2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedging (continued)

Cash flow hedges
For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in the other comprehensive income in the net unrealised gains/(losses) on derivatives, while the ineffective portion is recognised in the consolidated income statement. Amounts taken to other comprehensive income are transferred to the consolidated income statement when the hedged transaction affects the consolidated income statement. The material forward rate movements in the Kuwaiti Dinar forward currency contracts are recorded as an exceptional item in the consolidated income statement.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains separately in equity until the forecast transaction occurs and affects the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the other comprehensive income is immediately transferred to the consolidated income statement.

Embedded derivatives
Contracts are assessed for the existence of embedded derivatives at the date that the Group first becomes party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. Embedded derivatives which are not clearly and closely related to the underlying asset, liability or transaction are separated and accounted for as standalone derivatives.

Dividends
Dividends proposed by the Board of Directors are not recorded in the consolidated financial statements until approved by the shareholder at the Annual General Meeting.

3 EXPENSES

a. Cost of sales

Included in cost of sales for the year ended 31 December 2016 are write off of property, plant and equipment of US$ 1,573 thousand (2015: US$ 1,761 thousand), depreciation charged on property, plant and equipment of US$ 63,004 thousand (2015: US$ 60,684 thousand) (note 8), gain on disposal of property, plant and equipment of US$ nil (2015: US$ 316 thousand), amortisation of intangible oil and gas assets of US$ 1,008 thousand (2015: US$ 926 thousand) and cost of inventory of US$ 1,629 thousand (2015: US$ 2,216 thousand).

Also included in cost of sales are forward points and ineffective portions on derivatives designated as cash flow hedges and losses on undesignated derivatives of US$ 3,560 thousand (2015: US$ 3,171 thousand gain). These amounts are an economic hedge of foreign exchange risk but do not meet the criteria within IAS 39 to be designated for hedge accounting and are most appropriately recorded in cost of sales.

b. Other expenses

	2016 *US$'000*	*2015* *US$'000*
Foreign exchange (losses) gains (net)	**(2,328)**	9
Gain on disposal of property, plant and equipment	**428**	24
Others	**25**	(1,648)
	(1,875)	(1,615)