Annual General Assembly. Of this dividend, the amount paid in the current period amounts to US$ 156,710 thousands.

At the annual general meeting held on 22 March 2022, the shareholders approved the dividend for the year ended 31 December 2021 and accordingly US$ 366,553 thousand (2020: US$ 173,186 thousand), representing 34.58 cents per share (2020: 16.34 cents per share) was paid by the Company

10. Sales

	US $ '000	
	2022	**2021**
Type of products		
Ethylene	126,951	123,262
Ethylene glycol	484,105	598,119
	611,056	721,381
Geographical region		
Kuwait	126,951	123,262
Netherlands	484,105	598,119
	611,056	721,381

11. Cost of sales

	US$ '000	
	2022	**2021**
Materials	186,992	163,150
Distribution expenses	8,518	9,958
Service cost	90,135	87,294
Depreciation and amortisation (Note 5, 6 & 7)	78,637	74,067
	364,282	334,469

12. General, administrative and selling expenses

	US$ '000	
	2022	**2021**
Marketing and sales	925	877
Administration	3,437	4,276
	4,362	5,153

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.

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

Operational Facility – Under the cash management services provided by MEG B.V, EQUATE Group entities and TKOC have an overnight cash sweeping facility with MEG B.V. Under this arrangement, the subsidiaries of EQUATE Group and TKOC sweeps selected bank accounts with MEG B.V. This allows EQUATE Group and TKOC either to invest or borrow funds on an overnight basis. Under the terms of the agreement, the subsidiaries and TKOC can borrow or deposit with MEG B.V at interest rate of LIBOR plus a positive spread set by the Management. The spread is determined taking into consideration of economic factors such as the creditworthiness of counterpart, characteristics of the debt financing arrangement etc. Amounts outstanding as at 31 December 2022 amounted to net liability of US$ 46,260 thousand (2021: net asset of US$ 106,508 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	
	2022	**2021**
Notes receivables		
Working capital loan to ME Global B.V.	-	106,508
	-	106,508
Notes payable		
Working capital loan from ME Global B.V.	46,260	-
	46,260	-
Due from related parties		
Due from EQUATE	47,162	105,389
Due from PIC	1,075	1,338
Due from TKSC	2,230	4,990
Due from DOW Chemical Company	1,610	634
Due from Kuwait Paraxylene Production Company K.S.C.C. ("KPPC")	172	266
	52,249	112,617
Due to related parties		
Due to EQUATE	12,044	16,491
Due to KPPC	223	139
Due to KPC	30,800	23,002
Due to Kuwait Oil Company K.S.C. ("KOC")	2,158	1,470
	45,225	41,102
Dividend payable (included in accruals and other liabilities)	-	683
Sales		
Sales of EG to MEGlobal	484,105	598,119
Sales to EQUATE, KPPC, TKSC and PIC	126,951	123,262
Expenses		
Feed gas purchased from KPC	130,631	124,541
Olefins II plant management fees to EQUATE	2,388	2,485
Toggling fees payments to KOC	9,166	9,020
Operating and utility cost reimbursed to EQUATE for running the Olefins II plant	136,221	124,648
Interest expense on notes payable from ME Global B. V	1,342	3,236
Finance income		
Interest income on notes receivable from ME Global B.V	360	1,377
Guarantee interest from EQUATE	2,425	-

Board of Directors' remuneration

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

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.

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 are:

	US$ '000	
	2022	**2021**
Short position		
Euro	-	9,104
Long position		
Euro	-	9,057

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 Company does not have forward exchange contracts in the current year (2021: US$ 15 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 2022 (US$' 000)	**Euro**	**Kuwaiti Dinar**	**Total**
Assets	48	95	143
Liabilities	(36)	(33,604)	(33,640)
Net long / (short) exposure	12	(33,509)	(33,497)

31 December 2021 (US$' 000)	**Euro**	**Kuwaiti Dinar**	**Total**
Assets	51	21	72
Liabilities	(38)	(31,218)	(31,256)
Net long / (short) exposure	13	(31,197)	(31,184)

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

(US$)	**Reporting date Mid-spot rate**	
	2022	**2021**
Euro	0.937	0.883
Kuwaiti Dinar	0.306	0.303

Foreign currency sensitivity analysis

As at 31 December 2022, 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$ 1,675 thousand (2021: US$ 1,559 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.

During the year, if interest rates on US$ denominated notes payables had been 10 basis points higher/lower with all other variables held constant, profit for the previous year would have been US$ 46.26 thousands (2021: nil) lower / higher, mainly as a result of higher / lower interest expense on floating rate borrowings.

The Company doesn't have any relevant significant interest-bearing financial instruments, except for the lease liabilities as at 31 December 2022.

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	
	2022	**2021**
Notes receivables	-	106,508
Due from related parties	52,249	112,617
Other receivables	13	74
Bank balances	358	69
	52,620	219,268

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 2022, 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.

	Less than 1 year	1-2 years	Above 2 years	Total	Carrying amount
As at 31 December 2022					
Trade payables	153	-	-	153	153
Due to related parties	45,225	-	-	45,225	45,225
Accruals and other liabilities	19,166	-	-	19,166	19,166
Notes payable	46,260	-	-	46,260	46,260
Lease liabilities	1,553	1,553	9,317	12,423	10,425
Total	112,357	1,553	9,317	123,227	121,229
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	1,574	1,574	11,018	14,166	11,687
Total	65,654	1,574	11,018	78,246	75,767

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$ 362,863 (31 December 2021: US$ 345,949) per day until the agreement is cancelled in writing by both parties.

Pursuant to master loan agreement signed on 23 June 2016, which was amended on 13 December 2018, the EQUATE Group entered into a US$ 3 billion long term loan agreement ("Term Loan") with a consortium of banks. The Term Loan consisted of US $ 2 billion Tranche A 7-year bullet facility and US$ 1 billion 5-year revolving credit facility. The Company is jointly and severally a guarantor along with EQUATE Group for the Term Loan and the credit facilities include customary covenants. During the prior 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 2021, 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 8 million. These are classified as level 2 in fair value hierarchy.

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

	US$ '000	
	2022	**2021**
Capital commitments	142	380