EQUATE Petrochemical Company K.S.C.C.
and Subsidiaries

State of Kuwait

Consolidated Financial Statements and Independent Auditor's Report for the year ended 31 December 2015

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Deloitte & Touche
Al-Wazzan & Co.

Ahmed Al-Jaber Street, Sharq
Dar Al-Awadi Complex, Floors 7 & 9
P.O. Box 20174, Safat 13062 or
P.O. Box 23049 Safat 13091
Kuwait

Tel : +965 22408844, 22438060
Fax: +965 22408855, 22452080

www.deloitte.com

EQUATE Petrochemical Company K.S.C.C. and subsidiaries
State of Kuwait

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of EQUATE Petrochemical Company K.S.C.C ("the Parent Company") and subsidiaries (together referred to as "the Group") which comprise the consolidated statement of financial position as at 31 December 2015 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the financial year then ended and summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

EQUATE Petrochemical Company K.S.C.C. and subsidiaries
State of Kuwait

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS (Continued)

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of accounts have been kept by the Parent Company, and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit; and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 25 of 2012, as amended, and its Executive Regulations and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out; and that, to the best of our knowledge and belief, no violations of the Companies Law No. 25 of 2012, as amended, and its Executive Regulations or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the financial year ended 31 December 2015 that might have had a material effect on the business of the Parent Company or on its financial position.

Bader A. Al-Wazzan
Licence No. 62A
Deloitte & Touche
Al-Wazzan & Co.

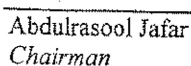
Kuwait
10 February 2016

EQUATE Petrochemical Company K.S.C.C.
State of Kuwait

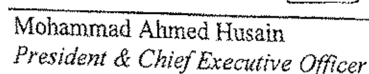
Consolidated Statement of Financial Position as at 31 December 2015

	Notes	USD million 2015	2014
ASSETS			
Non-current assets			
Property, plant and equipment	4	1,899	1,231
Goodwill	3 & 5	1,636	-
Intangible assets	6	465	47
Deferred tax assets	7	41	-
Deferred charges and other assets	8	306	-
Loans to related parties	9	726	910
		5,073	2,188
Current assets			
Inventories	10	232	121
Loans to related parties	9	183	174
Due from related parties	9	235	142
Trade and other receivables	11	602	149
Deferred charges and other assets	8	22	-
Cash and bank balances	12	1,203	809
		2,477	1,395
Total assets		7,550	3,583
EQUITY and LIABILITIES			
Shareholders' equity			
Share capital	13	700	700
Treasury shares	13	(450)	(450)
Statutory reserve	13	350	350
Remeasurement of retirement benefit obligation	16	(44)	(29)
Foreign currency translation reserve		5	-
Retained earnings		403	567
Total equity		964	1,138
Non-current liabilities			
Loans and borrowings	14	-	1,056
Deferred income	15	404	421
Deferred tax liabilities	7	287	-
Retirement benefit obligation	16	273	231
Long term incentives		5	7
		969	1,715
Current liabilities			
Loans and borrowings	14	4,970	352
Deferred income	15	32	32
Long term incentives		5	7
Due to related parties	9	299	55
Trade and other payables	17	311	284
		5,617	730
Total liabilities		6,586	2,445
Total equity and liabilities		7,550	3,583

The attached notes on pages 7 to 35 form an integral part of these consolidated financial statements.



Abdulrasool Jafar
Chairman



Mohammad Ahmed Husain
President & Chief Executive Officer

Consolidated Statement of Profit or Loss and other Comprehensive Income – Year ended 31 December 2015

	Notes	USD million 2015	USD million 2014
Sales		1,712	1,802
Cost of sales	18	(1,295)	(1,243)
Gross profit		417	559
Management fee	9	8	9
Reservation right fees	15	32	32
General, administrative and selling expenses	19	(36)	(33)
Other income		4	1
Foreign exchange gain		3	4
Profit from operation		428	572
Finance income		12	15
Finance costs		(18)	(13)
Profit before statutory contributions and Board of Directors' remuneration		422	574
Contribution to KFAS	20	(4)	(6)
Contribution to Zakat	21	(15)	(1)
Board of Directors' remuneration	22	-	-
Net profit for the year		403	567
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of retirement benefit obligation		(15)	-
Exchange differences on translating foreign operations		5	-
Other comprehensive expenses for the year		(10)	-
Total comprehensive income for the year		393	567

The attached notes on pages 7 to 35 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity – Year ended 31 December 2015

	USD million						
	Share capital	**Treasury shares**	**Statutory reserve**	**Retained earnings**	**Remeasurement of retirement benefit obligations**	**Foreign currency translation reserve**	**Total**
Balances as at 1 January 2014	700	(450)	350	769	(29)	-	1,340
Net profit for the year	-	-	-	567	-	-	567
Total comprehensive income	-	-	-	567	-	-	567
Dividends paid	-	-	-	(769)	-	-	(769)
Balance as at 31 December 2014	700	(450)	350	567	(29)	-	1,138
Net profit for the year	-	-	-	403	-	-	403
Other comprehensive expense	-	-	-	-	(15)	5	(10)
Total comprehensive income	-	-	-	403	(15)	5	393
Dividends paid (Note 13)	-	-	-	(567)	-	-	(567)
Balance as at 31 December 2015	700	(450)	350	403	(44)	5	964

The attached notes on pages 7 to 35 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows - Year ended 31 December 2015

	Note	USD million	
		2015	**2014**
Cash flows - operating activities			
Net profit for the year		403	567
Adjustments:			
Depreciation	4	163	151
Amortisation	6	13	13
Reservation right fees	15	(32)	(32)
Finance costs		18	13
Finance income		(12)	(15)
(Write back)/provision for obsolete and slow moving inventories	10	(1)	2
Provision for retirement benefit obligation	16	30	31
Foreign exchange gain on retirement benefit obligations	16	(9)	(9)
Provision for long term incentives		1	8
Other adjustments to property, plant and equipment	4	17	-
Operating profit before working capital changes		591	729
Decrease/(increase) in inventories		16	(8)
Decrease in due from related parties		431	38
(Increase)/decrease in trade and other receivables		(107)	46
Increase in deferred charges and other assets		(7)	-
Long term incentives paid		(3)	(3)
Decrease in due to related parties		(261)	(52)
(Decrease)/increase in trade and other payables		(171)	24
Retirement benefit obligation paid		(10)	(9)
Net cash from operating activities		479	765
Cash flows - investing activities			
Purchase of property, plant and equipment	4	(67)	(137)
Purchase of intangible assets	6	(3)	(5)
Acquisition of subsidiary	3	(2,975)	-
Investment in staff saving scheme		(2)	(4)
Matured/(placement) of short term deposits		293	(98)
Long-term loans repaid by related parties		174	165
Finance income received		12	15
Net cash used in investing activities		(2,568)	(64)
Cash flows - financing activities			
Repayments of long term loan	14	(1,614)	(191)
Bridge loans obtained during the year	14	5,000	-
Loan origination fees paid	14	(30)	-
Finance costs paid		(15)	(12)
Dividends paid	13	(567)	(769)
Net cash from/(used in) financing activities		2,774	(972)
Net increase/(decrease) in cash and cash equivalents		685	(271)
Cash and cash equivalents at beginning of the year		262	533
Cash and cash equivalents at end of the year	12	947	262

The attached notes on pages 7 to 35 form an integral part of these consolidated financial statements.

1. Reporting entity

EQUATE Petrochemical Company K.S.C.C. ("the Parent Company") is a closed Kuwaiti Shareholding Company incorporated in the State of Kuwait on 20 November 1995. The Parent Company is owned by DOW Europe Holding B.V. ("DEH"), Petrochemical Industries Company K.S.C. ("PIC"), Boubyan Petrochemical Company K.S.C. ("BPC") and Al-Qurain Petrochemical Industries Company K.S.C. ("QPIC").

The objective of the Parent Company is to manufacture all kinds of petrochemical products. The Parent Company may have interests in, or in any way associate itself with entities, which are carrying on activities similar to its own or which may help the Parent Company to realise its objectives, whether in the State of Kuwait or abroad and may acquire or merge with such entities.

Currently, the Parent Company is engaged in the manufacture and sale of ethylene glycol ("EG") and polyethylene ("PE"). The Parent Company also operates and maintains Olefins II, Styrene, Aromatics and Polypropylene plants on behalf of related entities in Kuwait.

The address of the Parent Company's registered office is Olympia Tower, 6th floor, Salmiya, Kuwait

During the year, the Parent Company incorporated and acquired the following subsidiaries (together referred to as "the Group").

- MEGlobal Canada ULC ('MEGC') formed on December 2015 via a series of amalgamations including amalgamation with Equate Petrochemical Canada ULC ('EQUATE CANADA') (Incorporated in Nova Scotia, Canada on October 2015 by the Parent Company). Previously, MEGC operated as MEGlobal Canada Inc., a joint venture between Dow Chemical Canada ULC ("DCC ULC") and PicCan Holdings Inc. ("PicCan")

- Equate Petrochemical B.V. ('EQUATE BV') (Incorporated in Netherlands on November 2015)

The subsidiaries of the Group are as follows as at 31 December 2015

Name of company	Place of incorporation	Principal business	Percentage of holdings	
			31 Dec 15	31 Dec 14
EQUATE BV	Netherlands	Holding Company of MEGBV	100%	-
MEGlobal Canada ULC	Canada	Manufacture of EG	100%	-
Held through EQUATE BV				
MEGlobal B.V.	Netherlands	Marketing and distribution of EG	100%	-
MEGlobal Americas Inc, Midlands	USA	Marketing and distribution of EG	100%	-
MEGlobal Asia Limited, Hong Kong	China	Marketing and distribution of EG	100%	-
MEGlobal International FZE, Dubai	UAE	Marketing and distribution of EG	100%	-
MEGlobal Mexico S.A. de C.V, Mexico	Mexico	Marketing and distribution of EG	100%	-
MEGlobal Trading Group Ltd, Shanghai	China	Marketing and distribution of EG	100%	-
MEGlobal Europe GmbH, Horgen	Switzerland	Marketing and distribution of EG	100%	-
MEGlobal Comercio Do Brasil Ltda	Brazil	Marketing and distribution of EG	100%	-
Equipolymers GmbH, Schkopau	Germany	Manufacture of Polyethylene Terephthalate	100%	-
Equipolymers Srl, Milan	Italy	Manufacture of Polyethylene Terephthalate	100%	-
Held through MEGC				
Alberta & Orient Glycol Company ULC	Canada	Manufacture of EG	100%	-

These consolidated financial statements were approved for issue by Board of Directors on 10 February 2016 and are subject to approval of shareholders at the forth-coming Annual General Meeting.

2. Basis of preparation and significant accounting policies

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). These consolidated financial statements are prepared under the historical cost convention or amortised cost basis except for derivative financial instruments which is measured under fair value.

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year except for the adoption of the following new and amended standards effective for the annual periods beginning on or after 1 January 2015.

IFRS 3 Business Combinations

Transactions under common control – With respect to business combinations arising from transfers of interests in entities that are under the control of the shareholders the Group has chosen to apply IFRS 3 – Business combinations. Accordingly transactions under common control are accounted for using the acquisition method whereby the assets and liabilities acquired are recognized at their fair value.

The cost of an acquisition is measured as the aggregate of the consideration transferred, and the identifiable assets acquired and liabilities assumed in a business combination which are measured at acquisition date fair value, and the amount of any non-controlling interests in the acquire. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are recognized as expenses in the periods in which the costs are incurred. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognised in the consolidated income statement.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date and included in cost of acquisition in determination of goodwill. Any resulting gain or loss on re-measurement of previously held equity interest is recognised in consolidated income statement. If the initial accounting for the business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete and retrospectively adjusts these amounts during the measurement period of one year from the acquisition date.

Goodwill is measured as the excess of the aggregate of the fair value of the consideration transferred in the business combination, the amount recognized for non-controlling interest, and the fair value of any previously held equity interest in the acquiree, over the fair value of the acquiree's net identifiable assets acquired and liabilities assumed. If the aggregate consideration transferred, is lower than the fair value of net assets acquired, the difference is recognised as gain on business combination in the consolidated income statement on the acquisition date.

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'

- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IFRS 8 and IAS 16 have had no impact on the disclosures or amounts recognised in the consolidated financial statements.

New and revised IASB Standards, but not yet effective

The following IASB Standards have been issued but are not yet effective and have not been early adopted by the Group.

IFRS 9: Financial Instruments:

The IASB issued IFRS 9 - Financial Instruments in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018 with a permission to early adopt. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non- financial assets. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The adoption of this standard will have an effect on the classification and measurement of Group’s financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities. The Group is in the process of quantifying the impact of this standard on the Group's financial statements, when adopted.

IFRS 15 – Revenue from Contracts with customers

IFRS 15 was issued by IASB on 28 May 2014 and is effective for annual periods beginning on or after 1 January 2017. IFRS 15 supersedes IAS 11 – Construction Contracts and IAS 18 – Revenue along with related IFRIC 13, IFRIC 18 and SIC 31 from the effective date. This new standard would remove inconsistencies and weaknesses in previous revenue recognition requirements, provide a more robust framework for addressing revenue issues and improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The Group is in the process of evaluating the effect of IFRS 15 on the Group and do not expect any significant impact on adoption of this standard.

IFRS 16 Leases

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The Group is in the process of evaluating the effect of IFRS 16.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 give some guidance on how to apply the concept of materiality in practice. The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2016. The Management of the Group do not anticipate that the application of these amendments to IAS 1 will have a material impact on the Group's financial statements.

Annual Improvements to IFRSs 2012-2014 Cycle

The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarized below.

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments also clarifies the guidance for when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high qualify corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The application of the above standards is not expected to have a material impact on the consolidated financial position or performance of the Group.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at the reporting date and its subsidiaries (investees which are controlled by the Group) as at the same date or a date not earlier than one month from the reporting date. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the Group's consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of the other comprehensive income are attributed to the shareholders of the Parent Company of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group lose control over a subsidiary, it derecognises the related assets (including goodwill and intangible assets), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2.3 Functional and presentation currency

These consolidated financial statements are presented in United States Dollars ("USD") which is the Group's functional currency. All financial information presented in USD has been rounded to the nearest million. A separate set of financial statements is prepared in Kuwaiti Dinar ("KD") for purpose of submission to the Ministry of Commerce and Industry, State of Kuwait.

2.4 Property, plant and equipment

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

Depreciation is computed on the straight-line method based on estimated useful lives of assets as follows:

Buildings, land, waterway improvements and roads	5 to 40 years
Plant and equipment	1 to 20 years
Office furniture and equipment	5 years
Vehicles	5 years

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 Group'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 Group. The Group 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 consolidated statement of profit or loss.

At each reporting date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of profit or loss.

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 consolidated statement of profit or loss.

2.5 Goodwill

Goodwill arising on the acquisition of a subsidiary is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the consideration transferred over the net fair value of the identifiable net assets recognised.

If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable net assets exceeds the consideration transferred, the excess is recognised immediately in the consolidated statement of profit and loss as a bargain purchase gain.

Goodwill is not amortised, but is reviewed for impairment at least annually. Goodwill impairment is determined by assessing the recoverable amount of cash-generating unit to which goodwill relates. The recoverable amount is the value in use of the cash-generating unit, which is the net present value of estimated future cash flows expected from such cash-generating unit. If the recoverable amount of cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit prorated on the basis of the carrying amount of each asset in the unit.

Any impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2.6 Intangible assets

Intangible assets consist of technology and licences for the manufacture of ethylene, ethylene glycol and polyethylene. Intangible assets also consist of assets acquired on business combination like customer relationships, intellectual properties, ethylene supply agreement, and brands.

Intangibles are measured at cost less accumulated amortisation and any accumulated impairment losses. Licenses to manufacture ethylene, ethylene glycol and polyethylene are amortised from the date of commencement of commercial production on a straight-line basis over twenty years, except for the olefin technology, which is amortised over five years.

Customer relationships, Intellectual properties and Ethylene Supply agreements acquired by the Group have finite useful lives and are measured at cost less accumulated amortization and any accumulated impairment losses.

Brands recognized by the Group on business combination has an infinite life and will be considered for annual impairment testing.

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.

At each reporting date, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of profit or loss.

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.

2.7 Financial instruments

Classification

The Group classifies its financial instruments as "loans and receivables" and financial liabilities other than at fair value through profit or loss. Management determines the appropriate classification at the time of acquisition.

Recognition and de-recognition

The Group recognizes financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instruments. A financial asset (in whole or in part) is de-recognised when the contractual right to the cash flows from the financial asset expires or, when the Group transfers substantially all the risks and rewards of ownership and has not retained control. If the Group has retained control, it continues to recognize the financial asset to the extent of its continuing involvement in the financial asset. A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

All regular way purchase and sale of financial assets are recognized using trade date accounting. Regular way purchase or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

Measurement

Loans and receivables

These are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured at amortized cost using the effective yield method.

Loans to related parties, due from related parties, trade and other receivables and cash and bank balances are classified as loans and receivables.

Financial liabilities other than at fair value through profit or loss

Financial liabilities other than at fair value through profit or loss are subsequently measured at amortized cost using the effective yield method.

Loans and borrowings, due to related parties and trade and other payables are classified as financial liabilities other than at fair value through profit or loss

Derivatives

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each statement of financial position date. The resulting gain or loss is recognised in the consolidated statement of profit or loss immediately. Foreign exchange forward contracts are treated as trading instruments and are stated at fair market value with gains or losses included in foreign exchange gain / (loss) in the consolidated statement of profit or loss within the period they occur.

Fair values

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair value of financial instruments carried at amortised cost, other than short-term financial instruments, is estimated by discounting the future contractual cash flows at the current market interest rates for similar financial instruments.

Impairment

Assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in consolidated statement of profit and loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in consolidated statement profit and loss.

2.8 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.

Raw materials and catalysts are measured at weighted average cost net of allowance for slow-moving and obsolete items.

Spare parts are not intended for resale and are measured at weighted average cost after making allowance for slow-moving and obsolete items. Purchase cost includes the purchase price, import duties, transportation, handling and other direct costs.

Net realisable value is the estimated selling price for inventories in the ordinary course of business less estimated costs of completion and selling expenses.

2.9 Cash and cash equivalents

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.

2.10 Treasury shares

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the statement of changes in equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in treasury shares reserve.

2.11 Retirement obligations

The Parent Company accounts for retirement benefits under IAS 19 “Employee Benefits”. Benefits are payable to employees on completion of employment in accordance with the Kuwaiti Labour Law. The subsidiaries have various pension plans in accordance with the local conditions and practices in the Country in which they operate. Benefits payable under these plans are in accordance to the laws in those countries.

The cost of providing retirement benefit plans are determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each statement of financial position date. Re-measurment of the Group's defined benefit obligation which mainly comprises actuarial gain and losses are recognised immediately in statement of other comprehensive income. Past service cost is recognised immediately in the period of plan amendment in the statement of profit or loss. Interest expense is determined on defined benefit obligation for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period, taking into account any changes in the defined benefit obligation during the period as a result of benefit payments. The liability is not externally funded.

Liabilities for defined contribution plans are expensed as the related service is provided.

2.12 Provisions

A provision is recognised if, as a result of a past event, the Group 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.

2.13 Revenue recognition

Sales net of applicable discounts, are recognised when the revenue is realised or realisable, has been earned, and collectability is reasonably assured. Revenue is recognised when significant risks and rewards of ownership are transferred to the buyer, which usually occurs at the time shipment is made. PE production is sold with freight paid by the Group and EG production is sold FOB ("Free On Board") shipping point. The transfer of the risks and rewards of ownership occurs when the product is delivered to the freight carrier. The Group's terms of sale are included in its contracts of sale, order confirmation documents and invoices. Freight costs are recorded as "Cost of Sales".

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.

2.14 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 Group 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 consolidated statement of profit or loss using the effective interest method in the period in which they are incurred.

2.15 Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

2.16 Income taxes

Deferred income tax assets and liabilities are computed for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future. Such deferred income tax asset and liability computations are based on substantially enacted tax laws and rates applicable to periods in which the differences are expected to affect taxable income. Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2.17 Reservation right fees

Reservation right fees are recognized in the consolidated statement of financial position as deferred income. The fees are presented as deferred income and recognized to income on a systematic and rational basis over a period of 20 years, which is the fees received from Olefins II project entities for usage of utility plant to the extent of construction cost of utility plant incurred by the Parent Company. The deferred income is amortised over the useful life of plant, which is 20 years.

2.18 Government Grants

Government grants related to assets are recognized in the consolidated statement of financial position as deferred income. The grants are presented as deferred income and recognized to income on a systematic and rational basis over a period of 20 years, which is the average life of the assets to which the grant relates.

2.19 Translation of foreign currencies

Transactions in foreign currencies are translated into USD at rates of exchange prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into USD 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.

The assets and liabilities of foreign operations, are translated to USD at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to USD at the average exchange rates for current year. Foreign exchange differences arising on translation are recognized in other comprehensive income and presented in the foreign currency translation reserve in equity. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to the non-controlling interests.

2.20 Critical accounting judgements and key sources of estimation uncertainty

The Group bases its estimates and judgments on parameters available when the financial statements were prepared. Existing circumstances and judgments about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The following are the critical accounting judgements, apart from those involving estimations (see below), 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.

Retirement Benefit Obligation

The cost of providing retirement benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each statement of financial position date. Actuarial valuations are based on a number of assumptions and require significant judgements made by the management. The management believes that the assumptions used in determining the retirement benefit obligation using actuarial valuation method are reasonable.

Determination of functional currency

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

Acquisition accounting

The Group assesses the fair value of assets and liabilities assumed in an acquisition on a provisional basis. If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the assessed fair values, or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

Deferred tax assets

The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and are recorded on the statement of financial position. Deferred income tax assets are recorded to the extent that realization of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes reasonable judgments and estimates based on taxable profits and expectations of future income. As tax losses do not expire in Germany and Italy, utilization of these tax losses require management to consider taxable profits well into the future. This significant long-term view increases the uncertainty of such projections. As a result of this and certain limits on annual tax loss usage, the Group limits its consideration of German and Italian tax losses to 10 years, which is considered a more foreseeable future, even though the ability to potentially utilize the tax losses extends beyond this period.

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:

Impairment of loans and receivables

The Group's management periodically reviews items classified as loans and receivables to assess whether an allowance for impairment should be recorded in the statement of profit or loss. Management estimates the amount and timing of future cash flows when determining the level of allowance required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty.

Impairment of other tangible and intangible assets and useful lives

The Group's management tests annually whether tangible and intangible assets have suffered impairment in accordance with accounting policies. The recoverable amount of an asset is determined based on value-in-use method. This method uses estimated cash flow projections over the estimated useful life of the asset discounted using market rates.

During the year, the Group reviewed the estimated useful life over which its tangible assets are depreciated and intangible assets are amortised. The Group's management is satisfied that the estimates of useful life are appropriate. The depreciation and amortisation charged for the year may change significantly if actual life is different than the estimated useful life.

Acquisition accounting

The Group assesses the fair value of assets and liabilities assumed in an acquisition on a provisional basis. If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the assessed fair values, or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Legal contingencies

Legal contingencies cover a wide range of matters threatened in various jurisdictions against the Group. Provisions are recorded for pending litigation when it is determined that an unfavorable outcome is probable and the amount of loss can be reasonably estimated, after consideration of advice from attorneys. Due to the inherent uncertain nature of litigation, the ultimate outcome or actual cost of the settlement may materially vary from estimates.

3. Business Combination

On 23 December 2015, the Group entered into a share purchase agreement to acquire 100% equity of MEGC, an entity formed in December 2015 via a series of amalgamation, for a purchase consideration of USD 1,863 million. Previously, MEGC operated as MEGlobal Canada Inc., a joint venture between DCC ULC and PicCan. MEGC is a producer of EG. It operates three world scale EG facilities in Alberta, Canada. Subsequent to the acquisition, EQUATE CANADA merged with MEGC.

On 23 December 2015, the Group entered into a share purchase agreement to acquire 100% equity of MEGlobal BV ('MEGBV') through a newly incorporated wholly owned subsidiary EQUATE BV for a purchase consideration of USD 1,134 million. MEGBV was formed in the year 2004. Previously, it was a joint venture between DEH and PIC. Each party held a 50% shareholding interest. MEGBV is mainly involved in the marketing and distribution of MEG and DEG.

These consolidated financial statements include the effect of the business combination transactions and the results of the operations for the nine-day period ending 31 December 2015.

The fair values of assets acquired and liabilities assumed have been measured on a provisional basis. If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

As the same ultimate shareholders would continue to control MEGC and MEGBV, the transaction is a common control transaction.

Following is a summary of the provisional effect of the business combination on the financial statements:

	USD million		
	MEGC	**MEGBV**	**TOTAL**
ASSETS			
Property, plant and equipment	561	217	778
Intangible assets	10	418	428
Cash and bank balances	-	22	22
Other assets	383	934	1,317
	954	1,591	2,545
LIABILITIES			
Loans and borrowings	-	203	203
Deferred taxes	178	83	261
Other liabilities	389	331	720
Total liabilities	567	617	1,184
Net assets acquired	387	974	1,361
Cash consideration paid	1,863	1,134	2,997
Goodwill	1,476	160	1,636
Cash flows on business combination			
Cash consideration paid	1,863	1,134	2,997
Cash and cash equivalents in subsidiary acquired	-	(22)	(22)
Net cash	**1,863**	**1,112**	**2,975**

Nine-day profits of the subsidiaries are immaterial to the profits of the Group. Had the subsidiaries been consolidated from 1 January 2015, the consolidated income statement would have included net profit of USD 320 million.

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Property, plant and equipment – Market comparison technique and cost technique: the valuation considers quoted market prices for similar items when they are available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence, where applicable.

Intangible assets – Income approach and cost advantage technique: the valuation considers present value of cash flows attributable to the intangible assets measured either as cost savings or excess earnings.

Customer relationships **–** *Multi-period excess earnings method*: The multi-period excess earnings method considers the present value of net cash flows expected to be generated by the customer relationships by excluding any cash flows related to contributory assets.

Brand - *Relief-from-royalty method*: The relief-from-royalty method considers the discounted estimated royalty payments that are expected to be avoided as a result of the patents or trademarks being owned.

Inventories – Market comparison technique: The fair value is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories

4. Property, plant and equipment

	USD million				
	Buildings, land, waterway improvements and roads	**Plant and equipment**	**Office furniture and equipment**	**Assets under construction**	**Total**
Cost					
Balance at 1 Jan 2014	95	2,684	110	28	2,917
Additions	-	-	-	215	215
Transfers	-	4	-	(4)	-
Disposals	-	(6)	-	-	(6)
Balance at 31 Dec 2014	95	2,682	110	239	3,126
Additions	-	-	-	67	67
Assets acquired on acquisition (Note 3)	84	656	-	38	778
Transfers	1	133	2	(136)	-
Other adjustments	-	(17)	-	-	(17)
Exchange differences on translation	-	2	-	-	2
Balance at 31 Dec 2015	180	3,456	112	208	3,956
Balance at 1 Jan 2014	61	1,590	98	-	1,749
Charge for the year	5	141	5	-	151
Related to disposals	-	(5)	-	-	(5)
Balance at 31 Dec 2014	66	1,726	103	-	1,895
Charge for the year	5	156	2	-	163
Related to disposal	-	-	-	-	-
Exchange differences on translation	-	(1)	-	-	(1)
Balance at 31 Dec 2015	71	1,881	105	-	2,057
Carrying amounts					
At 31 Dec 2014	29	956	7	239	1,231
At 31 Dec 2015	109	1,575	7	208	1,899

Assets under construction comprise of improvement projects for the existing plant. Such assets are not subject to depreciation until the improvements are tested and available and ready for use. It also includes costs incurred on the development of a new world scale glycol plant in the Gulf Coast of the United States of America ("USGC project") which is scheduled to come on stream in 2019. The Group has purchased land worth USD 35 million as part of the Gulf Coast plant development.

Depreciation is allocated to cost of sales and general, administrative and selling expenses in order to reflect appropriately the way in which economic benefits are derived from the use of property, plant and equipment (Note 18 and Note 19).

The Parent Company's plant was constructed on a land leased from Government of Kuwait and this renewable lease is valid until January 2020.

5. Goodwill

Goodwill acquired in a business combination is allocated at acquisition to the Cash Generating Unit ('CGU') that is expected to benefit from that business combination. Goodwill represents expected economic benefits from the business combination including the future growth of the operations, synergies expected from supply chain and logistics, reduction of cost, silver leasing programs and access to global market and network. The impairment testing for Goodwill is carried out annually. The carrying amount of goodwill has been allocated to the Ethylene Glycol (EG) CGU. The recoverable amount of this cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on future production volume increases, financial budgets, market prices, and the industry supply demand balance of glycol as reviewed by the directors.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the cash generating units are determined based on the value in use method. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using rates that reflect current market assessments of the time value of money and the risks specific to the cash generating units. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The value in use of the cash-generating units to which goodwill has been allocated, as estimated by management indicates that there has been no impairment during the year ended 31 December 2015.

6. Intangible assets

	USD million					
	Technology and license fees	**Customer Relationships**	**Brand**	**Intellectual property**	**Ethylene supply agreement**	**Total**
Cost						
Balance at 1 January 2014	234	-	-	-	-	234
Additions	5	-	-	-	-	5
Balance at 31 December 2014	239	-	-	-	-	239
Intangibles acquired on acquisition (Note 3)	-	320	88	10	10	428
Additions	-	-	-	-	3	3
Balance at 31 December 2015	239	320	88	10	13	670
Accumulated amortisation and impairment losses						
Balance at 1 January 2014	179	-	-	-	-	179
Charge for the year	13	-	-	-	-	13
Balance at 31 December 2014	192	-	-	-	-	192
Charge for the year	13	-	-	-	-	13
Balance at 31 December 2015	205	-	-	-	-	205
Carrying amounts					-	-
At 31 December 2014	47	-	-	-	-	47
At 31 December 2015	34	320	88	10	13	465

In conjunction with the business combination, the Group obtained access to the distribution channels and customer relationships. These relationships have been recognized on acquisition and are being amortized over 10 years period. The amortization period of customer relationships represents management's best estimate of the expected usage or consumption of the economic benefits of the acquired assets, which is based on historical experience of customer attrition rates. The amortization of customer relationships is included in cost of sales.The Group has also recognized the MEGlobal brand as an intangible asset on its acquisition of the MEGBV and MEGC business. The brand is attributed to EG business and has an indefinite life, to be tested annually for impairment.

7. Deferred tax assets and liabilities

This primarily represent deferred tax assets and liabilities acquired on business combination.

	USD million	
	2015	**2014**
Deferred tax assets		
Post – retirement benefit obligations	5	-
Goodwill	54	-
Property, plant and equipment	(18)	-
	41	-
Deferred tax liabilities		
Other assets and intangibles		
Goodwill	130	-
Property, plant and equipment	61	-
	96	-
	287	-

8. Deferred charges and other assets

	USD million	
	2015	**2014**
Ethylene supply agreement	239	-
Others	89	-
	328	-
Classified as: -		
Current	22	-
Non-current	306	-
	328	-

Others primarily comprise of license costs and ethylene subscription fees which will be amortized upon start up of Glycol Plant in US Gulf Coast.

- License - agreement is with one of the subsidiary of Dow to secure a fully-paid up Ethylene Oxide / Ethylene Glycol license for USD 16 million. Instalments paid and accrued total USD 11 million, with two remaining instalment payments to be paid totalling USD 5 million in the 2018 / 2019 timeframe.

- Ethylene - binding term sheet with DOW to secure an ethylene supply contract for the Gulf Coast facility being developed. The contract secures the subscription rights to 27.6% of one of Dow's ethylene crackers under development. Total cost is USD 700 million, with future payments being USD 315 million on August 1, 2017 and USD 315 million on the earlier of the plants commencement date or February 1, 2019. The subscription payment is refundable if DOW does not proceed with its ethylene cracker.

9. Related party transactions

In the normal course of business the Parent Company enters into transactions with its shareholders PIC (directly owned by Kuwait Petroleum Corporation ("KPC")), BPC, QPIC and UCC's parent company The DOW Chemical Company ("DOW") and its affiliates.

EQUATE Marketing Company EC, Bahrain ("EMC"), which is owned by PIC and UCC, is the exclusive sales agent in certain territories for the marketing of PE and Styrene produced by the Parent Company and The Kuwait Styrene Company K.S.C.C. ("TKSC") respectively. The Parent Company reimburses all the actual expenses incurred by EMC.

During 2004, DOW 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 consist of the EQUATE expansion project, and the incorporation and development of The Kuwait Olefins Company K.S.C.C. ("TKOC"), TKSC and Kuwait Aromatics Company K.S.C.C. ("KARO"). TKOC is owned by DEH (42.5%), PIC (42.5%), BPC (9%) and QPIC (6%). TKSC is a joint venture of DEH (42.5%) and KARO (57.5%). KARO is owned by PIC (40%), Kuwait National Petroleum Company K.S.C. ("KNPC") (40%) and QPIC (20%).

On 2 December 2004, the Parent Company signed a Materials and Utility Supply Agreement ("MUSA") with TKOC, TKSC, KARO and PIC. Under the terms of the MUSA, the Parent Company receives a reservation right fee from the above entities that equals the total capital construction costs incurred by the Parent Company on the new utilities and infrastructure facilities under the Olefins II projects

On 2 December 2004, the Parent Company signed an Operations, Maintenance and Services Agreement ("OMSA") with TKOC, TKSC, KARO and PIC. Under the terms of the OMSA, the Parent Company provides operating, maintenance and other services to the above entities and for which the Parent Company receives a fixed management fee over and above the actual operating cost.

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

During 2005, services agreements were signed between DOW, PIC and the Parent Company with TKOC, TKSC, KARO and PIC for the provision of various services to the Olefins II projects.

An agreement to amend the MUSA and service agreements ("primary agreements") was signed between the parties to the primary agreements on 8 February 2006 releasing KARO from its obligations and liabilities under the primary agreements and appointing Kuwait Paraxylene Production Company K.S.C.C. ("KPPC") in place of KARO to assume and perform all obligations of KARO as if KPPC were and had been a party to the primary agreements. KPPC is a 100% owned subsidiary of KARO.

On 31 May 2006, the Parent Company signed term loan agreements with TKOC and TKSC, under which the Parent Company will provide a USD 1.5 billion term loan to TKOC and USD 497 million term loan to TKSC. The term loans are repayable over a period of 11 years in biannual instalments starting from 15 December 2009 and carry coupon rate of LIBOR + 0.625% till 19 May 2013, LIBOR + 0.725% till 19 May 2016 and LIBOR + 0.825% till the maturity date.

Operational Facility – Under the cash management services provided by Dow, the Group's subsidiaries also has in place an overnight cash sweeping facility with a subsidiary of Dow, Dow International Finance S.a.r.l. ("DIFS"). Under this arrangement, the subsidiaries in EQUATE BV sweeps all of the bank accounts and either invests or borrows funds on an overnight basis. Under the terms of the agreement, the subsidiaries can borrow from DIFS at interest rates ranging from LIBOR plus a positive spread as set by Dow each half year that represents transactions with unrelated parties under similar terms and conditions plus 0.125% and inversely invest with DIFS at LIBOR plus a positive spread as set by Dow each half year that represents transactions with unrelated parties under similar terms and conditions minus 0.125%. Amounts outstanding at December 31 under these arrangements were a net deposit of USD 65 million at interest rates ranging from 0.62% to 1.46%. These are indefinite credit arrangements subject to termination by either party. Interest is accrued monthly and capitalized.

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

The following is a description of significant related party agreements and transactions, other than described above:

a) Supply by UCC of technology and licences relating to manufacture of PE and EG;
b) Feed gas and fuel agreement with PIC
c) Supply by the Group of certain materials and services required by PIC to operate and maintain the polypropylene plant
d) Excess EG Marketing Agreement
e) General Services Agreement
f) Secrecy Agreement
g) Long Term Land Lease Agreement
h) Site Services Agreement
i) Employee Seconding Agreement
j) Catalyst License Agreement
k) Binding Term sheet – Gulf Coast
l) Other Assignment and Assumption Agreements

Details of significant related party transactions are disclosed below:

	USD million	
	2015	**2014**
a) Sales and management fee		
Polypropylene plant management fees from PIC	1	1
Olefins plant management fees from TKOC	3	4
Styrene plant management fees from TKSC	1	1
Aromatics Plant management fees from KPPC	3	3
Sale of EG to MEGlobal International (Pre – acquisition)	405	449
Operating cost reimbursed by PIC for running of Polypropylene plant	53	48
Operating and utility cost reimbursed by TKOC for running of Olefins plant	148	155
Operating and utility cost reimbursed by TKSC for running of Styrene plant	52	49
Operating and utility cost reimbursed by KPPC for running of Aromatics plant	80	85
Interest income on long-term loans to TKOC and TKSC	10	11
b) Purchases and expenses		
Feed gas and fuel gas purchased from KPC	465	381
Purchase of Ethylene Glycol from TKOC	14	-
Catalyst purchased from DOW	-	10
Catalyst purchased from UNIVATION	4	7
Operating costs reimbursed to EMC	4	5
Staff secondment costs reimbursed to DOW	5	4
Ethylene purchased from TKOC	66	78
c) Key management compensation		
Salaries and short term benefits	4	4
Terminal benefits	1	1
d) Due from related parties		
Due from PIC	16	18
Due from UCC	1	-
Due from DOW	135	-
Due from TKOC	16	18
Due from TKSC	10	8
Due from KPPC	46	44
MEGlobal FZE	-	53
Due from Kuwait National Petroleum Company (“KNPC”)	1	1
Due from SADARA	1	-
Due from Others	9	-
	235	142
e) Loans to related parties		
Non-current portion		
TKOC	524	656
TKSC	202	254
	726	910
Current portion		
TKOC	132	125
TKSC	51	49
	183	174

	USD million	
	2015	**2014**
Movement of long-term loans: TKOC		
Balance at 1 January	781	900
Payment during the year	(125)	(119)
Balance at 31 December	656	781
Movement of long-term loans: TKSC		
Balance at 1 January	302	348
Payment during the year	(49)	(46)
Balance at 31 December	253	302
f) Due to related parties		
Due to KPC	85	40
Due to PIC	15	2
Due to Kuwait Oil Company K.S.C	-	1
Due to DOW	110	2
Due to KNPC	-	2
Due to KPPC	1	1
Due to TKOC	88	7
	299	55

10. Inventories

	USD million	
	2015	**2014**
Raw materials and consumables	62	48
Finished goods	115	23
Spare parts	56	52
	233	123
Provision for obsolete and slow moving inventories	(1)	(2)
	232	121

11. Trade and other receivables

	USD million	
	2015	**2014**
Trade receivables	541	128
Less: Provision for doubtful debts	(1)	(1)
Prepayments and others	62	22
	602	149

12. Cash and bank balances

	USD million	
	2015	**2014**
Cash balances	-	1
Bank balances	62	21
Term deposits	1,141	787
Total Cash and bank balances	1,203	809
Less: Deposits with original maturity more than 3 months	(219)	(512)
Less: Amount reserved relating to staff saving scheme (Note 17)	(37)	(35)
Cash and cash equivalent for the purpose of cash flows	947	262

The effective interest rate on time deposits as at 31 December 2015 was 0.92% (2014: 0.84%) per annum.

13. Share capital

The share capital of the Parent Company comprises 2,160 million authorised, issued and fully paid up shares of Fils 100 each (2014: 2,160 million authorised, issued and fully paid up shares of Fils 100 each) (1,000 Fils equals 1 Kuwaiti Dinar).

Treasury Shares

The Parent Company's treasury shares comprise the cost of the Parent Company's own shares held. At 31 December 2015 and 2014, the Parent Company held 113,612,868 shares which are 5.26% of the issued shares at a cost of USD 450 million. This amount is debited in the consolidated statement of changes in equity.

Statutory reserve

As required by the Companies Law No. 25 of 2012 and the Parent Company's Articles of Association, 10% of the profit for the year is to be transferred to the statutory reserve until the reserve reaches a minimum of 50% of the paid up share capital. This reserve is not available for distribution except for payment of a dividend of 5% of paid up share capital in years when retained earnings are not sufficient for the payment of such dividends.

During the annual general meeting of 2008, the shareholders resolved to discontinue the transfer to the statutory reserve as the reserve reached 50% of the Parent Company's paid up share capital.

Proposed Dividend

The Board of Directors proposed a cash dividend of USD 403 million for the year ended 31 December 2015 (2014: USD 567 million) which is subject to the approval of shareholders at the Annual General Assembly. This dividend has not been recorded in the accompanying financial statements, and will be recorded only once it has been approved by the shareholders. On 30 March 2015, the shareholders approved the dividends for the year ended 31 December 2014 and accordingly USD 567 million was paid by the Parent Company.

14. Loans and borrowings

	USD million	
	2015	**2014**
Non-current portion of term debt	-	1,056
Current portion of term debt	-	202
Revolving loan	-	150
Bridge loan facility	4,970	-
	4,970	352

The movement in term debt is as follows:

	USD million	
	2015	**2014**
Balance at 1 January	1,258	1,448
Payment during the year	(1,258)	(191)
Loan origination fee	(30)	1
Bridge loan facility	5,000	-
Balance at 31 December	4,970	1,258

On 19 May 2006, the Group had signed a USD 2.5 billion term debt facility agreement with a consortium of banks which includes a term loan facility of USD 2.2 billion and a revolving loan facility of USD 300 million. The term loan is repayable over a period of 11 years in biannual instalments starting from 15 December 2009 and maturing in 15 June 2020. The coupon rate on this facility is LIBOR + 0.5% till 19 May 2013, LIBOR + 0.6% till 19 May 2016 and LIBOR + 0.7% till the maturity period and is payable on a monthly basis. The Group repaid and fully settled the term loan and the revolving loan facility. The facilities were secured by a charge over the Parent Company's property, plant and equipment and bank balances. The Bank has released the lien on the above assets on repayment.

On December 17, 2015, the Group entered into a USD 6 billion bridge facility agreement with various international, regional and local banks. The bridge facility is repayable over a period of 12 months with a six month extension option. As of December 31, the Group had borrowed USD 5 billion at a rate of 1.0195% and had available USD 1 billion of undrawn committed facility in respect of which all precedent conditions have been met. As part of the overall USD 6 billion facility, the Group is jointly and severally a guarantor along with TKOC. The debt contains a financial covenant that the ratio of net debt to earnings before interest taxes, depreciation, and amortization ("EBITDA") for the twelve month period ending on the last day of the calendar year shall not exceed 4.0:1 for the combination of entities who are also guarantors listed above.

15. Deferred income

Deferred income comprises of the following: -

	USD million	
	2015	**2014**
Reservation right fees for Olefins II project	421	453
Government grants	15	-
Balance at 31 December	436	453

Reservation right fees received from Olefins II project entities for usage of utility plant relating to Olefins II project, to the extent of construction cost of utility plant incurred by the Parent Company. The deferred income is amortised over the useful life of plant, which is 20 years .

Government grants - The Group received a total of USD 34 million in 2005 and 2006 in government grants for the construction of the PET manufacturing facility at its Schkopau site. The government grants are presented as deferred income and recognized to income on a systematic and rational basis over a period of 20 years.

	USD million	
	2015	**2014**
Non-current portion of deferred income	404	421
Current portion of deferred income	32	32
	436	453

16. Retirement benefit obligation

The most recent actuarial valuation of the present value of the defined benefit obligation was carried out at 31 December 2015. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2015	2014
Economic assumptions		
Discount rate	4.08% - 4.50%	5.00%
Expected rate of increase in		
- Basic salary & variable allowances including overtime and incentives	5% - 6%	6%
- Average annual & quarterly incentives	20% p.a	20% p.a
Long-term inflation	2% - 3.5% p.a	4% p.a
Management variable incentive pay (as a percentage of basic salary)	Target percentage level	Target percentage level
Demographic assumptions		
Retirement age		
- Kuwaiti employees	Age 50	Age 50
- Non-Kuwaiti employees	Age 55	Age 55
Decrement		
- Mortality	None	None
- Turnover	Service related rates	Service related rates

The total expense recognised in the statement of profit or loss is as follows:

	USD million	
	2015	2014
Current service costs	15	15
Interest on obligation	15	16
	30	31

The total charge for the year, which has been included in the statement of profit or loss, is as follows:

	USD million	
	2015	2014
Cost of sales	25	26
General, administrative and selling expenses	5	5
	30	31

Movement in the retirement benefit obligation is as follows:

	USD million	
	2015	**2014**
Retirement benefit obligation as at 1 January	231	218
Included in the consolidated statement of profit or loss		
Current and past service costs	15	15
Interest on obligation	15	16
	30	31
Included in other comprehensive income		
Re measurement (gain)/loss		
- Experience adjustment	3	(5)
- Actuarial changes arising from changes in economic assumptions	12	5
	15	-
Benefits paid	(10)	(9)
Foreign currency translation adjustment	(9)	(9)
Retirement benefit obligation as at 31 December 2015	257	231
Retirement benefit acquired in Business combination (Net of plan assets)	16	-
Total	273	231

The Parent Company's defined benefit obligation is unfunded. However, the subsidiaries have invested in Plan Assets.

Reconciliation of Fair Value of Plan Assets of the subsidiaries

	USD million	
	2015	**2014**
Defined benefit obligation of the subsidiaries	63	-
Fair value of plan assets of the subsidiaries	(47)	-
Net retirement benefit acquired in business combination	16	-

A sensitivity analysis of possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the retirement benefit obligation by the amounts shown below:

	USD million	
	0.25% increase	
	2015	**2014**
Discount rate	(6)	(5)
Basic salary & variable allowances including overtimes and incentives	5	5

17. Trade and other payables

	USD million	
	2015	**2014**
Trade payables	121	58
Staff incentives	36	42
Staff saving schemes	35	33
Staff leave and other employee benefits	14	15
Accrual for KFAS and Zakat	7	6
Income tax payable	16	-
Accrued turnaround and capital expense	-	81
Others	82	49
	311	284

18. Cost of sales

	USD million	
	2015	**2014**
Materials	893	815
Distribution expenses	44	50
Staff cost	118	140
Depreciation and amortisation	175	163
Others	65	75
	1,295	1,243

19. General, administrative and selling expenses

	USD million	
	2015	**2014**
Staff costs	22	28
Depreciation	1	1
Others	13	4
	36	33

20. Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)

KFAS is calculated at 1% of the net profit for the year of the Parent Company after deducting the transfer to statutory reserve.

21. Contribution to Zakat

Zakat is calculated at 1% on the net profit for the year attributable to Kuwaiti shareholders of the Parent Company after allowable deductions. The current year charge includes additional Zakat of USD 13 million assessed by Ministry of Finance. These charges will be adjusted with the dividend distribution as agreed with the shareholders.

22. Board of Director’s remuneration

The total remuneration payable to the Board during the year amounted to USD 74,823 (2014: USD 79,500). The same is disclosed as nil on the face of the consolidated statement of profit or loss due to rounding off to millions.

23. Financial instruments

The Group's assets and liabilities include the following financial instruments:

Loans to related parties
Due from related parties
Trade and other receivables
Cash and bank balances
Loans and borrowings
Due to related parties
Trade and other payables

Fair value

The fair value of a financial instrument is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction. The fair values of the above financial instruments are not significantly different from their book values. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each financial position date.

Financial risk factors

The Group's use of financial instruments exposes it to a variety of financial risks such as market risk, credit risk and liquidity risk. The Group continuously reviews its risk exposures and takes measures to limit it to acceptable levels.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Finance Committee, which is responsible for developing and monitoring the Group's risk management policies. The Committee reports regularly to the Board of Directors on its activities.

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Group's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

Credit risk

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

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of trade receivables.

The Group has significant credit risk exposure to banks. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Exposure to credit risk

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

	USD million	
	2015	**2014**
Bank balances	1,203	808
Trade receivables	541	128
Due from related parties	235	142
Loans to related parties	909	1,084
Other receivables	42	17
Total	**2,930**	**2,179**

The average credit period on sales is 60 days except for some customers where a longer credit period has been approved. The average age of these receivables is 58 days (2014: 58 days). The Group has provided fully for all receivables over 120 days because historical experience is that, such receivables past due beyond 120 days are generally not recoverable. Trade receivables between 60 days and 120 days are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience and historical data of payment statistics.

Of the above assets USD 2,929 million (2014: KD 2,179 million) are neither past due nor impaired and USD 1 million (2014: USD nil) are past due but not impaired.

Included in the Group's trade receivables balance are debtors with a carrying amount of USD 0.031 million (2014: USD NIL) which are past due at the reporting date for which the Group has not provided for as there has not been a significant change in credit quality of the debtors and the amounts are still considered recoverable by the management.

As at the reporting date, there are no collateral held by the Group against the trade receivables.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believes that there is no further credit provision required in excess of the allowance for doubtful debts.

There was no movement in the allowance for doubtful debts during the current year.

There are no single third party customer accounts in excess of 5% of the Group's sales for the year ended 31 December 2015. The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	US million	
	2015	**2014**
Domestic & Gulf Cooperation Council countries (GCC)	89	19
North America	62	-
Asia	270	72
Europe	83	3
Other regions	37	34
	541	128

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group'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 Group'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 Group's short, medium and long-term funding and liquidity management requirements. The Group 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 Group's non-derivative financial liabilities based on the remaining period at the consolidated statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	USD million					
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total	Carrying amount
As at 31 December 2015				-		
Trade and other payables	311	-	-	-	311	311
Due to related parties	299	-	-	-	299	299
Loans and borrowings	5,020	-	-	-	5,020	4,970
Total	5,630	-	-	-	5,630	5,580
As at 31 December 2014						
Trade and other payables	284	-	-	-	284	284
Due to related parties	55	-	-	-	55	55
Loans and borrowings	361	221	726	128	1,436	1,408
Total	700	221	726	128	1,775	1,747

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group'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 Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

Foreign currency risk

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The Groups' on balance sheet exposure to foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Euro	Kuwaiti Dinar	Other
31 December 2015 USD million			
Assets	28	23	6
Liabilities	(1)	(379)	-
Net exposure	27	(356)	6
31 December 2014 USD million			
Assets	17	18	12
Liabilities	(1)	(392)	-
Net exposure	16	(374)	12

The following exchange rates were applied to translate the monetary assets and liabilities at 31 December 2015:

(USD)	**Reporting date Mid-spot rate**	
	2015	**2014**
Euro	0.915	0.823
Kuwaiti Dinar	0.304	0.293

Foreign currency sensitivity analysis

As at 31 December 2015, if the USD had weakened/strengthened by 5% against the Euro and Kuwaiti Dinar with all other variables held constant, profit for the year would have been lower/higher by USD 16.435 million (2014: USD 17.897 million).

Foreign currency exposure risks are managed by dealing in forward contracts within approved limits. As at 31 December 2015, the Group had following net notional forward exchange contracts (off balance sheet exposure):

	USD million	
	2015	**2014**
Long position		
KD	-	273
CAD	509	-
Others	55	-
Short position		
CAD	319	-
KD	297	-
Others	98	11

The fair value of these forward exchange contracts was not significant at 31 December 2015. These contracts mature within one month from the consolidated statement of financial position date.

Interest rate risk

The Group is exposed to interest rate risk as it borrows and places funds.

Interest rate sensitivity analysis

The Bridge loan facility has a fixed interest rate hence there is no interest rate risk. During the previous year, if interest rates on USD denominated borrowings had been 10 basis points higher/lower with all other variables held constant, profit for the previous year would have been USD 0.346 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

The Group's exposure to interest rates on financial assets and financial liabilities are disclosed in Notes 9, 12 and 14 to the consolidated financial statements.

Determination of fair values

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 Group 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. All financial assets are classified as Level III.

24. Commitments and contingent liabilities

The Group has a fixed gas purchase commitment with a related party of approximately USD 1 million (2014: USD 1 million) per day until the agreement is cancelled in writing by both parties.

The Group under the Excess EG Marketing agreement has a commitment to purchase from DOW an annual volume for a term to 2024.

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

	USD million	
	2015	**2014**
Letters of credit and letters of guarantee	162	2
Capital commitments	53	12
Ethylene reservation fees	630	-
License-Gulf coast	5	-

MEGlobal Americas entered into agreement with various parties related to the development of a new world scale glycol plant in the Gulf Coast, of the United States ('US'). The plant is scheduled to come on stream in 2019.

The commitments in respect of forward exchange contracts have been disclosed within foreign currency risk in Note 23 to the consolidated financial statements.

25. Operating lease

	USD million	
	2015	**2014**
Less than one year	29	1
Between one and five years	29	4
More than five years	55	4
	113	9

26. Capital management

The Group 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 Group's approach to Capital Management during the year.

The capital structure of the Group consists of debt, which includes the loans and borrowings net of loans to related parties, cash and bank balances and equity, comprising issued capital, treasury shares, statutory reserves and retained earnings.