

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

29 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases, and translation of assets and liabilities that are in a currency other than the functional currency of its operating units. The Group is also exposed to the translation of the functional currencies of its units to the US Dollar reporting currency of the Group. The following table summarises the percentage of foreign currency denominated revenues, costs, financial assets and financial liabilities, expressed in US Dollar terms, of the Group totals.

	2016 % of foreign currency denominated items	2015 % of foreign currency denominated items
Revenues	11.1%	8.3%
Costs	13.5%	13.5%
Current financial assets	16.7%	11.9%
Current financial liabilities	30.0%	26.7%

The Group uses forward currency contracts to manage the currency exposure on transactions significant to its operations. It is the Group's policy not to enter into forward contracts until a highly probable forecast transaction is in place and to negotiate the terms of the derivative instruments used for hedging to match the terms of the hedged item to maximise hedge effectiveness.

Foreign currency sensitivity analysis

The income statements of foreign operations are translated into the reporting currency using a weighted average exchange rate of conversion. Foreign currency monetary items are translated using the closing rate at the reporting date. Revenues and costs in currencies other than the functional currency of an operating unit are recorded at the prevailing rate at the date of the transaction.

The following significant exchange rates applied during the year in relation to US Dollars:

	2016		2015	
	Average rate	Closing rate	Average rate	Closing rate
Sterling	1.35	1.23	1.53	1.47
Kuwaiti Dinars	3.31	3.27	3.32	3.29
Euros	1.10	1.05	1.11	1.09

The following table summarises the impact on the Group's pre-tax profit and equity (due to change in the fair value of monetary assets, liabilities and derivative instruments) of a reasonably possible change in US Dollar exchange rates with respect to different currencies:

	Pre-tax profit		Equity	
	+10% US Dollar rate increase US\$ '000	-10% US Dollar rate decrease US\$ '000	+10% US Dollar rate increase US\$ '000	-10% US Dollar rate decrease US\$ '000
31 December 2016	(6,532)	6,532	(20,682)	20,682
31 December 2015	(28,133)	28,133	34,043	(34,043)