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

Annual Financial Statements and Independent Auditors' Report for the year ended 31 December 2014

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS

Report on the Financial Statements

We have audited the accompanying financial statements of The Kuwait Olefins Company K.S.C.C. ("the Company"), which comprise the statement of financial position as at 31 December 2014, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2014, and its financial performance and its cash flows for the financial year then ended in accordance with International Financial Reporting Standards.

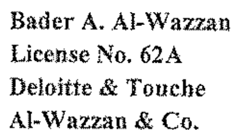
Member of Deloitte Touche Tohmatsu Limited

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

INDEPENDENT AUDITORS' 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 Company, and the financial statements, together with the contents of the report of the Company's Board of Directors relating to these financial statements, are in accordance there with. We further report that we obtained all the information and explanations that we required for the purpose of our audit; and that the 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 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 Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the financial year ended 31 December 2014 that might have had a material effect on the business of the Company or on its financial position.



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

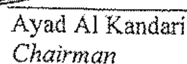
Kuwait
11 February 2015

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

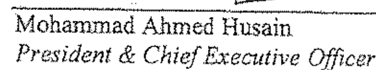
Statement of Financial Position as at 31 December 2014

	Note	US$ '000 2014	2013
ASSETS			
Non-current assets			
Property, plant and equipment	4	796,290	845,338
Intangible assets	5	301,125	322,182
		1,097,415	1,167,520
Current Assets			
Inventories	6	10,653	24,749
Due from related parties	14	164,720	195,722
Trade receivables		729	719
Prepayments and other receivables		4,576	3,765
Cash and bank balances	7	618,346	580,853
		799,024	805,808
Total assets		1,896,439	1,973,328
EQUITY and LIABILITIES			
Shareholder's Equity			
Share capital	8	380,417	380,417
Statutory reserve	8	190,208	190,208
Retained earnings		473,542	439,278
Total equity		1,044,167	1,009,903
Non-current liability			
Loans and borrowings	14	649,723	773,775
		649,723	773,775
Current Liabilities			
Loans and borrowings	14	125,220	118,544
Accruals and other liabilities		42,954	31,866
Due to related parties	14	32,757	36,859
Trade payables		1,618	2,381
		202,549	189,650
Total liabilities		852,272	963,425
Total equity and liabilities		1,896,439	1,973,328

The attached notes on pages 7 to 21 form an integral part of these financial statements.



Ayad Al Kandari
Chairman



Mohammad Ahmed Husain
President & Chief Executive Officer

Statement of Profit or Loss and Other Comprehensive Income – Year ended 31 December 2014

	Notes	US$'000 2014	US$'000 2013
Sales		827,768	841,392
Cost of sales	9	(337,760)	(348,684)
Gross profit		490,008	492,708
General, administrative and selling expenses	10	(6,354)	(5,743)
Foreign exchange loss		(275)	(822)
Profit from operation		483,379	486,143
Finance costs	11	(8,867)	(9,801)
Finance income		4,596	4,187
Profit before statutory contributions and Board of Directors' remuneration		479,108	480,529
Contribution to KFAS	12	(4,778)	(4,323)
Contribution to Zakat	13	(717)	(721)
Board of Directors' remuneration		(79)	(74)
Net Profit for the year		473,534	475,411
Other comprehensive income		-	-
Total comprehensive income for the year		**473,534**	**475,411**
Earnings per share(Cents)- Basic and diluted		44.7	44.8

The attached notes on pages 7 to 21 form an integral part of these financial statements.

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

Statement of Changes in Shareholders' Equity – Year ended 31 December 2014

	US$ '000			
	Share capital	**Statutory reserve**	**Retained earnings**	**Total**
Balance as at 1 January 2013	380,417	154,072	461,843	996,332
Net Profit for the year	-	-	475,411	475,411
Transfer to statutory reserve	-	36,136	(36,136)	-
Dividends paid (Note 8)	-	-	(461,840)	(461,840)
Balance as at 31 December 2013	380,417	190,208	439,278	1,009,903
Net profit for the year			473,534	473,534
Dividends paid (Note 8)			(439,270)	(439,270)
Balance as at 31 December 2014	380,417	190,208	473,542	1,044,167

The attached notes on pages 7 to 21 form an integral part of these financial statements.

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

Statement of Cash Flows - Year ended 31 December 2014

	Notes	US$ '000 2014	US$ '000 2013
Cash flows - operating activities			
Net profit for the year		473,534	475,411
Adjustments:			
Depreciation	4	57,250	60,807
Amortisation	5	21,635	21,578
Finance income		(4,596)	(4,187)
Finance costs		8,867	9,801
Provision for KFAS and Zakat		5,495	5,044
Allowance		9,558	3,723
Operating profit before working capital changes		571,743	572,177
Decrease/(increase) in inventories		14,096	(4,318)
Decrease/(increase) in due from related parties		21,444	(11,175)
Increase in trade receivables		(10)	(33)
(Increase)/decrease in prepayments and other receivables		(109)	4,357
Decrease in due to related parties		(4,004)	(1,058)
Increase/(decrease) in accruals and other liabilities		5,594	(3,869)
(Decrease)/increase in trade payables		(763)	1,377
Net cash from operating activities		607,991	557,458
Cash flows- investing activities			
Addition in property, plant and equipment	4	(8,202)	(1,149)
Placement of short term deposits		(84,550)	(147,900)
Purchase of intangible assets	5	(579)	-
Finance income received		3,894	3,714
Net cash used in investing activities		(89,437)	(145,335)
Cash flows -financing activities			
Repayment of loans and borrowings	14	(118,544)	(112,684)
Payment of originating fees relating to loans and borrowings	14	-	(27)
Finance costs paid		(7,797)	(8,668)
Dividends paid	8	(439,270)	(461,840)
Net cash used in financing activities		(565,611)	(583,219)
Net decrease in cash and cash equivalents		(47,057)	(171,096)
Cash and cash equivalents at beginning of the year		134,153	305,249
Cash and cash equivalents at the end of the year	7	87,096	134,153

The attached notes on pages 7 to 21 form an integral part of these financial statements.

1. Constitution and activities

The Kuwait Olefins Company K.S.C.C. ("the Company") is a Closed Kuwaiti Shareholding Company incorporated in the State of Kuwait on 10 October 2004. The Company is owned by DOW Europe Holding B.V. ("DEH"), Petrochemical Industries Company K.S.C.C. ("PIC"), Boubyan Petrochemical Company K.S.C. ("BPC") and Al-Qurain Petrochemical Industries Company K.S.C. ("QPIC").

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

These financial statements were approved for issue by Board of Directors on 11 February 2015 and are subject to approval of shareholders at the annual general meeting.

The address of the Company's registered office is 1st floor, Building 19, Block 19, South Sabahiya, Kuwait.

2. Basis of preparation and significant accounting policies

2.1 Basis of preparation

These 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 financial statements are prepared under the historical cost convention except for derivative financial instruments which are measured at fair value.

The accounting policies used in the preparation of these 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 2014.

Investment entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The application of the amendment has had no impact on the disclosures or the amounts recognized in this financial statements.

IAS 32: Financial instruments: Presentation - Offsetting financial assets and financial liabilities (Amendment)

These amendments are effective for annual periods beginning on or after 1 January 2014. The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The standard does not have an impact on the financial position of the Company.

IAS 36: Impairment of assets - Recoverable amount disclosures for non-financial assets (Amendment)

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied. These amendments have not resulted in any additional disclosures currently, the same would continue to be considered for future disclosures.

IAS 39 Novation of derivatives and continuation of Hedge Accounting (Amendment)

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. This standard does not have any impact on the financial statements of the Company.

2.2 New standards and interpretations issued but not yet effective

The following International Accounting Standard Board (IASB) Standards have been issued but are not yet mandatory, and have not been early adopted by the Company:

IFRS 9: Financial instruments: Classification and measurement

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 management of the Company is in the process of quantifying the impact of this standard.

IFRS 14 – Regulatory deferral accounts

IFRS 14 permits an entity which is a first-time adopter of IFRS to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous reporting standards both on initial adoption of IFRS and in subsequent financial statements. Regulatory deferral account balances, and movements in them, are presented separately in the statement of financial position and statement of profit or loss and other comprehensive income, and specific disclosures are required. The standard was issued in January 2014 and applies to an entity's first annual IFRS financial statements for annual periods beginning on or after 1 January 2017. This is not expected to have any impact on the financial position or performance of the Company.

IFRS 15 – Revenue from contracts with customers

IFRS 15 specifies how and when an entity will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. The standard was issued in May 2014 and applies to an annual financial statements beginning on or after 1 January 2017. The management of the Company is currently assessing the impact of the standard.

IAS 19 Defined benefit plans – Employee contributions (Amendments)

The amendments to IAS 19 clarify how an entity should account for contributions made by employers or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent on the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' period of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' period of service.

The Company does not anticipate that the application of these amendments to IAS 19 will have a significant impact on the Company's financial statements.

2.3 Functional and presentation currency

These financial statements are presented in United States Dollars ("US$") which is the Company's functional currency. All financial information presented in US$ has been rounded to the nearest thousand. 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.

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

Buildings and roads	5%
Plant and equipment	5%
Office furniture and equipment	20%

The estimated useful lives, residual values and depreciation methods are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the property, plant and equipment being replaced. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of fixed asset. All other expenditure is recognised in the statement of profit or loss when the expense is incurred. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Significant improvements and replacements of assets are capitalised.

Assets in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Company's accounting policy. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

The replacement costs of major components and overhaul costs which improve the economic benefit that can be generated are capitalised by the Company. The Company recognises and accounts for each component of its asset separately for depreciation. The component approach is also applied where regular major inspections of an asset are a condition of continuing to use it. The cost of each inspection is treated as a separate item (replacement) of property, plant and equipment provided recognition criteria are satisfied.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised on a net basis within other income in the statement of profit or loss.

2.5 Intangible assets

Intangible assets consist of technology and licences for the manufacture of ethylene and ethylene glycol, and reservation right fees for the right of use of the new utilities and infrastructure facilities developed by EQUATE Petrochemical Company K.S.C.C. ("EQUATE") under the Olefins II Projects (Note 5). Intangibles are measured at cost less accumulated amortisation and any accumulated impairment losses. Costs that are directly associated with identifiable non-monetary assets controlled by the Company and that will probably generate economic benefits exceeding cost beyond one year are recognised as intangible assets.

The intangible assets are amortised from the date of commencement of commercial production on a straight-line basis over twenty years. The estimated useful lives, residual values and amortisation methods are reviewed at each year end, with the effect of any changes in estimate being accounted for on a prospective basis.

The carrying amount of intangible asset is reviewed at each financial position date to determine whether there is any indication of impairment. If any such indication exists, an impairment loss is recognized in the statement of comprehensive income, being the difference between carrying value and the asset's recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.6 Impairment of tangible and intangible assets

An asset is impaired if its carrying amount exceeds its estimated recoverable amount. The recoverable amount of an asset is the higher of an asset's fair value less cost to sell and value in use. Fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific asset, or a group of similar assets, may be impaired. If such evidence exists, an impairment loss is recognised in the 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 Company classifies its financial instruments as loans and receivables, financial liabilities other than at fair value through profit or loss and derivatives. Management determines the appropriate classification at the time of acquisition.

Recognition and de-recognition

The Company 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 Company transfers substantially all the risks and rewards of ownership and has not retained control. If the Company 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.

Due from related parties, trade receivables, 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, accruals and other liabilities and trade 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 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 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 Company.

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.

Fair value hierarchy

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

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

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

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

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 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 statement profit and loss.

2.8 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.

2.9 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.

2.10 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. 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 Company'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.

2.11 Provisions for liabilities

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows that reflects current market assessments of the time value of money and the risks specific to the liability.

2.12 Borrowing costs

Borrowing costs directly attributable to the construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets by applying a capitalisation rate on the expenditure on such assets, until such time as the assets are substantially ready for their intended use. The capitalisation rate used by the Company is the weighted average of the borrowing costs applicable to the outstanding borrowings during the period. Borrowing costs that are not directly attributable to the acquisition, construction, or production of qualifying assets are recognised in the statement of profit or loss using the effective interest method in the period in which they are incurred.

2.13 Accounting for leases

Operating leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under operating leases are charged to the statement of comprehensive income on a straight line basis over the lease term.

2.14 Foreign currencies transactions.

The functional currency of the Company is the US Dollars (USD). Though the primary economic environment in which the Company operates is the State of Kuwait, the functional currency is US Dollar as it is the currency that mainly dictates the Company's sales proceeds from goods and services and the costs of goods or services.

Foreign currency transactions are translated into US Dollars at the rates prevailing on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into US Dollars at the rates of exchange ruling at the financial position date. Resultant gains or losses are taken to 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.

3. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRSs require management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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 that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Determination of functional currency

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

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 Company'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 tangible and intangible assets and useful lives

The Company'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 Company reviewed the estimated useful life over which its tangible assets are depreciated and intangible assets are amortised. The Company'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.

4. Property, plant and equipment

	US $ '000				
	Buildings and roads	**Plant and equipment**	**Office furniture and equipment**	**Assets under construction**	**Total**
Cost					
Balance as at 1 January 2013	9,641	1,120,336	22,135	5,548	1,157,660
Additions	-	-	-	1,149	1,149
Transfers to Inventory	-	(4,728)	-	-	(4,728)
Transfers	-	5,449	-	(5,449)	-
Balance as at 31 December 2013	9,641	1,121,057	22,135	1,248	1,154,081
Additions	-	-	-	8,202	8,202
Transfers	-	4,966	-	(4,966)	-
Balance as at 31 December 2014	9,641	1,126,023	22,135	4,484	1,162,283
Accumulated depreciation and impairment losses					
Balance as at 1 January 2013	1,968	227,891	18,077	-	247,936
Charge for the year	482	56,267	4,058	-	60,807
Balance as at 31 December 2013	2,450	284,158	22,135	-	308,743
Charge for the year	482	56,768	-	-	57,250
Balance as at 31 December 2014	2,932	340,926	22,135	-	365,993
Carrying amounts					
As at 1 January 2013	7,673	892,445	4,058	5,548	909,724
As at 31 December 2013	7,191	836,899	-	1,248	845,338
As at 31 December 2014	6,709	785,097	-	4,484	796,290

Depreciation is allocated to cost of sales as it relates to the Olefins Plant. The Company's plant was constructed on a land leased from Government of Kuwait and this renewable lease is valid until May 2031.

5. Intangible assets

	US$ '000	
	2014	**2013**
Cost		
Licence fees paid to Technip USA Corporation ("TECHNIP")	2,210	2,210
Licence fees paid to The Dow Chemical Company ("DOW")	89,298	88,720
Licence fees paid to UOP Limited	364	364
Reservation right fees paid to EQUATE	340,255	340,255
As at 31 December	432,127	431,549
Accumulated amortisation		
As at 1 January	109,367	87,789
Charge for the year	21,635	21,578
As at 31 December	131,002	109,367
Carrying amounts	301,125	322,182

Licence fees paid to TECHNIP and to UOP Limited represent the amounts incurred for the acquisition of Ethylene technology. Licence fees paid to DOW represent the amount incurred for acquisition of Glycol technology. Licence fees are being amortised over 20 years. During the year Company paid US$ 0.6 million to DOW towards increase in the annual licensed capacity of Ethylene Glycol from 710,000 MT to 721,236 MT.

Amortisation of intangible assets is allocated to cost of sales.

Reservation right fees represent the Company's share of the total costs incurred on the Utilities and Infrastructure facilities developed and owned by EQUATE (Note 14).

6. Inventories

	US$ '000	
	2014	**2013**
Raw materials and consumables	7,190	22,361
Finished goods	3,463	2,388
	10,653	24,749

7. Cash and bank balances

	US$ '000	
	2014	**2013**
Bank balances	4,996	468
Time deposits with original maturity of three months or less	82,100	133,685
Cash and cash equivalents in statement of cash flows	87,096	134,153
Add: Time deposits with original maturity period exceeding three months	531,250	446,700
	618,346	580,853

The effective interest rate on time deposits as at 31 December 2014 was 0.89% (2013: 0.86%) per annum.

8. Share capital

The authorised share capital of the Company comprises 1,060 million authorised, issued and fully paid up shares of 100 Fils each (2013: 1,060 million authorised shares of 100 Fils each) (1,000 Fils equal 1 Kuwaiti Dinar).

Statutory reserve

In accordance with the Companies Law No. 25 of 2012, as amended, and the Company's articles of association, 10% of the profit for the year is transferred to statutory reserve, until the reserve totals 50% of the paid-up share capital. The reserve is not available for distribution except for payment of a dividend of 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividends.

During 2013, the Company has discontinued the transfer to statutory reserve as the reserve reached 50% of the Company's paid up share capital.

Proposed dividend

The Board of Directors proposed a cash dividend of US$ 473.54 million for the year ended 31 December 2014 (2013: US$ 439.27 million) which is subject to the approval of shareholders at the Annual General Assembly. This dividend has not been recorded in the accompanying financial statement and will be recorded after approval of the shareholders. On 30 March 2014, the shareholders approved the dividends for the year ended 31 December 2013 and accordingly US$ 439.27 million (2012: US$ 461.84 million), representing 41.4 cents per share (2012: 43.6 cents per share), was paid by the Company.

9. Cost of sales

	US $ '000	
	2014	**2013**
Materials	156,916	162,622
Distribution expenses	7,451	4,072
Service cost	94,508	99,605
Depreciation and amortisation	78,885	82,385
	337,760	348,684

10. General, administrative and selling expenses

	US $ '000	
	2014	**2013**
Marketing and sales	1,982	2,156
Administration	4,372	3,587
	6,354	5,743

11. Finance Cost

This represents interest expenses on term loan facility taken from EQUATE at an effective interest rate of 0.90% (2013: 0.89%) as disclosed in note14.

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

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

13. Contribution to Zakat

Zakat is calculated at 1% on the net profit for the year attributable to Kuwaiti shareholders of the Company after allowable deductions.

14. Related party transactions

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

On 17 April 2006, the Company signed a distribution agreement with MEGlobal International FZE Dubai ("MEGlobal") as distributor for EG produced by the Company. MEGlobal is a 50:50 joint venture of PIC and DOW.

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 consists of the EQUATE expansion project, the incorporation and development of the Company and The Kuwait Styrene Company ("TKSC").

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

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

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

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

Sales of EG are made to MEGlobal and sales of ethylene are made to EQUATE and TKSC.

On 31 May 2006, the Company signed a US$ 1,504 million term loan agreement with EQUATE. The term loan is repayable over a period of 11 years in semi-annual instalments starting from 15 December 2009 and carries the 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. The facility is secured by a charge over the Company's property, plant and equipment and bank balances (Note 4 and 7).

Details of significant related party transactions and balances are as follows:

	US$ '000	
	2014	**2013**
Due from related parties		
Due from EQUATE	6,992	12,495
Due from PIC	2,524	2,773
Due from KPC	37,434	30,467
Due from KPPC	120	628
Due from TKSC	3,699	4,241
Due from ME Global	113,951	145,118
	164,720	195,722
Loans and borrowings		
EQUATE		
Non-current portion of loans and borrowings	649,723	773,775
Current portion of loans and borrowings	125,220	118,544
	774,943	892,319
Movement in loans and borrowings		
Balance at 1 January	892,319	1,003,862
Payment during the year	(118,544)	(112,684)
Loan origination fees	1,168	1,141
Balance at 31 December	774,943	892,319
Due to related parties		
Due to EQUATE	18,870	19,010
Due to PIC	1,000	1,000
Due to KPPC	9	600
Due to KPC	12,836	13,780
Due to DOW	42	2,469
	32,757	36,859
Sales		
Sales of EG to MEGlobal	684,744	683,858
Sales to EQUATE, TKSC and PIC	140,365	155,034
Expenses		
Feed gas purchased from KPC	97,344	86,127
Olefins II plant management fees to EQUATE	3,474	3,493
Operating and utility cost reimbursed to EQUATE for running the Olefins II plant	155,116	159,840

15. Financial instruments –Fair value and risk management

The financial assets and financial liabilities that are liquid or having a short term contractual maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. The fair values of these financial assets and liabilities, together with the currency amounts shown in the statement of financial position, are as follows:

	US$'000			
	2014		2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and bank balances	618,346	618,346	580,853	580,853
Trade receivables	729	729	719	719
Other receivables	3,881	3,881	3,300	3,300
Due from related parties	164,720	164,720	195,722	195,722
	787,676	787,676	780,594	780,594
Financial liabilities				
Accruals and other liabilities	42,954	42,954	31,866	31,866
Due to related parties	32,757	32,757	36,859	36,859
Trade payables	1,618	1,618	2,381	2,381
Loans and borrowings	774,943	774,943	892,319	892,319
	852,272	852,272	963,425	963,425

Determination of fair value and fair value hierarchy:

The Company uses the fair value hierarchy as disclosed in note 2.7 for determining and disclosing the fair values of financial instruments.

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

Risk management framework

The Company's use of financial instruments exposes it to a variety of financial risks such as market risk, credit risk and liquidity risk. The Company continuously reviews its risk exposures and takes measures to limit it to acceptable levels. Risk management is carried out by the senior management under policies approved by the board of directors. Senior management identifies and evaluates financial risks in close co-operation with the operating units.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

The significant risks that the Company is exposed to are discussed below:

(a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and the equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

Foreign currency risk

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

Foreign currency exposures are managed within approved policy parameters utilising forward foreign exchange contracts. At the statement of financial position date, the Company had forward exchange contracts to buy and sell foreign currencies. As at 31 December 2014, the Company had following net notional forward exchange contracts (off balance sheet exposure):

	US$ '000	
	2014	**2013**
Long position		
Euro	-	23,434
Short position		
Euro	25,523	45,098

The fair value of these forward exchange contracts was not significant at 31 December 2014. These contracts mature within one month from the statement of financial position date.

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

31 December 2014 (US$'000)	**Euro**	**Kuwaiti Dinar**	**Other**
Assets	20,752	56	6
Liabilities	-	(16,880)	-
Net long/ (short) exposure	20,752	(16,824)	6

31 December 2013 (US$'000)	**Euro**	**Kuwaiti Dinar**	**Other**
Assets	18,443	2,079	3
Liabilities	(374)	(26,855)	(7)
Net long/(short) exposure	18,069	(24,776)	(4)

The following exchange rates were applied to translate monetary assets and liabilities at 31 December 2014:

(US$)	**Reporting date Mid-spot rate**	
	2014	**2013**
Euro	0.823	0.727
Kuwaiti Dinar	0.293	0.282

Foreign currency sensitivity analysis

As at 31 December 2014, if the US$ had weakened/strengthened by 5% against the Euro and Kuwaiti Dinar with all other variables held constant, profit for the year would have been lower/higher by US$ 0.196 million (2013: US$ 0.335 million).

Interest rate risk

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

Interest rate sensitivity analysis

At 31 December 2014, if interest rates on US$ denominated borrowings had been 100 basis points higher/ lower with all other variables held constant, profit for the year would have been US$ 0.859 million (2013: US$ 0.975 million) lower/ higher, mainly as a result of higher/ lower interest expense on floating rate borrowings.

The Company's exposures to interest rates on financial assets and financial liabilities are detailed in note 14.

Equity price risk

Equity price risk is the risk that value of the instrument will fluctuate as a result of changes in equity market prices, whether caused by factors specific to an individual investment, issuer or all factors affecting all instruments traded in the market. The Company is not exposed to equity price risk as there are no investments in equity securities.

(b) Credit risk

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

The Company 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 Company:

	US$ '000	
	2014	**2013**
Bank balances	618,346	580,853
Trade receivables	729	719
Due from related parties	164,720	195,722
Other receivables	3,881	3,300

The average credit period on sales is 60 days. As at the statement of financial position date, the trade receivables were fully performing.

Transactions with related parties are carried out on a negotiated contract basis. All the related parties have a high credit rating and are reputable in the market.

Management believes that certain related party balances carried at approximately US$ 117.7 million as at 31 December 2014 are currently being reconciled with the involved parties, and accordingly an allowance has been charged to the statement of profit or loss during the year.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below analyses the Company's non-derivative financial liabilities based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months approximate their carrying balances as the impact of discounting is not significant.

	US$'000					
	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**	**Carrying amount**
As at 31 December 2014						
Trade payables	1,618	-	-	-	1,618	1,618
Due to related parties	32,757	-	-	-	32,757	32,757
Accruals and other liabilities	42,954	-	-	-	42,954	42,954
Loans and borrowings	131,411	137,321	450,844	74,718	794,294	774,943
Total	208,740	137,321	450,844	74,718	794,294	852,272
As at 31 December 2013						
Trade payables	2,381	-	-	-	2,381	2,381
Due to related parties	36,859	-	-	-	36,859	36,859
Accruals and other liabilities	31,866	-	-	-	31,866	31,866
Loans and borrowings	124,750	130,482	429,949	230,472	915,653	892,319
Total	195,856	130,482	429,949	230,472	986,759	963,425

16. Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. There were no changes in the Company's approach to Capital Management during the year.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt to adjusted capital. Net debt is calculated as total borrowings (including current and non- current portion of long term loan from related parties less cash and bank balances.

Gearing ratio

The gearing ratio at 31 December was as follows:

	US$ '000	
	2014	**2013**
Debt	774,943	892,319
Less: Cash and bank balances	(618,346)	(580,853)
Net debt	156,597	311,466
Equity	1,044,167	1,009,903
Net debt to equity ratio	15.00%	30.84%

17. Commitments and contingencies

The Company has a fixed gas purchase commitment with KNPC of approximately US$ 211,207 per day until the agreement is cancelled in writing by both parties.

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

	US$ '000	
	2014	**2013**
Letters of guarantees	98	102
Capital commitments	49	774

18. Operating leases

	US$ '000	
	2014	**2013**
Less than one year	103	103
Between one and five years	413	413
More than five years	1,136	1,240
	1,652	1,756