

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

**Independent auditor's review report and condensed interim
financial information for the six-month period ended 30 June 2023**

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

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

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

Introduction

We have reviewed the accompanying condensed interim financial information of The Kuwait Olefins Company K.S.C.C. ("the Company"), which comprises the condensed statement of financial position as at 30 June 2023, the related condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the condensed interim financial information. Management is responsible for the preparation and presentation of these condensed interim financial information in accordance with IAS 34, *Interim Financial Reporting as issued by the International Accounting Standards Board (IAS 34, Interim Financial Reporting)*. Our responsibility is to express a conclusion on these condensed interim financial information based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as at and for the six-month ended 30 June 2023 are not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

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

Kuwait: 27 August 2023

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

Condensed statement of financial position
as at 30 June 2023

	US\$ '000	
	30 June 2023	31 December 2022
<i>Notes</i>		(Audited)
Assets		
Property, plant and equipment	483,239	502,071
Intangible assets	183,450	196,155
Right-of-use assets	9,340	9,957
Non-current assets	676,029	708,183
Inventories	7,368	4,011
Due from related parties	48,304	52,249
Prepayments and other receivables	10,223	10,102
Bank balances	300	358
Current assets	66,195	66,720
Total assets	742,224	774,903
Equity		
Share capital	380,417	380,417
Statutory reserve	190,208	190,208
Retained earnings	81,745	83,049
Total equity	652,370	653,674
Liabilities		
Lease liability	8,612	9,267
Non-current liabilities	8,612	9,267
Lease liability	598	1,158
Accruals and other liabilities	14,976	19,166
Due to related parties	52,536	45,225
Trade payables	38	153
Notes payable	13,094	46,260
Current liabilities	81,242	111,962
Total liabilities	89,854	121,229
Total equity and liabilities	742,224	774,903

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



Nadia Al-Hajji
Chairperson



Naser Aldousari
President & Chief Executive Officer

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

Condensed statement of profit or loss and other comprehensive income
for the six-month period ended 30 June 2023

	Notes	US\$ '000	
		2023	2022
Sales	3	285,994	324,777
Cost of sales		(179,163)	(185,632)
Gross profit		106,831	139,145
General, administrative, and selling expenses		(2,130)	(2,146)
Foreign exchange gain		99	344
Profit from operations		104,800	137,343
Finance income		1,329	1,574
Finance costs		(1,366)	(693)
Profit before contribution to Kuwait Foundation for the Advancement of Sciences (“KFAS”), Zakat and Board of Directors’ remuneration		104,763	138,224
Contribution to KFAS		(1,043)	(1,395)
Contribution to Zakat		(600)	(802)
Board of Directors’ remuneration		(27)	(27)
Net profit for the period		103,093	136,000
Other comprehensive income		-	-
Total comprehensive income for the period		103,093	136,000

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

The Kuwait Olefins Company K.S.C.C.
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Condensed statement of changes in equity
for the six-month period ended 30 June 2023

	US\$ '000			
	Share capital	Statutory reserve	Retained earnings	Total
Balances as at 1 January 2022 (audited)	380,417	190,208	366,553	937,178
Net profit for the period	-	-	136,000	136,000
Total comprehensive income	-	-	136,000	136,000
Dividend declared (note 6)	-	-	(410,569)	(410,569)
Balance as at 30 June 2022	380,417	190,208	91,984	662,609
Balances as at 1 January 2023 (audited)	380,417	190,208	83,049	653,674
Net profit for the period	-	-	103,093	103,093
Total comprehensive income	-	-	103,093	103,093
Dividend declared (note 6)	-	-	(104,397)	(104,397)
Balance as at 30 June 2023	380,417	190,208	81,745	652,370

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

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Condensed statement of cash flows
for the six-month period ended 30 June 2023

	Notes	US\$ '000	
		2023	2022
Cash flows from operating activities			
Net profit for the period		103,093	136,000
<i>Adjustments for:</i>			
Depreciation		26,538	26,765
Amortisation		12,705	12,706
Finance costs		1,366	693
Finance income		(1,329)	(1,574)
Provision for KFAS and Zakat		1,643	2,197
		144,016	176,787
<i>Changes in:</i>			
- Inventories		(3,357)	363
- due from related parties		3,945	40,744
- prepayments and other receivables		(121)	(297)
- accruals and other liabilities		(5,833)	(8,466)
- due to related parties		7,311	4,653
- trade and other payables		(114)	30
Net cash generated from operating activities		145,847	213,814
Cash flows from investing activities			
Purchase of property, plant and equipment		(7,090)	(1,392)
Notes receivable		-	106,508
Finance income received		1,329	1,574
Net cash (used in) / generated from investing activities		(5,761)	106,690
Cash flows from financing activities			
Finance costs paid		(1,170)	(474)
Lease payments		(1,411)	(1,345)
Notes payable		(33,166)	94,049
Dividend paid	6	(104,397)	(410,569)
Net cash used in financing activities		(140,144)	(318,339)
Net change in cash and cash equivalents			
		(58)	2,165
Cash and cash equivalents at beginning of the period		358	69
Cash and cash equivalents at end of the period		300	2,234

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

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

Notes to the condensed interim financial information
for the six-month period ended 30 June 2023

1. Reporting entity

The Kuwait Olefins Company K.S.C.C. ("the Company") is a Closed Kuwaiti Shareholding Company incorporated in the State of Kuwait on 10 October 2004. The Company is registered in the commercial register under number 103722 dated 10 October 2004.

The Company is owned by DOW Europe Holding B.V. ("DEHBV"), Petrochemical Industries Company K.S.C.C. ("PIC"), Boubyan Petrochemical Company K.S.C. ("BPC") and Al-Qurain Petrochemical Industries Company K.S.C. ("QPIC").

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

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

This condensed interim financial information was authorised for issue by the Chairperson and President & Chief Executive Officer on 27 August 2023.

The address of the Company's registered office is South Sabahiya, Ahmadi, Block 1, State of Kuwait.

2. Basis of preparation

a) Statement of compliance

These condensed interim financial information for the six months period ended 30 June 2023 have been prepared in accordance with IAS 34 *Interim Financial Reporting* and should be read in conjunction with the Company's last annual financial statements as at and for the year ended 31 December 2022 ("last annual financial statements"). They do not include all of the information required for a complete set of financial statements prepared in accordance with IFRS Standards. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last annual financial statements. Operating results for the six-month period ended 30 June 2023 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2023.

b) Judgments and estimates

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

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

Notes to the condensed interim financial information
for the six-month period ended 30 June 2023

c) Significant accounting policies

The accounting policies applied in this condensed interim financial information are the same as those applied in the Company's financial statements as at and for the year ended 31 December 2022 except for the amendments to IFRS standards which are effective from 1 January 2023, but they did not have any material effect on the Company's condensed interim financial information.

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2023 with earlier application permitted. The Company has not early adopted any of the forthcoming new or amended standards in preparing this condensed interim financial information.

3. Related party transactions

In the normal course of business, the Company enters into transactions with its shareholders PIC (wholly owned by Kuwait Petroleum Corporation ("KPC")), BPC, QPIC, DEHBV and its affiliates.

During 2004, DEHBV and PIC initiated a number of joint venture petrochemical projects ("Olefins II projects") in Kuwait to manufacture polyethylene, ethylene glycol and styrene monomer. The Olefins II projects consists of the EQUATE Petrochemical Company K.S.C.C (EQUATE) expansion project, the incorporation and development of the Company and The Kuwait Styrene Company ("TKSC").

On 2 December 2004, the Company signed a Materials and Utilities Supply Agreement ("MUSA") with EQUATE. Under the terms of the MUSA, the Company contributed reservation right fees to EQUATE that represent 45.32% of the capital construction costs incurred by EQUATE on the new utilities and infrastructure facilities developed and owned by EQUATE. The percentage contribution of reservation right fee is based on the usage percentage of the new utilities and infrastructure facilities by the Company.

On 2 December 2004, the Company signed an Operations, Maintenance and Services Agreement ("OMSA") with EQUATE. Under the terms of the OMSA, the Company receives various services from EQUATE in respect of the Olefins II operations.

On 2 December 2004, the Company signed an Ethylene Supply Agreement with EQUATE and TKSC. Under the terms of the agreement, the price per metric tonne of ethylene is paid by EQUATE and TKSC based on the quantities delivered to them at the contract price.

During 2005, Services Agreements were signed between the Company, DEHBV, PIC and EQUATE for the provision of various services to the Company during the development of the Plant under construction. Since then, the plant has been constructed and it is fully operational.

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

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

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Notes to the condensed interim financial information
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Operational Facility – Under the cash management services provided by MEGlobal B.V (“MEG B.V”), EQUATE Group entities and TKOC have an overnight cash sweeping facility with MEG B.V. Under this arrangement, the EQUATE Group entities and TKOC sweeps selected bank accounts with MEG B.V. This allows EQUATE Group entities and TKOC either to invest or borrow funds on an overnight basis. Under the terms of the agreement, EQUATE Group entities and TKOC can borrow or deposit with MEG B.V at interest rate of LIBOR plus a positive spread set agreed between the managements of EQUATE Group and TKOC.

The spread is determined taking into consideration the economic factors such as the creditworthiness of counterpart, characteristics of the debt financing arrangement etc. Amounts outstanding as at 30 June 2023 under these arrangements were a net liability of US\$ 13,094 thousand (2022: net liability of US\$ 46,260 thousand). These are indefinite arrangements subject to termination by either party of which the interest is accrued monthly.

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

Details of related party transactions and balances are as follows.

	<u>US\$ ‘000</u>	
	<u>30 June 2023</u>	<u>31 December 2022</u>
		(Audited)
Notes payable		
Working capital loan from ME Global B.V.	13,094	46,260
	<u>48,304</u>	<u>52,249</u>
Due from related parties		
Due from EQUATE	40,442	47,162
Due from PIC	1,262	1,075
Due from TKSC	4,623	2,230
Due from Dow Chemical Company	1,610	1,610
Due from Kuwait Paraxylene Production Company K.S.C.C. (“KPPC”)	367	172
	<u>48,304</u>	<u>52,249</u>
Due to related parties		
Due to EQUATE	17,143	12,044
Due to KPPC	858	223
Due to KPC	33,163	30,800
Due to Kuwait Oil Company K.S.C. (“KOC”)	1,372	2,158
	<u>52,536</u>	<u>45,225</u>

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Notes to the condensed interim financial information
for the six-month period ended 30 June 2023

	US\$ '000	
	30 June 2023	30 June 2022
Transactions		
Sales		
Sales of EG to EQUATE	214,368	260,379
Sales to EQUATE, KPPC, TKSC and PIC	71,626	64,398
Expenses		
Feed gas purchased from KPC	61,671	66,995
Olefins II plant management fees to EQUATE	1,223	1,215
Toggling fees payments to KOC	4,293	4,355
Operating and utility cost reimbursed to EQUATE for running the Olefins II plant	65,101	68,526
Interest expense on notes payable from MEGlobal B.V.	1,170	474
Finance income		
Interest income on notes receivable from MEGlobal B.V.	82	349
Guarantee interest from EQUATE	1,209	1,224

4. Commitments and contingent liabilities

The Company has a fixed gas purchase commitment with a related party of approximately US\$ 342,616 (31 December 2022: US\$ 362,863) 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") which included fixed interest rate notes amounting to US\$ 1,000 million with a 5 years tenor which matured in 2022 and fixed interest rate notes amounting to US\$ 1,250 million with a 10 years tenor maturing in 2026.

During 2022, the EQUATE Group bought back notes worth USD 428 million from GMTN 1 and has outstanding balance of USD 1,235 million as at reporting date. The payments of all amounts due in respect of GMTN 1 Notes is unconditionally and irrevocably guaranteed, jointly and severally by the Company and EQUATE Group. GMTN 1 Notes are listed on EURONEXT.

In December 2016, the EQUATE Group established a US\$ 2 billion Sukuk programme (Sukuk 1) and issued Sukuk amounting to US\$ 500 million on 21 February 2017 with a 7-year tenor maturing in 2024. The payments of all amounts due in respect of Sukuk 1 is guaranteed by the Company and Sukuk 1 is listed on EURONEXT.

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In May 2020, the EQUATE Group established a US\$ 4 billion Global Medium Term Note Programme (“GMTN 2”) and issued notes amounting to USD 1.6 billion (“GMTN 2 Notes”) which included notes amounting to US\$ 1,000 million with a 5 years tenor maturing in 2025 and notes amounting to US\$ 600 million with a 10 years tenor 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 also established a US\$ 2 billion sukuk programme (“Sukuk 2”). The payments of all amounts due in respect of Sukuk 2 is guaranteed by the Company. No trust certificates are issued under Sukuk 2.

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

During 2021, the EQUATE Group established a US\$ 4 billion Global Medium-Term Note Programme (“GMTN 3”) and issued notes amounting to USD 700 million (“GMTN 3 Notes”) with a 7 year tenor maturing in 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 7 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 30 June:

	US\$ ‘000	
	30 June 2023	31 December 2022 (Audited)
Capital commitments	87	142

5. Financial instruments - fair value measurement and risk management

Fair value measurement

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

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Notes to the condensed interim financial information
for the six-month period ended 30 June 2023

- Level 3: inputs for the asset or liability that are not based on observable market data (Unobservable inputs).

Financial risk management

All aspects of the Company's financial risk management objectives and policies are consistent with those disclosed in the financial statements for the year ended 31 December 2022.

6. Annual General Assembly

At the Annual General Meeting held on 20 February 2023, the shareholders approved the Board of Directors recommendation to distribute a cash dividend of 22.62 cents per share amounting to US\$ 239,759 thousand (2021: 34.58 cents per share amounting to US\$ 366,553 thousand). In the current period, the Company paid dividends amounting to US\$ 104,397 thousand (2022: US\$ 410,569 thousand).