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

# Annual Financial Statements and Independent Auditors' Report for the year ended 31 December 2015

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

INDEPENDENT AUDITORS' 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 2015, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the financial 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*

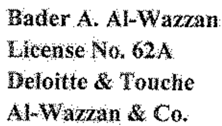
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2015, and its financial performance and its cash flows for the financial year then ended in accordance with International Financial Reporting Standards.

**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 2015 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.**

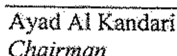
Kuwait
10 February 2016

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

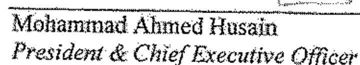
**Statement of Financial Position as at 31 December 2015**

| | Note | US$ '000 2015 | US$ '000 2014 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 4 | 742,861 | 796,290 |
| Intangible assets | 5 | 280,337 | 301,125 |
| | | 1,023,198 | 1,097,415 |
| **Current assets** | | | |
| Inventories | 6 | 20,695 | 10,653 |
| Due from related parties | 14 | 132,970 | 164,720 |
| Trade receivables | | 166 | 729 |
| Prepayments and other receivables | | 1,038 | 4,576 |
| Bank balances | 7 | 455,052 | 618,346 |
| | | 609,921 | 799,024 |
| **Total assets** | | 1,633,119 | 1,896,439 |
| **EQUITY and LIABILITIES** | | | |
| **Shareholder's equity** | | | |
| Share capital | 8 | 380,417 | 380,417 |
| Statutory reserve | 8 | 190,208 | 190,208 |
| Retained earnings | | 332,662 | 473,542 |
| **Total equity** | | 903,287 | 1,044,167 |
| **Non-current liabilities** | | | |
| Loans and borrowings | 14 | 518,586 | 649,723 |
| | | 518,586 | 649,723 |
| **Current liabilities** | | | |
| Loans and borrowings | 14 | 132,306 | 125,220 |
| Accruals and other liabilities | | 40,793 | 42,954 |
| Due to related parties | 14 | 37,100 | 32,757 |
| Trade payables | | 1,047 | 1,618 |
| | | 211,246 | 202,549 |
| **Total liabilities** | | 729,832 | 852,272 |
| **Total equity and liabilities** | | 1,633,119 | 1,896,439 |

The attached notes on pages 7 to 20 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 2015**

| | Notes | US$'000 2015 | US$'000 2014 |
|---|---|---|---|
| Sales | | 690,296 | 827,768 |
| Cost of sales | 9 | (336,131) | (337,760) |
| **Gross profit** | | 354,165 | 490,008 |
| General, administrative and selling expenses | 10 | (5,654) | (6,354) |
| Other income | | 617 | - |
| Foreign exchange loss | | (293) | (275) |
| **Profit from operation** | | 348,835 | 483,379 |
| Finance costs | 11 | (8,044) | (8,867) |
| Finance income | | 3,270 | 4,596 |
| **Profit before statutory contributions and Board of Directors' remuneration** | | 344,061 | 479,108 |
| Contribution to KFAS | 12 | (3,430) | (4,778) |
| Contribution to Zakat | 13 | (7,892) | (717) |
| Board of Directors' remuneration | | (79) | (79) |
| **Net Profit for the year** | | 332,660 | 473,534 |
| Other comprehensive income | | - | - |
| **Total comprehensive income for the year** | | **332,660** | **473,534** |

The attached notes on pages 7 to 20 form an integral part of these financial statements.

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

| | US$ '000 | | | |
|---|---|---|---|---|
| | **Share capital** | **Statutory reserve** | **Retained earnings** | **Total** |
| **Balance as at 1 January 2014** | 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 |
| Net profit for the year | | | 332,660 | 332,660 |
| Dividend paid (Note 8) | | | (473,540) | (473,540) |
| **Balance as at 31 December 2015** | 380,417 | 190,208 | 332,662 | 903,287 |

The attached notes on pages 7 to 20 form an integral part of these financial statements.

**Statement of Cash Flows - Year ended 31 December 2015**

| | Notes | US$ '000 2015 | US$ '000 2014 |
|---|---|---|---|
| **Cash flows - operating activities** | | | |
| Net profit for the year | | 332,660 | 473,534 |
| Adjustments: | | | |
| Depreciation and amortisation | 4 & 5 | 79,195 | 78,885 |
| Gain on sale of property, plant and equipment | | (617) | - |
| Finance income | | (3,270) | (4,596) |
| Finance costs | | 8,044 | 8,867 |
| Provision for KFAS and Zakat | | 11,322 | 5,495 |
| Allowance | | - | 9,558 |
| Operating profit before working capital changes | | 427,334 | 571,743 |
| (Increase) /decrease in inventories | | (10,042) | 14,096 |
| Decrease in due from related parties | | 31,750 | 21,444 |
| Increase /(decrease) in trade receivables | | 563 | (10) |
| Decrease /(increase) in prepayments and other receivables | | 1,113 | (109) |
| Decrease /(increase) in due to related parties | | 4,342 | (4,004) |
| (Decrease) /increase in accruals and other liabilities | | (13,482) | 5,594 |
| Decrease in trade payables | | (571) | (763) |
| **Net cash from operating activities** | | 441,007 | 607,991 |
| **Cash flows- investing activities** | | | |
| Addition in property, plant and equipment | 4 | (4,573) | (8,202) |
| Sale of property, plant and equipment | | 1,074 | - |
| Matured / (Placement) of short term deposits | | 207,964 | (84,550) |
| Purchase of intangible assets | 5 | (862) | (579) |
| Finance income received | | 5,696 | 3,894 |
| **Net cash from /(used in) investing activities** | | 209,299 | (89,437) |
| **Cash flows -financing activities** | | | |
| Repayment of loans and borrowings | 14 | (125,220) | (118,544) |
| Finance costs paid | | (6,876) | (7,797) |
| Dividend paid | 8 | (473,540) | (439,270) |
| **Net cash used in financing activities** | | (605,636) | (565,611) |
| **Net increase in cash and cash equivalents** | | 44,670 | (47,057) |
| Cash and cash equivalents at beginning of the year | | 87,096 | 134,153 |
| **Cash and cash equivalents at the end of the year** | 7 | 131,766 | 87,096 |

The attached notes on pages 7 to 20 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 10th February 2016 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 2015.

*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.

The above amendments have had no impact on the disclosures or amounts recognised.

### 2.2 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 Company.

*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 Conpany's financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities. The Company is in the process of quantifying the impact of this standard on the Company's financial statements, when adopted.

*IFRS 15 – Revenue from Contracts with customers*

IFRS 15 was issued by IASB on 28 May 2014 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 Company is in the process of evaluating the effect of IFRS 15 on the Company when adopted.

*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 Company is in the process of evaluating the effect of IFRS 16 and do not expect any significant impact on adoption of this standard.

### 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 and its subsidiaries. ("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 of 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 2014 | 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 |
| Additions | - | - | - | 4,573 | 4,573 |
| Disposals | - | (1,239) | - | - | (1,239) |
| Transfers | - | 8,007 | - | (8,007) | - |
| Balance as at 31 December 2015 | 9,641 | 1,132,791 | 22,135 | 1,050 | 1,165,617 |
| **Accumulated depreciation and impairment losses** | | | | | |
| Balance as at 1 January 2014 | 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 |
| Charge for the year | 482 | 57,063 | - | - | 57,545 |
| Disposals | - | (782) | - | - | (782) |
| Balance as at 31 December 2015 | 3,414 | 397,207 | 22,135 | - | 422,756 |
| **Carrying amounts** | | | | | |
| As at 31 December 2014 | 6,709 | 785,097 | - | 4,484 | 796,290 |
| As at 31 December 2015 | 6,227 | 735,584 | - | 1,050 | 742,861 |

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 | |
|---|---|---|
| | **2015** | **2014** |
| **Cost** | | |
| Licence fees paid to Technip USA Corporation ("TECHNIP") | 2,210 | 2,210 |
| Licence fees paid to The Dow Chemical Company ("DOW") | 90,160 | 89,298 |
| Licence fees paid to UOP Limited | 364 | 364 |
| Reservation right fees paid to EQUATE | 340,255 | 340,255 |
| As at 31 December | 432,989 | 432,127 |
| **Accumulated amortisation** | | |
| As at 1 January | 131,002 | 109,367 |
| Charge for the year | 21,650 | 21,635 |
| As at 31 December | 152,652 | 131,002 |
| **Carrying amounts** | 280,337 | 301,125 |

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$ 0.9 million to DOW towards increase in the annual licensed capacity.

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 | |
|---|---|---|
| | 2015 | 2014 |
| Raw materials and consumables | 19,332 | 7,190 |
| Finished goods | 1,363 | 3,463 |
| | 20,695 | 10,653 |

## 7. Bank balances

| | US$ '000 | |
|---|---|---|
| | 2015 | 2014 |
| Bank balances | 7,150 | 4,996 |
| Time deposits with original maturity of three months or less | 124,616 | 82,100 |
| Cash and cash equivalents in statement of cash flows | 131,766 | 87,096 |
| Add: Time deposits with original maturity period exceeding three months | 323,286 | 531,250 |
| | 455,052 | 618,346 |

The effective interest rate on time deposits as at 31 December 2015 was 0.89% (2014: 0.89%) 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 (2014: 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 shareholders in the AGM resolved to discontinue the transfer to statutory reserve as the reserve reached 50% of the Company's paid up share capital. Accordingly, there are no transfers to the statutory reserve during the year.

***Proposed dividend***

The Board of Directors proposed a cash dividend of US$ 332.66 million for the year ended 31 December 2015 (2014: US$ 473.53 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 2015, the shareholders approved the dividend for the year ended 31 December 2014 and accordingly US$ 473.54 million, representing 44.67 cents per share was paid by the Company.

## 9. Cost of sales

| | US $ '000 | |
|---|---|---|
| | 2015 | 2014 |
| Materials | 150,013 | 156,916 |
| Distribution expenses | 6,163 | 7,451 |
| Service cost | 100,760 | 94,508 |
| Depreciation and amortisation | 79,195 | 78,885 |
| | 336,131 | 337,760 |

**10. General, administrative and selling expenses**

| | US $ '000 | |
|---|---|---|
| | **2015** | **2014** |
| Marketing and sales | 1,775 | 1,982 |
| Administration | 3,879 | 4,372 |
| | 5,654 | 6,354 |

**11. Finance Cost**

This represents interest expenses on term loan facility taken from EQUATE at an effective interest rate of 0.91% (2014: 0.90%) as disclosed in Note 14.

**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. The current year charge includes additional Zakat of USD 5,920 thousands assessed by Ministry of Finance. These charges are adjusted with the dividend distribution as agreed with the shareholders.

**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 during the development of the Plant under construction. Since then the plant has been constructed and it is fully operational.

On 31 May 2006, the Company signed a US$ 1,504 million term loan agreement with EQUATE being the Company's share of term loan EQUATE obtained from local and foreign banks ('Lenders'). 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). Subsequent to the balance sheet date, the Lenders have released the lien on the above assets.

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

| | US$ '000 | |
|---|---|---|
| | **2015** | **2014** |
| **Due from related parties** | | |
| Due from EQUATE | 7,846 | 6,992 |
| Due from PIC | 3,106 | 2,524 |
| Due from KPC | 37,434 | 37,434 |
| Due from KPPC | - | 120 |
| Due from BPC | 1,115 | - |
| Due from QPIC | 743 | - |
| Due from TKSC | 2,686 | 3,699 |
| Due from ME Global | 80,040 | 113,951 |
| | 132,970 | 164,720 |
| **Loans and borrowings** | | |
| EQUATE | | |
| Non-current portion of loans and borrowings | 518,586 | 649,723 |
| Current portion of loans and borrowings | 132,306 | 125,220 |
| | 650,892 | 774,943 |
| **Movement in loans and borrowings** | | |
| Balance at 1 January | 774,943 | 892,319 |
| Payment during the year | (125,220) | (118,544) |
| Loan origination fees | 1,169 | 1,168 |
| Balance at 31 December | 650,892 | 774,943 |
| **Due to related parties** | | |
| Due to EQUATE | 16,329 | 18,870 |
| Due to PIC | 1,875 | 1,000 |
| Due to KPPC | 280 | 9 |
| Due to KPC | 12,936 | 12,836 |
| Due to Kuwait Oil Company | 501 | - |
| Due to DOW | 5,179 | 42 |
| | 37,100 | 32,757 |
| **Sales** | | |
| Sales of EG to MEGlobal | 554,476 | 684,744 |
| Sales to EQUATE, TKSC and PIC | 134,279 | 140,365 |
| **Expenses** | | |
| Feed gas purchased from KPC | 83,699 | 97,344 |
| Catalysts and other raw materials purchased from DOW | 24,058 | - |
| Olefins II plant management fees to EQUATE | 3,053 | 3,474 |
| Operating and utility cost reimbursed to EQUATE for running the Olefins II plant | 147,725 | 155,116 |

## 15. Financial instruments –Fair value and risk management

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

Due from related parties
Trade receivables
Other receivables
Bank balances
Loans and borrowings
Due to related parties
Trade payables
Accruals and other liabilities

**Fair value**

The fair values of the above financial instruments are not significantly different from their book values. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each financial position date.

**Financial risk factor**

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

| | US$ '000 | |
|---|---|---|
| | **2015** | **2014** |
| **Short position** | | |
| Euro | 10,899 | 25,523 |

The fair value of these forward exchange contracts was not significant at 31 December 2015. 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 2015 (US$'000)** | **Euro** | **Kuwaiti Dinar** | **Other** |
|---|---|---|---|
| Assets | 8,788 | 887 | - |
| Liabilities | - | (5,588) | - |
| Net long/ (short) exposure | 8,788 | (4,701) | - |

| **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 |

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

| **(US$)** | **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 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$ 0.204 million (2014: US$ 0.196 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 2015, if interest rates on US$ denominated borrowings had been 10 basis points higher/ lower with all other variables held constant, profit for the year would have been US$ 0.749 million (2014: US$ 0.859 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** | |
|---|---|---|
| | **2015** | **2014** |
| Bank balances | 455,052 | 618,346 |
| Trade receivables | 166 | 729 |
| Due from related parties | 132,970 | 164,720 |
| Other receivables | 967 | 3,881 |

The average credit period on sales is 64 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 amounting to US$ 117.7 million as at 31 December 2015 are currently being reconciled with the involved parties. These are carried under 'Due from Related parties' net of provisions.

### (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 2015** | | | | | | |
| Trade payables | 1,047 | - | - | - | 1,047 | 1,047 |
| Due to related parties | 37,100 | - | - | - | 37,100 | 37,100 |
| Accruals and other liabilities | 40,793 | - | - | - | 40,793 | 40,793 |
| Loans and borrowings | 137,794 | 144,060 | 389,678 | - | 671,532 | 650,892 |
| **Total** | 216,734 | 144,060 | 389,678 | - | 750,472 | 729,832 |
| **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 | 871,623 | 852,272 |

## 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 | |
|---|---|---|
| | **2015** | **2014** |
| Debt | 650,892 | 774,943 |
| Less: Cash and bank balances | (455,052) | (618,346) |
| Net debt | 195,840 | 156,597 |
| Equity | 903,287 | 1,044,167 |
| Net debt to equity ratio | 21.68% | 15.00% |

## 17. Commitments and contingencies

The Company has a fixed gas purchase commitment with a related party day until the agreement is cancelled in writing by both parties.

During the year, EQUATE has been granted bridge facility amounting to USD 6 billion. The Company along with EQUATE is the guarantor of this facility.

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

| | US$ '000 | |
|---|---|---|
| | **2015** | **2014** |
| Letters of guarantees | - | 98 |
| Capital commitments | 12 | 49 |

## 18. Operating leases

| | US$ '000 | |
|---|---|---|
| | **2015** | **2014** |
| Less than one year | 94 | 103 |
| Between one and five years | 378 | 413 |
| More than five years | 1,038 | 1,136 |
| | 1,510 | 1,652 |