



مجموعة الصناعات الوطنية القابضة  
National Industries Group Holding



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



مجموعة الصناعات الوطنية القابضة  
National Industries Group Holding





H. H. Sheikh  
**Sabah Al-Ahmad Al-Jaber Al-Sabah**  
Amir of the State of Kuwait



H. H. Sheikh  
**Jaber Mubarak Al Hamad Al-Sabah**  
The Prime Minister of the State of Kuwait



H. H. Sheikh  
**Nawaf Al-Ahmad Al-Sabah**  
Crown Prince of the State of Kuwait



## Contents

<b>Board Members .....</b>	<b>5</b>
<b>Chairman speech .....</b>	<b>6 - 7</b>
<b>Annual Performance for the Dubsidiaries and Associates Notes .....</b>	<b>8 - 10</b>
<b>The consolidated financial statements and Notes</b>	
<b>Corporate Governance report .....</b>	<b>11 - 29</b>
<b>Consolidated financial statements and independent auditors' report .....</b>	<b>32 - 114</b>



## Board Members and the Chief Executive Officer (C.E.O)

Mr. Sa'ad Mohammad Al-Sa'ad .....	Chairman
Mr. Suliman Hamad Al-Dalali .....	Vice Chairman
Mr. Abdulaziz Ibrahim Al-Rabiah .....	Board Member
Mr. Ali Morad Bahbehani .....	Board Member
Mr. Salah Khalid Al-Fulij .....	Board Member
Mr. Hosam Fawzi Al-Kharafi .....	Board Member
Dr. Abdul Aziz Rashed Al-Rashed .....	Board Member
Mr. Mohammed Abdul Mohsen Al-Asfour .....	Independent Board Member
Mrs. Maha Khalid Al-Ghunaim .....	Board Member
Mr. Ahmed M. Hassan .....	(C.E.O)



## Chairman Speech

### Distinguished Shareholders,

*My colleagues, fellow Board members, and I, have the honor to welcome you to the 58<sup>th</sup> Annual General Meeting (AGM), where we present to you the consolidated financial statements and the auditor's report for the financial year ended 31/12/2016.*

*Locally, Kuwait's stock exchange market has continued its volatility amid weak trading, relying on speculations and not investments, despite efforts taken to classify Kuwait's market as emerging markets, following to the completion of the promotion requirements of the FTSE Russell Agency. Globally, money markets have experienced unprecedented heights, the group's portfolio in the international markets earned more than 14%.*

*NIG recorded a profit of about KD 24 million compared with losses amounted to KD 24 million for the same period in 2016, due to the increase of the investment income by 151% to KD 35 million, compared with KD14 million for 2016. During 2016, NIG sold its entire stake in one of the associate companies (International Airport Group-Queen Alia Airport in the Hashemite Kingdom of Jordan) for KD 43 million, which was previously recorded with a book value of KD 25.5 million, recorded a net profit of KD 17.5 million.*

*The per share profitability during 2017 is 18 fils per share, compared to the loss of 18 fils for the year 2016.*

*We will present to you the annual Corporate Governance report that present the effort performed by both the BoD and executive management, to achieve a system of sound Corporate Governance pursuant to leading practices and according to the Capital Market Authority (CMA) law to achieve a better environment for shareholders and stakeholders of NIG. I take this opportunity to thank all fellow board members as well as the executive management for the high level of cooperation and the sincere effort to serve both the shareholders and the stakeholders.*

*The BoD proposed a recommendation to the AGM to distribute profits for the FY 2017 a 10% amounted to fils 10 per share, BoD also recommended that the Board of Directors should be rewarded with KW 480,000, and that the BoD should not take into consideration any optional reserve for FY 2017.*



***In conclusion, we ask Allah Almighty to save beloved Kuwait and to grant peace on earth, and the confidence and ability to bring the peace under the wise leadership of HH the Emir and HH the Crown Prince, May Allah Almighty bless them.***

***Success is from Allah,***

***Chairman of the Board***

***Sa'ad Mohammed Al Sa'ad***





## Annual Performance for the Subsidiaries and Associates



### First: the subsidiaries

#### • **National Industries Company NIC**

During 2017, sales increased by almost 10% to record KD 45 million compared to KD 41 million during 2016, the cost of sales increased to KD 37 million compared with KD 32 million during 2016, with an increase of 16%. The net profit of the year was about KD 3 million in 2017 compared to KWD 700,000 during 2016.

During 2017, the south factory of the ready mix was developed, fleet update of the ready mixing factory, and the installation and operation of the white brick packaging machines.

#### • **Noor Financial Investment Company Noor**

Noor achieved a noticeable growth and profitability for its shareholders during 2017, despite the volatile performance of Kuwait stock Exchange market as well as the witnessed recession in the local real estate market, Noor recorded profits amounted to about KD 2 million, with a per share profit of 7 fils, compared to profits of KD 570 thousand and per share profit of 3 fils. 2017 witnessed a 13% decrease in operating profits.

During 2017, the company closed a full settlement with one of the banks after having obtained a discount rate for the total outstanding balance.

#### • **Ikarus petroleum services company Ikarus**

The company is back to profitability again, such improvement is due to the market value increase of Tasnee and Sibchem during 2017, it should be noted that the company opt to be delisted from the Kuwait Stock





Exchange market during 2017. the company is currently conducting a due diligence through one of the specialized offices, to evaluate serious investment opportunity.

- **Al Durra National Real-estate company**

During 2017, the real estate market was affected recession wave. Nevertheless, the occupancy rate reached about 97%, where the company's management was keen to invest heavily in the operational sector, such as the hotel and hospitality sectors, inside and outside Kuwait. Al Durra operates such some prominent projects such as saray residential apartment hotel and Atlas hotel project inside Kuwait and a hotel of Shorofat Al-Safwah, Wadi Al Rayan Hotel project outside Kuwait. As well as the residential sector such as the Mahboula complex, the Ikarus-Dubai Tower Project and the National industries tower in the Qibla area (offices and commercial)



- **Combined National Industries Holding Co. for Energy**

At the end of 2017, Combined National Industries Holding Co. for Energy had signed a sale agreement for its entire stake in Airport International Group; and, it is expected to use the investment proceeds to enter new investments and projects.

And, with regards to its investment in Karachi Electric, it is worth mentioning that the negotiations and the process of the sale are still on-going, with the aim to be finalized as soon as possible.

- **Proclad Group**

The financial results of the group for 2017 still reflects the difficult economic conditions experienced by the oil and gas industry. The oil and gas industry experienced one of the longest cyclical downturns in its history due to the global surplus in oil supply that adversely affected oil prices and resulted in a significant reduction in capital expenditure. However, the BoD took adequate action in 2017 to protect the group and re-structure the cost to absorb current revenue streams. In view of year 2018, the group is looking forward to further strengthening its market position in non-oil and gas industries, thereby reducing its dependence on the oil and gas industry because of its cyclical nature. However, executive management expect to recover from the market during 2018. Major investment projects were carried out in the operations of Proclad in UAE during 2017, leading to a significant increase in manufacturing capacity and providing vertical integration opportunities for continued growth in sales and profit in the coming period.



### Second: Associate Companies

- **Kuwait cement company**

The company continued to achieve good results despite the unfair price competition faced by the company, as well as the witnessed recession in the real estate market. During 2017, the company achieved a slight decrease in sales around 7%, where it recorded KD 97 million compared to KD 99 million during 2016. The net profit also fell to KD 17 million, compared with KD 19 million during 2016, registering a 10% drop in profitability. 2017 per share profitability recorded 24.11 fils per share compared with 27.33 fils per share for the year 2016.

- **Privatization Holding Company**

During 2017, the company made a profit of KD 3 million compared to a loss of KWD 2 million during 2016, the reasons for this increase attribute to a 50% increase in revenue, it is worth mentioning that the company is studying many investment opportunities In the field of agriculture, real estate, infrastructure, oil, and gas.



مجموعة الصناعات الوطنية القابضة  
National Industries Group Holding



# National Industries Company Holding (K. S. P.C)

Corporate Governance report  
2017

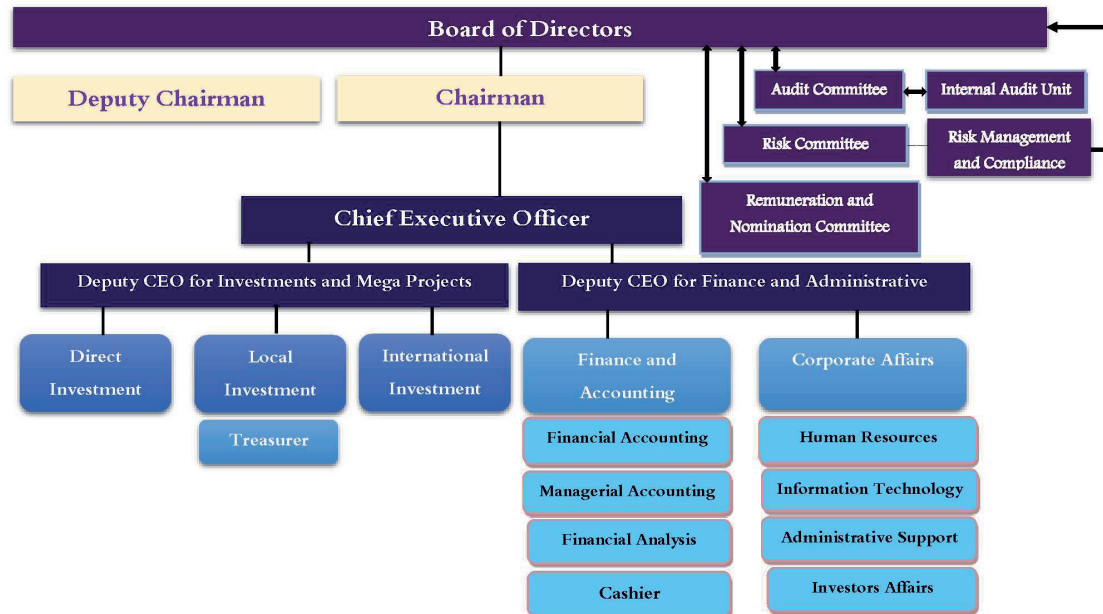


## Introduction

National Industries Company Holding NIG is committed to Corporate Governance rules and regulation that is built by the leading practices and the defined laws and regulations. NIG is regularly developing the role of governance, and adherence to the applicable laws and regulations to promote a stronger presence for effective regulatory environment that is aligned with the laws and regulations ratified by the Capital Market Authority CMA to ensure a high level of transparency to protect the rights of shareholders and stakeholders, where the CMA had issued a number of rules that listed companies must abide.

## Rule I: Construct a Balanced Board Composition

### National Industries Group Holding Organizational Structure







## Board Composition

The name	Membership	Qualification	first election
Mr. Saad Mohamed Al Saad	Chairman of the Board-non-executive	Bachelor of Commerce	1973
Mr. Sulaiman Hamad Al Dalali	Vice President – non-executive	Bachelor of Commerce	2004
Mr. Ali Murad Behbehani	Non-Executive	Bachelor of Commerce	1979
Mr. Salah Khaled Al-Fulaij	Non-Executive	Bachelor of Arts in English language	1996
Mrs. Maha Khalid Al-Ghunaim	Non-Executive	Bachelor's degree in economics	1995.
Mr. Hossam Fawzi Al-Kharafi	Non-Executive	Bachelor of civil engineering	2007
Mr. Dr. Abdul-Aziz Al Rashed	Non-Executive	PhD in electrical engineering.	1979
Mr. Mohamed Abdul Mohsen Al Asfour	Independent Non-Executive	Bachelor of business administration	2013
Mrs. Maha Khalid Al-Ghunaim	Non-Executive	Bachelor of mathematics	1995.
Mr. Dr. Abdul-Aziz Al Rashed	Secretary of the Board	Master of business administration	1999.

## Board meetings during the year 2017

Member name	Meeting No. 1 was held on 28	Meeting No. 2 was held on 30	Meeting No. 3 was held on 14	Meeting No. 4 was held on 3	Meeting No. 5 was held on 6	Meeting No. 6 was held on 18	Number of meetings
Mr. Saad Mohamed Al Saad	✓	✓	✓	✓	✓	✓	6
Mr. Sulaiman Hamad Al Dalali	✓	✓	✓	✓	X	✓	6
Mr. Mohamed Abdul Mohsen Al Asfour	✓	✓	X	✓	✓	X	4
Mr. Ali Murad Behbehani	X	✓	✓	✓	✓	✓	5
Mr. Salah Khaled Al-Fulaij	✓	✓	✓	✓	✓	✓	6
Mrs. Maha Khalid Al-Ghunaim	✓	✓	X	X	X	✓	3
Mr. Hossam Fawzi Al-Kharafi	✓	✓	X	X	X	✓	3
Mr. Abdul-Aziz Ibrahim Al Rabiah	X	✓	✓	✓	✓	X	2
Mr. Dr. Rashed Al Rashed	✓	✓	✓	✓	✓	✓	4



### **Managing the Board meetings**

The Secretary of the Board was selected from within NIG, by appointing Mr. Mohamed Rashed Al Mutairi as board Secretary. The Board Secretary has the required qualifications that assist him to complete the tasks and responsibilities entrusted to him by the Board of Directors. The board secretary is responsible for the following:

- Providing meeting agendas and confirming the date and location of meetings, circulating invitations to Board Members, and providing supporting documentation by a certain deadline.
- Keeping a record of all Board discussions, recommendations, resolutions, and results of voting conducted during the Board meetings and acts as the custodian of Board documents.
- Ensuring high quality information is presented to the Board and its committees and the meetings follows all the regulatory requirements.

### **Rule II: Establish Appropriate Roles and Responsibilities**

The Board derives its empowerment and legality from its memorandum and the articles of association that allows the Board of Directors to manage the company, where the Board determines the level of authority and responsibility given to the Executive Management to run the daily operation. Moreover, the Board also has full authority and rights to perform all actions on behalf of the Company and to participate in all activities and exercise all the authorities that deemed necessary for achieving its objectives, those authorities and procedures are explicitly provided in the commercial companies' law issued by the ministry of commerce, and the company's article of association, and the CMA Bylaws and regulations.

The authorities and responsibilities of the Board of Directors and executive management are clearly identified in the approved policies, procedures, and charters, where it clearly indicates that no party is allowed an absolute power, to facilitate the accountability of the Board of directors by company's shareholders. The Board of directors holds liable for all the ultimate responsibility managing the company even by forming committees or delegating other individuals or entities authorized to perform work on behalf of the board. The board of directors should avoid issuing general warrants or for indefinite duration. The Board approved and adopted a set of authorities and responsibilities include the charters of each of

- Chairman of the Board
- Members of the Board of Directors
- The CEO and his deputies

### **The Board achievements in 2017**

During 2017, the Board of Directors BoD adopted during the year many resolutions on many topics regarding holding company, related party transactions, and investment opportunities offered by the company executive management, the Board discussed many mega investment opportunities, discussed the sale of the Company's stake in one of the subsidiaries, which carried a lot of discussion, which were heavily discussed and finally a decision was taken to sell NIG's stake in Queen Alia airport in the Kingdom of Jordanian Hashemite.



### Formation of a specialized committees to promote independence

The Board formed some specialized committees to assist in performing its functions effectively and according to the needs and the nature of the company to apply a sound Corporate Governance, where the Executive prepared the Board charters in cooperation experts in that field. The Board formed the risk committees, the Audit Committee, nomination and remuneration Committee, as per the requirement of the CMA.

### Composition of the Audit Committee

The Audit Committee was formed for three years on 11/8/2016

The Audit Committee	Members	Meeting No. 1 on 2017/3/29	Meeting No.2 on 2017/5/8	Meeting No.3 on 2017/7/12	Meeting No.4 on 2017/11/5	Number of meetings
Mr. Abdul-Aziz Ibrahim Al Rabiah	Chairman	x	√	√	√	3
Mr. Mohamed Abdul Mohsen Al Asfour	Member	√	√	√	√	4
Dr. Rashed Abdul-Aziz Al Rashed	Member	√	√	√	√	4
Mr. Hossam Fawzi Al-Kharafi	Member	√	√	√	√	4

### The Audit Committee Role

1. Review the periodic financial statements before submission to the Board of Directors, and opinion and recommend to the Board, with a view to ensuring the fairness and transparency of financial reporting.
2. Recommending to the Board the appointment of external auditors and reset or change them and determine their fees and considers when recommending appointments ensure their independence, and review letters of appointment.
3. Follow the work of the external auditors, and to ensure that they provide services to the company, except for the services required by the auditing profession.
4. Reviewing the external auditors notes on the financial statements of the company and follow what was in them.
5. Reviewing the accounting policies, opinion and recommendation to the Board.
6. Assess the adequacy of internal control systems within the company and to prepare a report containing views and recommendations of the Committee in this regard.
7. Technical supervision on the company's internal audit department to verify its effectiveness in carrying out specific tasks and actions by the Board.
8. Recommending the appointment of the Director of internal audit, move, isolation, and assess the performance.
9. Review and approve the audit plans proposed by the internal auditor, and comment.
10. Review the results of the internal audit reports and ensure that corrective actions have been taken on the observations contained in the reports.
11. Review the results of regulatory reports and ensure that the necessary measures have been taken.
12. Make sure the company's commitment to laws and policies, regulations and instructions.





### Achievements of the Audit Committee

1. The members met to elect a Chairman and members.
2. Discussed Corporate Governance Guidelines and the charter and viewed the Audit Committee's authorities and responsibilities.
3. Discussed the proposals submitted to extract the best deals for performing the internal control report.
4. Discussed the internal audit reports along with the internal audit unit and met with the external auditors to discuss the findings of the external auditing.

### Composition of risk Committee

The risk Committee was formed for three years on 11/8/2016

Risk Committee	Members	Meeting No. 1 held 2017/9/27	Meeting No. 2 held 2017/9/27	Meeting No. 3 held 2017/9/27	Meeting No. 4 held 2017/9/27	Number of meetings
Mrs. Maha Khalid Al-Ghunaim	Chairman	√	√	√	√	4
Mr. Ali Murad Behbehani	Member	√	√	√	√	4
Mr. Hossam Fawzi Al-Kharafi	Member	√	X	X	√	2
Mr. Mohamed Al Asfour	Member	√	√	√	√	4

### The Role of the Risk Committee

1. Prepare and review risk management policies and strategies adopted by the Board of Directors, and ensure the implementation of these strategies and policies, and they match the nature and size of the company's activities.
2. Ensure the availability of resources and adequate risk management systems.
3. Evaluate systems and mechanisms to identify and measure and monitor various types of risks that the company may be exposed to identify deficiencies.
4. Assist the Board to identify and assess the level of risk is acceptable in the company, be sure you have not exceeded the company to this level of risk after its adoption by the Board.
5. Review the organizational structure of risk management and make recommendations before its adoption by the Board.
6. Ensure the independence of the risk management staff on activities that result in the company's risk exposure.
7. Ensure that the risk management staff have a full understanding of the risks surrounding the company, work to raise the awareness of employees of the risk culture and unregulated.
8. Discussion on risk management of periodic reports about the nature of the risks faced by the company and submit these reports to the Board of Directors.
9. Review of the issues raised by the Audit Committee.



The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors is responsible for developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's Risk 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.

#### **Achievements of the risk Committee**

1. The members met to elect a Chairman and members.
2. Discussed the committee charter and CMA bylaws regarding risk committee to set the authorities and responsibilities.
3. Discussed risk appetite statement risks register.
4. Discuss risk management reports submitted to the members of the risk Committee.

#### **Summary of how to apply the requirements that allows Board members to obtain information and data accurately and in a timely manner**

The Executive Management Department provides information and data that is complete and accurate and timely for all Board members in General and non-Executive Board members and independents in particular through integrated periodic reports submitted to the Board members as well as through periodic reports submitted by risk management by reports from the Audit Office to obtain all the essential information and data that enable them to undertake and carry out their duties and functions efficiently and effectively.



### **Rule III: Recruit Highly Qualified Candidates for Members of the Board of Directors and the Executive Management**

#### **Board members**

##### **Mr. Saad Mohammad Al Saad - Chairman**

Was appointed as Deputy Chairman and Managing Director of the company in 1973, then elected as Chairman in 2004.

Currently Mr. Al Sa'ad is a Board member of the Egypt Kuwait Holding Company since 1999. Mr. Al Sa'ad held several positions and recognitions as follows:

- Chairman and MD of Contracting & Marine Services Co.
- Chairman of the Kuwait Accountants and auditor's association
- Vice Chairman of Kuwait National Petroleum Company
- Board member of The Supreme Board of Directors for Planning and Development
- Board member of Kuwait Building & Const. Co
- Board member of National Bank of Kuwait
- Board member of Gulf Cable and Electrical Industries Co.
- Board member of Kuwait Aviation Fueling Company - KAFCO
- Board member of Kuwait Cement Co.
- Board member of Delta insurance company in Cairo
- Board member of Saudi sand lime bricks & Build M. Co. in Riyadh

Mr. Al Saad hold a BS of Commerce from Cairo University.

##### **Mr. Sulaiman Hamad Al Dalali - Deputy Chairman**

Was appointed as a deputy chairman in 2004. Currently, Mr. Al Dalali holds several positions as follows:

- Chairman of Ahlia insurance Company
- Vice Chairman of Kuwait Reinsurance company
- Board Member of Burgan insurance company - Lebanon
- Board Member of Arab Life and accident Insurance Company - Jordon
- Board Member of trade union Co-Operative Insurance - Saudi Arabia
- Board Member of Al Watania insurance company Sanaa- Yemen

Mr. Al Dalali held several positions and designations as follows:

- Chairman and MD of the Gulf Insurance Company
- Assistant Under Secretary Kuwait University
- Vice Chairman and Chief Executive officer the establishment of transactions of forward sale of companies' shares.

Mr. Al Dalali hold a BS of Commerce from Cairo University.



### **Mr. Ali Morad Behbehani - Board member**

Mr. Behbehani was elected as a board member since 1996. Currently, Mr. Behbehani has the following designations:

- Chairman of Murad Yousuf Behbehani Company
- Chairman of Kuwait insurance company
- Vice Chairman of Gulf Bank
- Board member of the Kuwait Danish dairy company.

Previously, Mr. Behbehani held several positions and designations as follows:

- Board member of Kuwait National Cinema Company
- Board member of Kuwait Pipe Industries and Oil Services

Mr. Behbehani hold Bachelor of English Language and Literature and education from Kuwait University.

### **Mr. Salah Khalid Al-Fulaij - Board Member**

Mr. Al-Fulaij was elected as a Board member since 1995. Mr. Al-Fulaij's previous experience was as follows:

- Vice President of Khalid Al-Fulaij Sons Co.
- Vice President of Sulaiman Al Fulaij trad & Cont. Company.
- Deputy Chairman of Gulf Bank.

Mr. Al-Fulaij hold a degree in Business Administration and economics from Emporio state University, USA.

### **Mrs. Maha Khalid Al Ghunaim - Board member**

Mrs. Al Ghunaim was elected as a board member since 1996. Currently, Mrs. Al Ghunaim holds the following positions:

- Co-Founder / Vice Chairman and CEO of Global Investment House
- Board Member of Board Member of Dar Al Tamleek - Riyadh

Previously, Mrs. Al Ghunaim held several positions and designations as follows:

- Vice Chairman of National Ranges Company "Mayadeen"
- Vice Chairman of Shurooq Investment Services Company
- Board Member, Kuwait University, College of Business Administration (Kuwait)
- Board Member of Union of Investment Companies (Kuwait)
- Member of Financial & Investment Committee at Kuwait Chamber of Commerce & Industry (Kuwait)

Mrs. Al Ghunaim holds BS in mathematics from San Francisco state University of, California, USA



### **Mr. Hossam Fawzi Al Kharafi - Board member**

Mr. Al Kharafi was elected as a board Member since 2007. Currently, Mr. Al Kharafi holds the following positions:

- Member of Executive Committee and head of real estate and urban development of Mohamed Abdul Mohsen Al Kharafi and sons company
- Chairman of the MAK investments company Co. -Port Ghalib
- Board member of Egypt Kuwait holding Company

Mr. Al-Kaharafi held several positions and designations as follows:

- Chairman of Noor financial investment Co.
- Board member of Boubyan Bank
- Board member of Ahlia insurance Co.
- Board member of the National Real Estate Co.
- Board member of Mabanee Co.

Mr. Al Kaharafi holds a master's degree in public policy from Hamad bin Khalifa University –Qatar, and holds a bachelor's degree of Civil Engineering from Kuwait University.

### **Mr. Abdul Aziz Ibrahim Al Rabia - Board member**

Mr. Al Rabia was elected as a board member since 1979. Currently Mr. Al Rabia is the Chairman of National Industries Company, Previously Mr. Al Rabia's designations was as follows:

- Vice Chairman of National Industries Company.
- General Manager of Mohammed Abdullah Al Rabia & Partners Co.
- Board Member of the Kuwait Cement Company
- Board Member of Kuwait Pipe Industries and Oil Services company

Mr. Al Rabia was Assistant Professor at Kuwait University and holds a BS in Accounting from Kuwait University.

### **Mr. Mohamed Abdul Mohsen Al Asfour - Board member**

Mr. Al Asfour was elected as a board member since 2013. Currently Mr. Al Asfour is holding the following designations:

- Vice Chairman and CEO of the Kuwait Building Materials Manufacturing Co.
- Vice Chairman of National Cleaning Co.
- Vice Chairman of Privatization Holding Company

Mr. Al Asfour Held several positions and designations as follows:

- Minister of State for Housing Affairs.
- General Manager of Kuwait Institute for Scientific Research (KISR)
- Secretary General of the Kuwait University
- Board member of Public Authority for Housing Welfare.
- Vice President of Kuwait Ports Authority
- Vice Chairman and MD of planning and engineering of Arab Petroleum Pipelines Co. (SUMED) - Egypt

Mr. Al Asfour holds a BS of Business Administration from the Cairo University.



### **Dr. Rashed Abdul Aziz Al Rashed - Board member**

Dr. Al Rashed Was elected as a board member since 2016. Currently, Dr. Al-Rashed is holding the following designations:

- Chairman of Kuwait Drilling Co.
- Board member of Contracting & Marine Services Co.

Dr. Al Rashed holds a PhD in electrical engineering from University of Wisconsin USA.

### **Executive Management**

#### **Mr. Ahmed Mohammed Hassan, Chief Executive Officer (CEO)**

In 2013, Mr. Hassan Got Elected by The Board to Be The Chief Executive Officer. Mr. Hassan Joined The Company In 1977 As The Finance Manager, Throughout His Extensive Career At NIG, Mr. Hassan Has Been Responsible For Overseeing NIG Finance And Administrative Aspects To Ensure Consistent Growth And Profitability. Mr. Hassan Is Currently A Member of Several Boards, Including Kuwait Syrian Holding Company, National Industries Company, Proclad Company Ltd, DIFC, FTV Proclad (UAE) LLC, BI Company In United Kingdom..

#### **Mr. Reyadh S. Ali Al-Edrissi, Deputy Chief Executive Officer – Investments and Mega Projects**

In 2013, Mr. Al-Edrissi Got Promoted to Be the Deputy Chief Executive Officer for Investments And Mega Projects. Mr. Al-Edrissi Joined NI Company In 1999 As A Projects Development Manager. Mr. Al-Edrissi Currently Serves as Chairman of Privatization Holding Company, Vice Chairman Of Meezan Bank-Pakistan, Vice Chairman Of Noortel And A Board Member In The Following Companies, Noor Financial Investment, Ikarus Petroleum Industries, Markaz Energy Fund, Kuwait Ceramic Company, Investment Committee Of Bouniyan Fund Of The Kuwait Investment Co., Middle East Complex For Eng., Electronics & Heavy Industries Company, Saudi International Petrochemical Company. Mr. Edrissi Is Reporting Directly To CEO.

#### **Mr. Faisal Abdul Aziz Al Nassar, Deputy Chief Executive Officer – Finance and Administration**

In 2013, Mr. Al Nassar Got Promoted to Be the Deputy Chief Executive Officer for Finance And Administration. Mr. Al Nassar Joined NIG in 2005 as a Corporate Affairs Executive Manager. Mr. Al Nassar Currently Serve As Chairman And CEO Of Al Durra National Real Estate Company, Chairman Of Shorfat Al Safwa In KSA, Chairman Of Durra Alshameya Investment In KSA, Chairman Of Noor Al Salehia Real Estate, And Serve As A Vice Chairman Of Abu Dhabi Marina Real Estate Investment Company-UAE, And Vice Chairman Of Salboukh Trading Company, And A Board Member In The Following Companies: Noor Financial Investment Company, Noortel, Arabic Investment Company-Egypt, Meezan Bank-Pakistan. Mr. Al Nassar Is Reporting Directly To CEO.

#### **Mr. Mubasher Hussien Sheikh, ACCA, Chief Financial Officer (CFO)**

In 2015, Mr. Sheikh Got Promoted to Be the Company CFO, Mr. Sheikh Joined NIG in 2001 As A Managerial Accounting and Financial Analysis Manager, And In 2008 He Got Promoted To Be The Company Financial Controller. Mr. Sheikh Is Currently Serves as A Board Member in Karachi Electrical Limited/Pakistan. Mr. Sheikh Is Reporting Directly to Deputy CEO/Finance & Administration.





## Composition of the nomination and remuneration Committee

The Nominations Committee formed pouch and treats for 3 years in the history of 11/8/2016

The Nominations and remuneration Committee	Members	Meeting No. 1 held in 29/12/2016	Number of meetings
Mr. Sulaiman Hamad Al Dalali	Chairman	√	1
Mr. Salah Khaled Al-Fulaij	Member	√	1
Mr. Mohamed Abdul Mohsen Al Asfour	Member	√	1

## The Role of Nomination and remuneration Committee

1. Recommend the nomination and re-election of the Board of Directors and executive management.
2. Develop a clear policy for the remuneration of the Board of Directors and executive management, with annual review of appropriate skills requirements for the Board of Directors, as well as attract requests for those interested in executive positions as needed, study and review those requests, and identify the different segments of their bonuses will be granted to employees, such as fixed bonuses, performance-related bonuses, bonuses in the form of shares, end of service indemnities.
3. Prepare a detailed annual report for all awards granted to members of the Board of Directors and executive management, whether amounts or benefits or advantages, whatever their nature and what they're called, to present this report to the AGM for approval and recited

The Board of Directors formed a nomination and remuneration Committee that deals with authorities and responsibilities related to selecting qualified people for the Board of Directors and executive management and defining a framework scheme for regulating the performance evaluation and reward.

The nominations and remuneration committee met to elect the committee chairman and members, the committee discussed book No.15 related to regulation the Corporate Governance code that was issued by the CMA. The NRC committee discussed the evaluation of the board members and the executive management.

## Board membership, and executive management remuneration

The Board set a policy for board membership and executive management remuneration aligned it to achieving business objectives and corporate performance, this policy reflects the company's goals which considers the soundness of its financial position and the positive performance of the company. This policy is part of a general framework for corporate governance, designed to determine the rewarding system that is designed and implemented by the company in the form of mutual or common value beneficial to executive management and the Board of Directors for the company and in accordance with the interests of shareholders.

The Board has full responsibility for the design and implementation of the rewarding system through the nominations and remuneration committee, that committee function is to support the Board of directors by preparing, reviewing, and developing the rewarding system. the NRC shall make recommendations to the Board of Directors on the assessment and linked reward structure for Board of Directors and executive management, the committee is also monitoring the implementation of the rewarding system, and make sure that there are no deviations or departure from the approved policy and the rewards structure, the NRC should identify the reasons for deviations if any, and ensure reporting to the Board of Directors to disclose the matter appropriately.





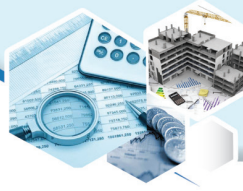
Final approval of the rewarding structure of the Board of Directors and executive management by the Annual General Meeting AGM of the company, based on the NRC. The total remuneration amount shall not exceed 10% of the net profit of the company (after the deduction of depreciation, reserves, shareholders' dividends of not less than 5% of the company's capital or any higher percentage as stipulated in the company's Articles of Association).

### **Remuneration of executive management**

During 2016, the NRC recommended not to distribute any remunerations neither for BoD nor executive management for the year ended 31/12/2016.

	2016 Thousand KD	2015 Thousand KD
BoD remuneration	0	0
Executive Management remuneration	800*	836*

\* The executive management remunerations include salaries, end of service indemnities, bonuses and other incentives. The 2017 bonuses figures represents the amounts that was paid based on the 2016 performance.



#### Rule IV: Safeguard the Integrity of Financial Reporting

The safeguard and integrity of the company's financial statements is considered an important indicators on the integrity and credibility of the company in revealing its financial position, therefore increases investor confidence in the data and information provided by the company, and allows the shareholders to exercise their rights, the company is keen on the integrity of the financial statements and that financial statements of the company are being audited under the supervision of the audit committee, and ensure the independence and integrity of the external auditor.

The Executive management issue a covenant in writing to the Board of Directors, depicting that the company's financial statements are displayed properly and fairly, and it reveals all aspects of the company's financial and operating results, and the financial statements are prepared in accordance with international accounting standards. The annual report provided to the company's shareholders a written covenant of the integrity of all financial statements.



#### Independence and Fairness of the External Auditor

The AGM shall appoint the external auditor based on the Board of Directors recommendation. The nomination of the external auditor, ultimately is based on the recommendation of the audit committee to the BoD. The company has dual independent external accounts that are registered with the CMA, and they comply with all CMA's regulations and stipulations. It is not allowed for the independent external auditor of the Company to perform any additional work that appear to have conflict or may affect his independence and integrity.



## Rule V: Develop A Proper System of Risk Management and Internal Control

The company has a separate department of risk management that work primarily on assessing, monitoring and mitigating of all types of risks that are facing the company, aligned with an effective regulations and procedures for managing those risks. This is an ongoing process, and is reviewed periodically, and the policies and procedures are modified as required.

### Internal control systems

Internal control is a comprehensive system extending to administrative control, accounting and internal audit. It is a set of tools and procedures followed within the company to achieve specific goals. The internal audit unit is aiming to assure the integrity of the financial information, safeguarding of assets, and shareholders and stakeholders' interests.

Internal audit and risk management unit are working properly and independently according to the relevant regulatory requirements. Audit committee is responsible for assisting the BoD in overseeing the quality and integrity of the accounting information, the independence of the auditing, and having sound internal control and financial reporting practices. Audit committee is responsible for the contracting with an independent firm for conducting the annual Internal Control Review (ICR) which was prepared by Qais Al Nisf and Partners (BDO). The objective is the independent evaluation of the internal control systems, and its adequacy within the company, and preparing report that contains weaknesses and recommendations directed to the audit committee.

بureau des services  
شارع خالد بن الوليد، شرق  
الكويت، 25978، الصفاة 13116

تلفون : 965 2242 6999  
فاكس : 965 2240 1666  
www.bdointernational.com

**BDO**

**خطاب الرأي**

السادة أعضاء مجلس الإدارة المحترمين  
مجموعة الصناعات الوطنية (ش.م.ك.ع.)  
الصفاة 13005  
دولة الكويت

25 مارس 2018

تحية طيبة وبعد،

**تقرير حول السجلات المحاسبية والسجلات الأخرى وأنظمة الرقابة الداخلية**

وفقاً لخطاب تعييننا المورخ في 9 يناير 2018، لقد قمنا بفحص ومراجعة أنظمة الرقابة الداخلية لمجموعة الصناعات الوطنية (ش.م.ك.ع.) للسنة المنتهية في 31 ديسمبر 2017:

وقد شمل الفحص كافة الإدارات/الوظائف بالمجموعة، وهي كما يلي:

- الحوكمة
- بيئة الرقابة العامة
- التدقيق الداخلي
- المخاطر والالتزام
- الموارد البشرية
- الشؤون المالية والمحاسبية
- الاستثمارات المباشرة
- الاستثمارات المحلية
- الاستثمارات الأجنبية
- تقنية المعلومات

لقد قمنا بفحصنا وفقاً لمتطلبات الثلاثة التنفيذية لهيئة أسواق المال (الكتاب الخامس عشر "حوكمة الشركات" مادة 6-9).

وبمقتضى أعضاء مجلس إدارة المجموعة فإنكم مسئولون عن إرساء نظم للرقابة الداخلية مع الأخذ في الاعتبار المنافع المتوقعة والتكاليف المتعلقة بتأسيس تلك الأنظمة والالتزام بمتطلبات هيئة أسواق المال المذكورة في الفقرة أعلاه. إن الهدف من التقرير هو إعطاء تأكيدات معقولة وليست قاطعة عن مدى انسيابية الإجراءات والأنظمة المتبعة بغرض حماية الموجودات ضد أية خسائر ناتجة عن أي استخدام أو تصرف غير مصرح به، وأن المخاطر الرئيسية يتم مراقبتها وتقييمها بشكل ملائم، وأن المعاملات يتم تنفيذها طبقاً لإجراءات التفويض المقررة وأنه يتم تسجيلها بشكل صحيح، وذلك لتتمكنكم من القيام بأعمالكم بشكل سليم.

ونظراً للتواحي التصوري في أي نظام من أنظمة الرقابة الداخلية، قد تحدث أخطاء أو مخالفات ولا يتم اكتشافها. إضافة إلى ذلك فإن توقع التقييم للأنظمة على الفترات المستقبلية يخضع لخطر أن تصبح معطومات الإدارة وإجراءات الرقابة غير ملائمة بسبب التغييرات في الظروف، أو أن تقل درجة الالتزام بتلك الإجراءات.

مع الاستثناءات للأمر الموضوع في التقرير المرفق، ونظراً لطبيعة وحجم عمليات المجموعة، خلال السنة المنتهية في 31 ديسمبر 2017، أهمية وتقييم المخاطر لملاحظتنا في رأينا:

أ. أنظمة الرقابة الداخلية للمجموعة قد تم إنشاؤها والاحتفاظ بها طبقاً لمتطلبات هيئة أسواق المال وقواعد حوكمة للشركات.

ب. الملاحظات التي تم رفعها في فحص وتقييم الرقابة الداخلية لا تؤثر بشكل جوهري على العرض العادل للقوائم المالية للمجموعة للسنة المنتهية في 31 ديسمبر 2017.

ج. الإجراءات التي تم أخذها من قبل المجموعة لمعالجة الملاحظات التي تم ذكرها في التقرير، تعتبر إجراءات مرضية.

وتفضلوا بقبول فائق الاحترام والتقدير،،،

قيس محمد النصف  
مراقب حسابات - ترخيص رقم 38 فئة "أ"  
BDO - النصف وشركاه



## **Rule VI: Promote Code of Conduct and Ethical Standards**

Embedding the culture of professional conduct and ethical values within the Company boosts the investors' confidence in the integrity of the financial information of the company. The commitment of the BoD, executive management, and other employees with the internal policies, procedures, and legal regulatory requirements, will benefit the shareholders and stakeholders, without any conflict of interest along with a significant degree of transparency. The executive management prepared a code of conduct that includes the work behavior code of conduct and ethical standards.

The Company's code of conduct is tailored to the need of board members, executive management, and company employees. This code of conduct incorporates all the requirements, determinants, and parameters necessary to exercise due professional conduct and ethics, that embeds the commitment of each of board member, executives' management, and the employees fully comply with all laws and regulations, and to represent all shareholders and the stakeholders to their best interest.

### **Mechanisms to limit the conflicts of interest**

The company has developed a conflict of interest policy in line with the CMA regulations and the provisions of Kuwait Commercial Companies Law. This policy includes requirements and parameters that should be followed by the Board member, it determines that the board member should not be bound to enter into contracts or businesses arrangement with the company. The board member should inform the BoD if he has a personal interest whether directly or indirectly, in the agreements or contracts that is being made with the company and should be disclosed in the disclosure log. The board member with personal interest should not vote on any resolutions regarding that matter, the chairman should inform the AGM of such conflict of interest

## **Rule VII: Ensure Timely and High-Quality Disclosure and Transparency**

### **Mechanisms for timely disclosure and transparency**

The Board is obliged to develop mechanisms for a quality, and transparent disclosure to be in line with the relevant laws and regulations issued by the company's law or CMA regarding that matter. Those disclosures are classified into either a company's disclosure or BOD and executive management disclosures, where the disclosures log should be updated regularly.

The company's disclosure is approved by the BoD and should disclose the financial data and information regarding the financial position, performance, ownership for all stakeholders through the proper panels, that assist the shareholders to understand their position fully, those proper panels are reviewed and updated regularly to be in line with the best practices, and CMA code of Corporate Governance.

Disclosures of board members and executive management are updated regularly in a register, that register is made available for shareholders of the company, without any fee or charge, the company is also committed to update this log data periodically to reflect the true situation of the related involved.

The company has a unit that meant to manage the investor's affairs, this unit is responsible for providing data and information and reports required for potential investors, are providing those investors with any data and information and reports accurately and timely

### **Corporate Governance and Information Technology**

The company has a dedicated section on the website for Corporate Governance , where all information is displayed and the latest data that may assist shareholders, potential investors, and other stakeholders in exercising their rights and assess the performance of the company, there is also a special section for financial analysis show the performance indicators for the holding company and the listed subsidiaries [www.nig.com.kw](http://www.nig.com.kw)



### Rule VIII: Respect the Rights of Shareholders

NIG ensures that all shareholders can exercise their rights fairly, including their right to vote in the AGM, where each shareholder, regardless of the number of shares held, shall have the right to attend the AGM, and shall have a number of votes equal to those allocated for his shares. An invitation is sent to all shareholders to attend the AGM, whether ordinary or extraordinary, through publication in local newspapers or through e-mail or fax, provided that the shareholder has given this information to KCC.

All shareholders are strongly encouraged to attend the AGM and to vote according to their will, including the election of board members. The shareholders have a right to delegate a person to attend the AGM through a proxy prepared by the company for this purpose.

The Company treats all shareholders equally and without any discrimination, no distinguish between shareholders.

### Protection of Shareholders' Rights Policy

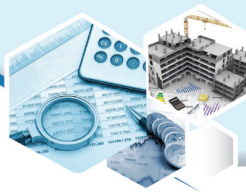
The company's article of association, policies, and procedures are ensuring that all shareholders can use their rights equally without any discrimination, to protect their rights that should include the following:

- Shareholder ownership are registered in the company's records.
- Disposition or transfer of shares ownership.
- Receiving dividends.
- In case of liquidation, shareholder is entitled to get a share of the company's assets.
- Access to financial data and information about the company and its operational strategy and investment activity on a timely basis.
- Participation in AGM and exercising his voting rights.
- Electing board members.
- Monitor the company's performance of and the activities of the board.

### Shareholders' Register

- The company has a contract with the Kuwait clearing company (KCC), where KCC creates a registry contains the investor name, nationality, residence, and the number of shares owned by each of them, any investor may request the KCC to provide the data from this register.
- The company has an investor's affairs unit where this unit is maintaining a shareholders register that is updated by any changes for the ownership percentages, or adding new shareholders, or deletion of shareholders. Any shareholder may request this unit to provide the data from this register.
- Bonds/Sukuk issue manager maintains a register in where is contains bond/sukuk holders names, nationality, residence, and the number and type of securities or instruments owned by each of them, and any instrument holder may request the company or the issue manager to provide the data from this register.
- The company is responsible for keeping the confidentiality of all the data of the shareholders and the instrument holders.





### **Participate in the General meetings of shareholders**

The BoD invites the shareholders to the meet within the three months that follow the end of the financial year, the time and the place is to be determined according to the company's bylaws. The BoD may invite this AGM to meet whenever necessary. The Board should also invite the AGM at a reasoned request of several shareholders owning at least 10% of the Company's paid up capital, or at the request of the Auditor, within fifteen days from the date of the request.

The agenda of the AGM should include as a minimum the following:

- Reciting the Corporate Governance report and the audit committee report.
- BoD activity report, and financial position.
- External auditors report of the on the results of the financial year of the company.
- The related party transactions report.

### **Rule IX: Recognize the Roles of Stakeholders**

NIG is committed to protecting the rights of all stakeholders as a major component of the Corporate Governance, BoD is responsible for setting the standards to protect the rights of all stakeholders and for updating these standards as and when appropriate, to reflect changes in the provisions of the laws, bylaws and instructions issued by CMA, or ministry of commerce.

It is the BoD responsibility to appoint competent executive management, to effectively and efficiently supervise the company's activities according to the adopted and approved policies and procedures and to act to the best manners following the code of conduct and work ethics.

The company developed a mechanism to facilitate for the stakeholders to inform the Company about any improper practices exposed by the company, with appropriate protection of reporting Parties and company by providing e-mail to report any improper practices, the risk management are investigating immediately upon receipt with a guarantee of identity protection to those who report the incidents. The email is whistleblower@nig.com.kw .

### **Rule X: Encourage And Enhance Performance**

#### **Assessment and Development of the Board**

The company developed a mechanism for Board assessment, where NIG is showing dedication of improving the Board's performance and its supervisory role as well as the performance of each committee. During the year the NRC conducted, an assessment of the board performance according to a preset key performance indicator, that evaluation may reveal the strengths, and weaknesses of the BoD and develop appropriate ways to improve. Chairman shall review the training and development needs based on the assessment results. The assessment matrix focuses on five key points:

- Composition and qualifications.
- Efficiency and effectiveness.
- Communication
- Supervision.
- Attendance.

#### **Assessment and Development of the Executive Management**

The NRC as well, conducted a performance appraisal for the executive management to assess their competency according to a defined KPIs, the BoD and the NRC may propose a way to improve the performance of the executive management at their discretion.



## Value Creation

The Board works constantly to create the corporate values through achieving strategic goals and enhancing performance by accomplishing the following responsibilities:

- its vision and mission.
- Review and approve the company's business plans, policies, and charters including the inherent level of risk in these plans.
- Reviewing the performance of the subsidiaries of the group.

### Rule XI: Focus on the Importance of Corporate Social Responsibility

The company is keen to develop its societal development and strategy with the social, economic and environmental needs and utility results to the community and the company, the Board confirms its attachment to the importance of social responsibility to reduce the harmful effects to society and the environment and the development of good effects.

For NIG to perform its corporate social responsibility in a proper manner to serve the Kuwaiti community, the following activities were performed

1. Blood donation during 2017, where NIG employees positively interacted for the blood donation campaign.
2. Interacting in a numerous of social activities, related to special need, and Autism cases i
3. Continuous support for mabarrah, as a social responsibility in home service the national industries company holdings to create "charity" to national charities called it "charity" national industries company, the Company's Board of Directors has placed great confidence and great moral and material support it with a separate headquarters, thereby providing an element of stability in the work Al mabarrah and support productivity and contribute to meetings regularly.

For this charity national industries company was able despite her upbringing – since 2007 to support many charitable projects that reinforce diverse national belonging to the country and appoint needy nationals and expatriates, both on the level of education or health or social, economic or other levels

### And the activities supported by Al mabarrah

- The economic and vocational rehabilitation of orphans (parents unknown)
- Partnership project with the support fund for graduate studies in Islamic Economics in industrial applications
- Supported project ' Ammi product "to rehabilitate youth employment income impaired
- Voluntary industry
- Alternative pain management project support foster family labor and Social Affairs Ministry
- Supports the Endowment Committee for property compassion for medical services (Health Center for treatment of expats
- Project to support the activities and programmes of the Central Jail Cress Center
- Establish a training center for rehabilitation of repentant of drugs
- Project to support needy students
- Support the medical camp for screening and treatment of expats service
- Kuwaiti orphans House project as an independent governmental body.
- Small manufacturer in educational institutions.





مجموعة الصناعات الوطنية القابضة  
National Industries Group Holding



**Consolidated financial statements and  
independent auditors' report**

**National Industries Group Holding**

**(KPSC and Subsidiaries)**

**Kuwait**

**31 December 2017**



## Contents

	Page
Independent auditors' report .....	32-36
Consolidated statement of profit or loss .....	37
Consolidated statement of Comprehensive Income .....	38
Consolidated statement of financial position .....	39
Consolidated statement of changes in equity .....	40-41
Consolidated statement of cash flows .....	42-43
Notes to the consolidated financial statements .....	44-114



## Independent auditors' report

**To the shareholders of**

**National Industries Group Holding – KPSC**

**Kuwait**

**Report on the Audit of the Consolidated Financial Statements**

### **Opinion**

We have audited the consolidated financial statements of National Industries Group Holding – Kuwaiti Public Shareholding Company (the “Parent Company”) and Subsidiaries, (collectively the “Group”), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below as the key audit matters.

### **Valuation of investments held at fair value**

The Group invests in various assets classes, of which 46% of the total assets represent investments carried at fair value and classified either as investments at fair value through profit or loss or as available for sale investments. These investments are fair valued on a basis considered most appropriate by the management, depending on the nature of the investment, and the valuation is performed by the Group using a fair value hierarchy as detailed in note 36.3. 42% of these investments are carried at fair value based on Level 1 valuations, and the balance 58% of these investments are carried at fair value either



based on Level 2 or Level 3 valuations. Fair value measurement can be a subjective area and more so for the investments classified under level 2 and level 3 since these are valued using inputs other than quoted prices in an active market. Given the inherent subjectivity in valuation of investments classified under level 2 and level 3, we determined this to be a key audit matter. Refer to Note 5.13.2, 5.13.6, 6.1, 6.2, 19, 23 and 36.3 for more information on fair valuation of available for sale investments and investments at fair value through statement of profit or loss.

Our audit procedures included, among others, documenting and assessing the processes in place to fair value the investment portfolio. Agreeing the carrying value of the investments to the Group's internal or external valuations prepared using valuation techniques, assessing and challenging the appropriateness of estimates, assumptions and valuation methodology and obtaining supporting documentation and explanations to corroborate the valuations.

***Independent auditor's report to the shareholders of National Industries Group Holding – KPSC (continued)***

***Key Audit Matters (continued)***

**Impairment of investments in associates**

The Group's investments in associates represent 27% of the total assets and are accounted for under the equity method of accounting and considered for impairment in case of indication of impairment. The investment in associates is significant to our audit due to the Group's share of results in the associates and the carrying value of these associates. In addition, significant management judgment and number of assumptions are required in the assessment of impairment, including the determination of the recoverable value of the investment based on its value-in-use, in case there is a significant or prolonged decline in value based on published price quotes. Further, the projected future cash flows and discount rates used by the Group in determining the investment's value in use are also subject to estimation uncertainty and sensitivity. Accordingly, we considered this as a key audit matter. Refer note 5.4, 6.1, 6.2, and 17 for more information on investment in associates.

Our audit procedures included, among others, evaluating management's consideration of the impairment indicators of investment in associates. In evaluating such consideration, we assessed whether any significant or prolonged decline in value exists, whether there are any significant adverse changes in the technological, market, economic or legal environment in which the associate operates, or structural changes in the field of industry in which the investee company operates, or changes in the political or legal environment effecting the investees business, and also whether there are any changes in the investees financial condition. We also reviewed management's assessment of the recoverable value of the investment including the reasonability of the cash flow projections and discount rates used in the value in use calculation for associates, where there was a significant or prolonged decline in value.

**Valuations of investment properties**

The Group's investment properties represent 5% of the total assets and comprise of land and rental buildings located in Kuwait, other Middle East countries and United Kingdom. The Groups policy is that property valuations are performed at year end by external valuers, as detailed in note 36.4. These valuations are based on number of assumptions, including estimated rental revenues, capitalization yields, historical transactions, market knowledge, occupancy rates and cost of construction. Given the fact that the fair value of the investment properties represents a significant judgment area and the valuations are highly dependent on estimates we determined this to be a key audit matter. Refer to Note 5.11, 6.1, 6.2, 18 and 36.4 for more information on the valuation of the Investment Properties.



Our audit procedures included, among others, assessing the appropriateness of management's process for reviewing and assessing the work of the external valuers and their valuations including management's consideration of competence and independence of the external valuers. We reviewed the valuation reports from the external valuers and agreed them to the carrying value of the properties. We assessed the appropriateness of the valuation methodologies used in assessing the fair value of the investment properties including discussions with the management on the estimates, assumptions and valuation methodology used in assessing the fair value of investment properties.

### **Other information included in the Group's 2017 annual report**

Management is responsible for the other information. Other information consists of the information included in the Annual Report of the Group for the year ended 31 December 2017 other than the consolidated financial statements and our auditor's report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditor's report and we expect to obtain the remaining sections of the Group's Annual Report for the year ended 31 December 2017 after the date of our auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

### ***Independent auditor's report to the shareholders of National Industries Group Holding – KPSC (continued)***

#### **Key Audit Matters (continued)**

#### **Other information included in the Group's 2017 annual report (continued)**

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we have obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of other information, we are required to report that fact. We have nothing to report in this regard.

#### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

#### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's



report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

***Independent auditor's report to the shareholders of National Industries Group Holding – KPSC (continued)***

***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)***

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.





## Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 1 of 2016 and its Executive Regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law, the Executive Regulations, or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2017 that might have had a material effect on the business or financial position of the Parent Company.

**Anwar Y. Al-Qatami, F.C.C.A.**

**(Licence No. 50-A)**

**of Grant Thornton – Al-Qatami, Al-Aiban & Partners**

Kuwait

17 April 2018





## Consolidated statement of profit or loss

Continuing operations	Note	Year ended 31 Dec. 2017	Year ended 31 Dec. 2016
		KD '000	KD '000
Sales		110,510	110,259
Cost of sales		(90,441)	(89,153)
Gross profit		20,069	21,106
Income from investments	8	34,570	13,769
Share of results of associates	17	19,035	21,177
Profit on disposal of associates	17	17,447	-
Loss on disposal of investment properties		-	(852)
Changes in fair value of investment properties	18	(3,455)	(3,246)
Rental income		1,859	2,301
Interest and other income	9	4,760	3,201
Distribution costs		(7,384)	(6,924)
General, administrative and other expenses		(23,664)	(25,147)
Gain/(loss) on foreign currency exchange		1,540	(1,537)
		64,777	23,848
Finance costs	11	(31,412)	(28,188)
Impairment in value of available for sale investments	19	(5,247)	(18,696)
Impairment in value of receivables and other assets (net of reversal)	21	(246)	(1,056)
<b>Profit/(loss) before foreign taxation</b>		<b>27,872</b>	<b>(24,092)</b>
Foreign taxation	12a	(488)	292
<b>Profit/(loss) before KFAS, NLST, Zakat and Directors' remuneration</b>		<b>27,384</b>	<b>(23,800)</b>
KFAS, NLST and Zakat	12b	(717)	(95)
Directors' remuneration		(480)	-
<b>Profit/(loss) for the year</b>	13	<b>26,187</b>	<b>(23,895)</b>
<b>Attributable to :</b>			
Owners of the Parent		24,160	(24,192)
Non-controlling interests	7	2,027	297
		26,187	(23,895)
<b>Basic and diluted earnings/(loss) per share attributable to the owners of the Parent</b>	14	<b>18.2 Fils</b>	<b>(18.3) Fils</b>

The notes set out on pages 44 to 114 form an integral part of these consolidated financial statements.



## Consolidated statement of profit or loss and other comprehensive income

	Year ended 31 Dec. 2017	Year ended 31 Dec. 2016
	KD '000	KD '000
Profit/(loss) for the year	26,187	(23,895)
<b>Other comprehensive (loss)/income:</b>		
<b>Items to be reclassified to profit or loss in subsequent periods:</b>		
Exchange differences arising on translation of foreign operations	(4,670)	2,496
Available for sale investments:		
- Net changes in fair value arising during the year	(4,989)	3,438
- Transferred to consolidated statement of profit or loss on disposal	(11,444)	(2,704)
- Transferred to consolidated statement of profit or loss on impairment	5,247	18,696
Share of other comprehensive income of associates		
- Changes in fair value	3,368	1,143
- Transferred to consolidated statement of profit or loss on disposal (refer 17.8)	(1,703)	-
<b>Total other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods</b>	<b>(14,191)</b>	<b>23,069</b>
<b>Items not to be reclassified to profit or loss in subsequent periods</b>		
Defined benefit plan actuarial (losses)/gain	(1,086)	21
Total other comprehensive (loss)/income not being reclassified to profit or loss in subsequent periods	(1,086)	21
Total other comprehensive (loss)/income for the year	(15,277)	23,090
Total comprehensive income/(loss) for the year	10,910	(805)
Total comprehensive income/(loss) for the year attributable to:		
Owners of the parent	15,549	(9,121)
Non-controlling interests	(4,639)	8,316
	10,910	(805)

The notes set out on pages 44 to 114 form an integral part of these consolidated financial statements.



## Consolidated statement of financial position

	Note	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
<b>Assets</b>			
Non-current assets			
Goodwill and intangible assets	15	14,121	14,025
Property, plant and equipment	16	72,314	70,837
Investment in associates	17	336,045	350,540
Investment properties	18	66,121	64,294
Available for sale investments	19	411,366	405,935
Accounts receivable and other assets	21	3,755	1,410
<b>Total non-current assets</b>		<b>903,722</b>	<b>907,041</b>
<b>Current assets</b>			
Inventories	20	33,194	32,434
Available for sale investments	19	113,836	133,118
Accounts receivable and other assets	21	92,152	60,159
Murabaha, wakala and sukuk investments	22	1,153	1,164
Investments at fair value through profit or loss	23	74,780	76,782
Short-term deposits	32	8,020	9,224
Bank balances and cash	32	38,436	33,696
<b>Total current assets</b>		<b>361,571</b>	<b>346,577</b>
<b>Total assets</b>		<b>1,265,293</b>	<b>1,253,618</b>
<b>Equity and liabilities</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	24	135,985	135,985
Treasury shares	25	(30,375)	(30,375)
Share premium	24	122,962	122,962
Cumulative changes in fair value	26	103,959	108,729
Other components of equity	26	30,457	31,526
Retained earnings/(accumulated losses)		13,000	(8,495)
<b>Equity attributable to owners of the parent</b>		<b>375,988</b>	<b>360,332</b>
Non-controlling interests	27	130,127	137,047
<b>Total equity</b>		<b>506,115</b>	<b>497,379</b>
<b>Non-current liabilities</b>			
Long-term borrowings & bonds	28	207,973	354,019
Provisions	29	15,157	14,645
Other non-current liabilities	30	27	1,197
<b>Total non-current liabilities</b>		<b>223,157</b>	<b>369,861</b>
<b>Current liabilities</b>			
Accounts payable and other liabilities	30	48,364	44,285
Short-term borrowings	31	465,342	320,907
Due to banks	32	22,315	21,186
<b>Total current liabilities</b>		<b>536,021</b>	<b>386,378</b>
<b>Total liabilities</b>		<b>759,178</b>	<b>756,239</b>
<b>Total equity and liabilities</b>		<b>1,265,293</b>	<b>1,253,618</b>

Sa'ad Mohammed Al-Sa'ad  
Chairman

Ahmad Mohammed Hassan  
Chief Executive Officer

The notes set out on pages 44 to 114 form an integral part of these consolidated financial statements.



## Consolidated statement of changes in equity

Equity attributable to owners of the parent									
	Share Capital	Treasury shares	Share premium	Cumulative changes in fair value	Other components of equity (Note 26b)	(Accumulated losses)/ retained earnings	Sub-Total	Non-controlling interests	Total
	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000
Balance as at 1 January 2017	135,985	(30,375)	122,962	108,729	31,526	(8,495)	360,332	137,047	497,379
Transactions with owners									
Non-controlling interests arising on acquisition of new subsidiaries	-	-	-	-	-	-	-	302	302
Dividend paid to non-controlling interests by subsidiaries	-	-	-	-	-	-	-	(2,187)	(2,187)
Other net changes in non-controlling interests	-	-	-	-	-	107	107	(396)	(289)
Total transactions with owners	-	-	-	-	-	107	107	(2,281)	(2,174)
Comprehensive income									
Profit for the year						24,160	24,160	2,027	26,187
Other comprehensive loss for the year [Actuarial loss and others] (notes 26, 27 & 33)	-	-	-	(4,770)	(2,755)	(1,086)	(8,611)	(6,666)	(15,277)
Total comprehensive (loss)/income for the year	-	-	-	(4,770)	(2,755)	23,074	15,071	4,639	10,910
Transfer of reserve	-	-	-	-	1,686	(1,686)	-	-	-
Balance as at 31 December 2017	135,985	(30,375)	122,962	103,959	30,457	13,000	375,988	130,127	506,115

The notes set out on pages 44 to 114 form an integral part of these consolidated financial statements.



## Consolidated statement of changes in equity (continued)

### Equity attributable to owners of the parent

	Share Capital KD '000	Treasury shares KD '000	Share premium KD '000	Cumulative changes in fair value KD '000	Other components of equity (Note 26b) KD '000	Retained earnings/(accumulated losses) KD '000	Sub-Total KD '000	Non-controlling interests KD '000	Total KD '000
<b>Balance as at 1 January 2016</b>	135,985	(30,375)	122,962	96,378	28,827	30,225	384,002	128,909	512,911
<b>Transactions with owners</b>									
Increase in non-controlling interests of subsidiaries during the year	-	-	-	-	-	(1,298)	(1,298)	3,627	2,329
Non-controlling interests arising on acquisition of new subsidiaries	-	-	-	-	-	-	-	735	735
Dividend paid to non-controlling interests by subsidiaries	-	-	-	-	-	-	-	(4,837)	(4,837)
Dividend paid (Note 42)	-	-	-	-	-	(13,251)	(13,251)	-	(13,251)
Other net changes in non-controlling interests	-	-	-	-	-	-	-	297	297
<b>Total transactions with owners</b>	-	-	-	-	-	(14,549)	(14,549)	(178)	(14,727)
Comprehensive income									
(Loss)/profit for the year	-	-	-	-	-	(24,192)	(24,192)	297	(23,895)
Other comprehensive income for the year [Actuarial gain and others] (notes 26, 27 & 33)	-	-	-	12,351	2,699	21	15,071	8,019	23,090
<b>Total comprehensive income/(loss) for the year</b>	-	-	-	12,351	2,699	(24,171)	(9,121)	8,316	(805)
<b>Balance as at 31 December 2016</b>	135,985	(30,375)	122,962	108,729	31,526	(8,495)	360,332	137,047	497,379

The notes set out on pages 44 to 114 form an integral part of these consolidated financial statements.



## Consolidated statement of cash flows

	Year ended 31 Dec. 2017	Year ended 31 Dec. 2016
	KD '000	KD '000
<b>OPERATING ACTIVITIES</b>		
<b>Profit/(loss) before foreign taxation</b>	<b>27,872</b>	<b>(24,092)</b>
Adjustments:		
Depreciation and amortisation	6,727	7,473
Changes in fair value of investment properties	3,455	3,246
Loss/(gain) on disposal of property, plant and equipment	37	(1,001)
Profit on disposal of associates	(17,447)	-
Loss on disposal of investment properties	-	852
Share of results of associates	(19,035)	(21,177)
Dividend income from available for sale investments	(6,572)	(6,259)
Profit on sale of available for sale investments	(18,124)	(3,689)
Impairment in value of receivable and other assets (net of reversal)	246	1,056
Impairment in value of available for sale investments	5,247	18,696
Discount on settlement of loan	(2,063)	-
Other non-cash adjustments	(157)	-
Provision for cost of gas usage for previous years	-	2,700
Net provision (reversal)/charged for obsolete and slow moving inventories	(74)	335
Net provisions released	512	(791)
Finance costs	31,412	28,188
Interest/profit on bank balances, short-term deposits, wakala and murabaha investments	(617)	(501)
	<b>11,419</b>	<b>5,036</b>
Changes in operating assets and liabilities:		
Inventories	(834)	1,285
Accounts receivable and other assets	6,930	27,347
Investments at fair value through profit or loss	2,002	7,251
Accounts payable and other liabilities	1,054	(6,072)
Cash from operations	<b>20,571</b>	<b>34,847</b>
KFAS and Zakat contribution paid	(76)	(240)
NLST paid	(36)	(58)
Taxation paid	(488)	(215)
<b>Net cash from operating activities</b>	<b>19,971</b>	<b>34,334</b>

The notes set out on pages 44 to 114 form an integral part of these consolidated financial statements.





## Consolidated statement of cash flows (continued)

	Note	Year ended 31 Dec. 2017	Year ended 31 Dec. 2016
		KD '000	KD '000
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(7,883)	(9,137)
Proceeds from disposal of property, plant and equipment		26	1,753
Proceeds from disposal of investment properties		2,200	10,825
Additions to investment properties		(7,493)	(8,973)
Investment in associates		(5,558)	(2,182)
Dividend received from associate companies		9,376	9,286
Proceeds from capital reduction/disposal of associates		1,103	3,108
Acquisition of new subsidiary net of cash & bank balances		-	(777)
Decrease/(increase) in wakala investments maturing after three months		11	(164)
Disposal of intangible assets		180	-
Decrease in blocked deposits		106	-
Purchase of available for sale investments		(39,949)	(17,785)
Proceeds from sale of available for sale investments		55,491	24,392
Dividend income received from available for sale investments		6,572	6,259
Interest/profit on bank balances, short-term deposits, wakala and murabaha investments		708	533
<b>Net cash from investing activities</b>		<b>14,890</b>	<b>17,138</b>
<b>FINANCING ACTIVITIES</b>			
Finance lease payments		(118)	(269)
Issue of bonds		-	25,000
Net increase/(decrease) in long-term borrowings		7,349	(13,024)
Net decrease in short-term borrowings		(5,604)	(39,175)
Dividend paid to the owners of the parent		(423)	(13,834)
Finance costs paid		(31,242)	(28,200)
Change in non-controlling interests		(2,281)	(178)
<b>Net cash used in financing activities</b>		<b>(32,319)</b>	<b>(69,680)</b>
Net increase/(decrease) in cash and cash equivalents		2,542	(18,208)
Translation difference		(29)	(187)
		2,513	(18,395)
Cash and cash equivalents at beginning of the year		21,409	39,804
<b>Cash and cash equivalents at end of the year</b>	32	<b>23,922</b>	<b>21,409</b>

The notes set out on pages 44 to 114 form an integral part of these consolidated financial statements.



## Notes to the consolidated financial statements

### 1 Incorporation and activities

National Industries Group Holding – KPSC (“the Parent Company”) was incorporated in 1961 as a Kuwaiti shareholding company in accordance with the Commercial Companies Law in the State of Kuwait and in April 2003, its status was transformed to a “Holding Company”. The Parent Company along with its subsidiaries are jointly referred to as “the Group”. The Parent Company’s shares are traded on the Kuwait Stock Exchange and Dubai Financial Market.

The main objectives of the Parent Company are as follows:

- Owning stocks and shares in Kuwaiti or non-Kuwaiti shareholding companies and shares in Kuwaiti or non-Kuwaiti limited liability companies and participating in the establishment of, lending to and managing of these companies and acting as a guarantor for these companies
- Lending money to companies in which it owns 20% or more of the capital of the borrowing company, along with acting as guarantor on behalf of these companies
- Owning industrial equities such as patents, industrial trademarks, royalties, or any other related rights, and franchising them to other companies or using them within or outside the State of Kuwait
- Owning real estate and moveable property to conduct its operations within the limits as stipulated by law
- Employing excess funds available with the group by investing them in investment and real estate portfolios managed by specialised companies

The address of the Parent Company’s registered office is PO Box 417, Safat 13005, State of Kuwait.

The Parent Company has arranged its position in accordance with Law No. (1) of 2016.

The board of directors of the Parent Company approved these consolidated financial statements for issuance on 17 April 2018. The general assembly of the Parent Company’s shareholders has the power to amend these consolidated financial statements after issuance

### 2 Basis of preparation

The consolidated financial statements are prepared under the historical cost convention modified to include the revaluation of freehold and leasehold properties, the measurement at fair value of investments at fair value through profit or loss, available for sale financial assets and investment properties.

The consolidated financial statements are presented in Kuwaiti Dinars (KD) and all values are rounded to the nearest thousand (KD ‘000), except when otherwise indicated.

### 3 Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) promulgated by the International Accounting Standards Board (“IASB”), and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) of the IASB.

### 4 Changes in accounting policies

#### 4.1 New and amended standards adopted by the Group

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2017 which have been adopted by the Group but did not have any significant impact on the consolidated financial position or the results for the year. Information on these new standards which are relevant to the Group, is presented below:



## Notes to the consolidated financial statements (continued)

### *Standard or Interpretation*

### *Effective for annual periods beginning*

IAS 7 Statement of Cash Flows- Amendments	1 January 2017
IAS 12 Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses – Amendments	1 January 2017
Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2017

### **IAS 7 Statement of Cash Flows- Amendments**

The Amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and noncash changes).

The amendments apply both to the initial acquisition of an interest in joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured). The amendments apply prospectively to acquisitions of interests in joint operations.

#### **The Amendments**

- require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgement when determining the exact form and content of the disclosures needed to satisfy this requirement
- suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including.
  - changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses
  - a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

A reconciliation between the opening and closing balances of liabilities arising from activities is provided in note 38. Apart from these additional disclosures the application of the amendments did not have any impact on the consolidated financial statements of the Group.

### **IAS 12 Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses - Amendments**

The Amendments to IAS 12 make the following changes:

- Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.



## Notes to the consolidated financial statements (continued)

### 4 Changes in accounting policies (continued)

#### 4.1 New and amended standards adopted by the Group

##### *Annual Improvements to IFRSs 2014-2016 Cycle*

*Amendments to IFRS 12* - Clarifies the scope of IFRS 12 by specifying that its disclosure requirements (except for those in IFRS 12. B10-B16) apply to an entity's interests in a subsidiary, joint venture or an associate irrespective of whether they are classified (or included in a disposal group that is classified) as held for sale or as discontinued operations in accordance with IFRS 5.

The application of the amendments did not have any significant impact on the consolidated financial statements of the Group.

#### 4.2 IASB Standards issued but not yet effective

At the date of authorisation of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncements. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to be relevant to the Group's consolidated financial statements.

<i>Standard or Interpretation</i>	<i>Effective for annual periods beginning</i>
IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments	No stated date
IFRS 2 Share-based Payment - Amendments	1 January 2018
IFRS 9 Financial Instruments: Classification and Measurement	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 16 Leases	1 January 2019
IAS 40 Investment Property - Amendments	1 January 2018
Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2017 and 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRIC 23 Uncertainty over income tax treatments	1 January 2019

#### **IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments**

The Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows:



## Notes to the consolidated financial statements (continued)

### 4 Changes in accounting policies (continued)

#### 4.2 IASB Standards issued but not yet effective (continued)

##### ***IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments (continued)***

- require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations)
- require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognised only to the extent of the unrelated investors' interests in that associate or joint venture.

These requirements apply regardless of the legal form of the transaction, e.g. whether the sale or contribution of assets occurs by an investor transferring shares in a subsidiary that holds the assets (resulting in loss of control of the subsidiary), or by the direct sale of the assets themselves.

IASB has postponed the effective date indefinitely until other projects are completed. However, early implementation is allowed. Management anticipates that the application of these amendments may have an impact on the Group's consolidated financial statements in future should such transactions arise.

##### ***IFRS 2 Share-Based Payment- Classification and Measurement***

The amendments relate to clarification on the following:

- IFRS does not specifically address the impact of vesting and non-vesting conditions on the measurement of the fair value of the liability incurred in a cash-settled share-based payment transaction. The Amendments address this lack of guidance by clarifying that accounting for these conditions should be accounted for consistently with equity-settled share-based payments in IFRS 2
- The amendment adds guidance to IFRS 2 to the effect that a scheme with compulsory net-settlement feature would be classified as equity-settled in its entirety (assuming it would be so classified without the net settlement feature); and
- The amendment addresses the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

Management does not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements

##### ***IFRS 9 Financial Instruments***

The IASB published IFRS 9 'Financial Instruments' (2014), representing the completion of its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

The main areas of expected impact are as follows:

- the classification and measurement of the financial assets based on the new criteria that considers the assets' contractual cash flows and the business model in which they are managed.



## Notes to the consolidated financial statements (continued)

### 4 Changes in accounting policies (continued)

#### 4.2 IASB Standards issued but not yet effective (continued)

##### *IFRS 9 Financial Instruments (continued)*

The main areas of expected impact are as follows: (continued)

- an expected credit loss-based impairment will need to be recognised on the trade receivables and investments in debt-type assets currently classified as available for sale and held-to-maturity, unless classified as at fair value through profit or loss in accordance with the new criteria.
- it will no longer be possible to measure equity investments at cost less impairment and all such investments will instead be measured at fair value. Changes in fair value will be presented in profit or loss unless an irrevocable designation is made to present them in other comprehensive income.
- if the fair value option continues to be elected for certain financial liabilities, fair value movements will be presented in other comprehensive income to the extent those changes relate to own credit risk.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and Fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Further, the gains and losses on subsequent measurement of debt type financial instruments measured at Fair Value Through Other Comprehensive Income (FVOCI) will be recognised in equity and will be recycled to profit or loss on derecognition or reclassification.

However, gains or losses on subsequent measurement of equity type financial assets measured at FVOCI will be recognised in equity and not recycled to profit or loss on derecognition. Dividend income on these assets will continue to be recognised in profit or loss.

Based on the analysis of the Group's financial assets and liabilities as at 31 December 2017 and of the circumstances that existed at that date, management of the Group expects that the impact of implementation of IFRS 9 on the consolidated financial statements of the Group as follows:

##### ***Classification and measurement:***

- Management holds most debt type financial assets to hold and collect the associated cash flows and, therefore, these are to continue to be accounted for at amortised cost. However, certain financial assets are likely to be measured at Fair Value Through Profit or Loss (FVTPL) as the cash flows are not solely payments of principal and interest.

The Group's debt type financial assets mainly consist of trade receivables, due from related parties, murabaha and cash and cash equivalents and these are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Management analyzed the contractual cash flow characteristics of these instruments and concluded that they meet the criteria for amortized cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.





## Notes to the consolidated financial statements (continued)

### 4 Changes in accounting policies (continued)

#### 4.2 IASB Standards issued but not yet effective (continued)

##### *IFRS 9 Financial Instruments (continued)*

- Equity investments are to be measured at FVTPL as well as FVTOCI as certain existing investments in equity instruments qualify for designation as measured at FVTOCI category. The gains and losses on these investments will no longer be recycled to the consolidated statement of profit or loss on subsequent measurement or on derecognition. Further, these investments are no longer subject to impairment test.

As a result, the Group expects certain changes in classification of investments and related reclassification between retained earnings and fair value reserve. The Group does not expect a material impact on equity due to changes in classification of investments. The Group carries investments of KD20,214 thousand at cost less impairment (refer note 19) and upon adoption of IFRS 9, all such equity investments have to be measured at fair value, consequently management is in the process of determining the fair value of such investments and the difference between fair value and cost will be taken to equity.

- There is no impact on the financial liabilities of the Group and will continue to be measured at amortised cost.

##### **Impairment:**

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, instalment credit loans and trade receivables, due from related parties either on a 12-month or lifetime basis.

The Group expects to apply simplified approach to impairment for accounts receivable and due from related parties as required or permitted under the standard.

##### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 replaced IAS 18 "Revenues", IAS 11 "Construction Contract" and several revenue – related Interpretations and provides a new control-based revenue recognition model using five-step approach to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

The standard includes important guidance, such as

- Contracts involving the delivery of two or more goods or services – when to account separately for the individual performance obligations in a multiple element arrangement, how to allocate the transaction price, and when to combine contracts
- Timing – whether revenue is required to be recognized over time or at a single point in time



## Notes to the consolidated financial statements (continued)

### 4 Changes in accounting policies (continued)

#### 4.2 IASB Standards issued but not yet effective (continued)

##### IFRS 15 Revenue from Contracts with Customers (continued)

- Variable pricing and credit risk – addressing how to treat arrangements with variable or contingent (e.g. performance-based) pricing, and introducing an overall constraint on revenue
- Time value – when to adjust a contract price for a financing component
- Specific issues, including –
  - non-cash consideration and asset exchanges
  - contract costs
  - rights of return and other customer options
  - supplier repurchase options
  - warranties
  - principal versus agent
  - licencing
  - breakage
  - non-refundable upfront fees, and
  - consignment and bill-and-hold arrangements.

The Group has assessed the impact of IFRS 15. Based on the assessment, adoption of IFRS 15 is not expected to have any material effect on the Group's consolidated financial statements.

##### IFRS 16 Leases

IFRS 16 will replace IAS 17 and three related Interpretations. Leases will be recorded on the statement of financial position in the form of a right-of-use asset and a lease liability.

Management is yet to fully assess the impact of the Standard and therefore is unable to provide quantified information. However, in order to determine the impact, management is in the process of:

- performing a full review of all agreements to assess whether any additional contracts will now become a lease under IFRS 16's new definition
- deciding which transitional provision to adopt; either full retrospective application or partial retrospective application (which means comparatives do not need to be restated). The partial application method also provides optional relief from reassessing whether contracts in place are, or contain, a lease, as well as other reliefs. Deciding which of these practical expedients to adopt is important as they are one-off choices
- assessing their current disclosures for finance and operating leases as these are likely to form the basis of the amounts to be capitalised and become right-of-use assets
- determining which optional accounting simplifications apply to their lease portfolio and if they are going to use these exemptions
- assessing the additional disclosures that will be required.

The Group's management has yet to assess the impact of IFRS 16 on these Group consolidated financial statements.

##### IFRS 40 Investment Property - Amendments

The Amendments to IAS 40 clarifies that transfers to, or from, investment property are required when, and only when, there is a change in use of property supported by evidence. The amendments also re-characterise the list of circumstances appearing in paragraph 57(a)–(d) as a non-exhaustive list of examples of evidence that a change in use has occurred. The Board has also clarified that a change in management's intent, by itself, does not provide sufficient evidence that a change in use has occurred. Evidence of a change in use must be observable.



## Notes to the consolidated financial statements (continued)

### 4 Changes in accounting policies (continued)

#### 4.2 IASB Standards issued but not yet effective (continued)

##### IFRS 40 Investment Property – Amendments (continued)

Management does not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

##### *Annual Improvements to IFRSs 2014-2016 Cycle*

Amendments to IAS 28 - Clarifies that a qualifying entity is able to choose between applying the equity method or measuring an investment in an associate or joint venture at fair value through profit or loss, separately for each associate or joint venture at initial recognition of the associate or joint venture. Amendment is effective for annual periods beginning on or after 1 January 2018.

Management does not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

##### *IFRIC 22 Foreign Currency Transactions and Advance Consideration*

The Interpretations looks at what exchange rate to use for translation when payments are made or received in advance of the related asset, expense or income. A diversity was observed in practice in circumstances in which an entity recognises a non-monetary liability arising from advance consideration. The diversity resulted from the fact that some entities were recognising revenue using the spot exchange rate at the date of the receipt of the advance consideration while others were using the spot exchange rate at the date that revenue was recognized. IFRIC 22 addresses this issue by clarifying that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

Management does not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

##### *IFRIC 23 Uncertainty over income tax treatments*

The Interpretation clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRIC IC had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specified item of income in a tax return is an uncertain treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

Management does not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements.



## Notes to the consolidated financial statements (continued)

### 5 Summary of significant accounting policies

The significant accounting policies and measurements bases adopted in the preparation of the consolidated financial statements are summarised below:

#### 5.1 Basis of consolidation

The Group financial statements consolidate those of the Parent Company and all of its subsidiaries. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and they are deconsolidated from the date that control ceases. The financial statements of the subsidiaries are prepared for reporting dates which are typically not more than three months from that of the Parent Company, using consistent accounting policies. Adjustments are made for the effect of any significant transactions or events that occur between that date and the reporting date of the Parent Company's financial statements. The details of the significant subsidiaries are set out in Note 7 to the consolidated financial statements.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the date the Group gains control, or until the date the Group ceases to control the subsidiary, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests. Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- Derecognizes the cumulative translation differences, recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group has directly disposed of the related assets or liabilities.



## Notes to the consolidated financial statements (continued)

### 5 Summary of significant accounting policies (continued)

#### 5.2 Business combinations

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensives income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within other comprehensive income.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in the consolidated statement of profit or loss immediately.

#### 5.3 Goodwill and intangible assets

##### 5.3.1 Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognised. See note 15 for information on how goodwill is initially determined. Goodwill is carried at cost less accumulated impairment losses. Refer to note 5.12 for a description of impairment testing procedures.

##### 5.3.2 Intangible assets

Identifiable non-monetary assets acquired in as business combination and from which future benefits are expected to flow are treated as intangible assets. Intangible assets comprise of Indefeasible Rights of Use (IRU).

Intangible assets which have a finite life are amortized over their useful lives. For acquired network businesses whose operations are governed by fixed term licenses, the amortisation period is determined primarily by reference to the unexpired license period and the conditions for license renewal.





## Notes to the consolidated financial statements (continued)

### 5 Summary of significant accounting policies (continued)

#### 5.3 Goodwill and intangible assets (continued)

##### 5.3.2 Intangible assets (continued)

IRU are the rights to use a portion of the capacity of a terrestrial or submarine transmission cable granted for a fixed period. IRUs are recognised at cost as an asset when the Group has the specific indefeasible right to use an identified portion of the underlying asset, generally optical fibres or dedicated wave length bandwidth and the duration of the right is for the major part of the underlying asset's economic life. They are amortised on a straight line basis over the shorter of the expected period of use and the life of the contract which ranges between 10 to 15 years.

#### 5.4 Investment in associates

Associates are those entities over which the Group is able to exert significant influence but which are neither subsidiaries nor joint ventures. Investments in associates are initially recognised at cost and subsequently accounted for using the equity method. Any goodwill or fair value adjustment attributable to the Group's share in the associate is not recognised separately and is included in the amount recognised as investment in associates.

Under the equity method, the carrying amount of the investment in associates is increased or decreased to recognise the Group's share of the profit or loss and other comprehensive income of the associate, adjusted where necessary to ensure consistency with the accounting policies of the Group.

Unrealised gains and losses on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

The share of results of an associate is shown on the face of the consolidated statements of profit or loss. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate.

The difference in reporting dates of the associates and the Group is not more than three months. Adjustments are made for the effects of significant transactions or events that occur between that date and the date of the Group's consolidated financial statements. The associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount under a separate heading in the consolidated statement of profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any differences between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal are recognised in the consolidated statement of profit or loss.





## Notes to the consolidated financial statements (continued)

### 5 Summary of significant accounting policies (continued)

#### 5.5 Segment reporting

The Group has four operating segments: Investment, building materials, specialist engineering and hotel and IT services segments. In identifying these operating segments, management generally follows the Group's service lines representing its main products and services. Each of these operating segments is managed separately as each requires different approaches and other resources.

For management purposes, the Group uses the same measurement policies as those used in its financial statements. In addition, assets or liabilities which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

#### 5.6 Revenue

Revenue arises from the sale of goods, rendering of services, investing activities and real estate activities. It is measured by reference to the fair value of consideration received or receivable, excluding sales taxes, rebates and trade discounts.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when payment is made. The following specific recognition criteria should also be met before revenue is recognised;

##### 5.6.1 Sale of goods

Sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership, generally when the customer has taken undisputed delivery of the goods.

Revenue from the sale of goods with no significant service obligation is recognised on delivery.

When goods are sold together with customer loyalty incentives, the consideration receivable is allocated between the sale of goods and sale of incentives based on their fair values. Revenue from sale of incentives is recognised when they are redeemed by customers in exchange for products supplied by the Group.

##### 5.6.2 Rendering of services

The Group generates revenues from after-sales service and maintenance, consulting and construction contracts. Consideration received for these services is initially deferred, included in other liabilities and is recognised as revenue in the period when the service is performed.

In recognising after-sales service and maintenance revenues, the Group considers the nature of the services and the customer's use of the related products, based on historical experience.

The Group also earns rental income from operating leases of its investment properties. Rental income is recognised on a straight-line basis over the term of the lease.

The Group earns fees and commission income from diverse range of asset management, investment banking, custody and brokerage services provided to its customers. Fee income can be divided into the following two categories:

- Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management fees.



## Notes to the consolidated financial statements (continued)

### 5 Summary of significant accounting policies (continued)

#### 5.6 Revenue (continued)

##### 5.6.2 Rendering of services (continued)

- Fee income from providing transaction services

Fees arising for rendering specific advisory services, brokerage services, equity and debt placement transactions for a third party or arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction.

##### 5.6.3 Interest and similar income

Interest income and expenses are reported on an accrual basis using the effective interest method.

Murabaha income is recognised on a time proportion basis so as to yield a constant periodic rate of return based on the balance outstanding.

##### 5.6.4 Dividend income

Dividend income, other than those from investments in associates, are recognised at the time the right to receive payment is established.

##### 5.6.5 Revenue from sale of investment properties

Revenue from sale of investment properties is recognised on completion of sale contract and after transferring the risk and rewards associated with the real estate to the purchaser and the amount of revenue can be reliably measured.

#### 5.7 Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin.

#### 5.8 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and reported in finance costs.

#### 5.9 Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and impairment losses. Depreciation is calculated to write off the cost or valuation, less the estimated residual value of property, plant and equipment, on a straight-line basis over their estimated useful lives as follows:

Freehold buildings	Lower of 50 years or remaining useful life
Long leasehold property	Lower of 50 years or remaining lease term
Short leasehold property	Lease term
Property on leasehold land	4 to 20 years
Plant and machinery	1 to 20 years
Motor vehicles	2 to 10 years
Furniture and equipment	3 to 10 years



## Notes to the consolidated financial statements (continued)

### 5 Summary of significant accounting policies (continued)

#### 5.9 Property, plant and equipment and depreciation (continued)

Any increase arising on revaluation is credited directly to other comprehensive income as "revaluation reserve" except to the extent where the increase reverses a revaluation decrease related to the same asset for which a decrease in valuation has previously been recognised as an expense, it is credited to the consolidated statement of income. Any decrease in the net carrying amount arising on revaluation is charged directly to the consolidated statement of income, or charged to the revaluation reserve to the extent that the decrease is related to an increase for the same asset which was previously recorded as a credit to the revaluation surplus.

Depreciation on the re-valued properties is charged to the consolidated statement of income over their remaining estimated useful lives and an amount equivalent to the excess depreciation charge relating to the increase in carrying amount is transferred each year from the revaluation reserve to retained earnings.

No depreciation is provided on freehold land. Properties in the course of construction for production or administrative purposes are carried at cost, less any recognised impairment loss. Depreciation of these assets, which is on the same basis as other property assets, commences when the assets are ready for their intended use.

#### 5.10 Leased assets

##### 5.10.1. Finance lease

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards of ownership of the leased asset. Where the Group is a lessee in this type of arrangement, the related asset is recognised at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognised as a finance lease liability. Leases of land and buildings are classified separately and are split into a land and a building element, in accordance with the relative fair values of the leasehold interests at the date the asset is recognised initially.

See note 5.9 for the depreciation methods and useful lives for assets held under finance lease. The corresponding finance lease liability is reduced by lease payments net of finance charges. The interest element of lease payments represents a constant proportion of the outstanding capital balance and is charged to profit or loss, as finance costs over the period of the lease.

##### 5.10.2. Operating lease

All other leases are treated as operating leases. Where the Group is a lessee, payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term except where the lease terms are onerous in which case the provision is made for the net present value of the probable liability. Associated costs, such as maintenance and insurance, are expensed as incurred.

#### 5.11. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation, and are accounted for using the fair value model.

Investment properties are initially measured at cost, including transaction costs. Subsequently, investment properties are re-measured at fair value on an individual basis based on valuations by independent real estate valuers and are included in the consolidated statement of financial position. Changes in fair value are taken to the consolidated statement of profit or loss.



## Notes to the consolidated financial statements (continued)

### 5 Summary of significant accounting policies (continued)

#### 5.11 Investment properties (continued)

Investment properties are de-recognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

#### 5.12 Impairment testing of goodwill and non-financial assets

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated (determined by the Group's management as equivalent to its operating segments) are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from the asset or each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements.

Discount factors are determined individually for each asset or cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

#### 5.13 Financial instruments

##### 5.13.1 Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.



## Notes to the consolidated financial statements (continued)

### 5 Summary of significant accounting policies (continued)

#### 5.13 Financial instruments (continued)

##### 5.13.1. Recognition, initial measurement and derecognition (continued)

All 'regular way' purchases and sales of financial assets are recognised on the trade date i.e. the date that the entity commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

A financial asset (or, where applicable a part of financial asset or part of group of similar financial assets) is primarily derecognised when:

- rights to receive cash flows from the assets have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement; and either
  - (a) the Group has transferred substantially all the risks and rewards of the asset or the Group has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in consolidated statement of profit or loss.

##### 5.13.2. Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss (FVTPL)
- held-to-maturity (HTM) investments
- available-for-sale (AFS) financial assets.

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.





## Notes to the consolidated financial statements (continued)

### 5 Summary of significant accounting policies (continued)

#### 5.13. Financial instruments (continued)

##### 5.13.2. Classification and subsequent measurement of financial assets (continued)

All material income and expenses relating to financial assets that are recognised in profit or loss are presented within income from investments, interest & other income or under a separate heading in the consolidated statement of profit or loss.

- **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest rate method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

The Group categorises loans and receivables into following categories:

- **Murabaha investments/receivables**

Murabaha is an Islamic transaction involving the purchase and immediate sale of an asset at cost plus an agreed profit. The amount due is settled on a deferred payment basis. When the credit risk of the transaction is attributable to a financial institution, the amount due under Murabaha contracts is classified as a Murabaha investment. Whereas, when the credit risk of transaction is attributable to counterparties other than banks and financial institutions, the amount due is classified as Murabaha receivable.

Murabaha receivables which arise from the Group's financing of long-term transactions on an Islamic basis are classified as Murabaha receivables originated by the Group and are carried at the principal amount less provision for credit risks to meet any decline in value. Third party expenses such as legal fees, incurred in granting a Murabaha are treated as part of the cost of the transaction.

All Murabaha receivables are recognized when the legal right to control the use of the underlying asset is transferred to the customer.

- **Wakala investments**

Wakala is an agreement whereby the Group provides a sum of money to a financial institution under an agency arrangement, who invests it according to specific conditions in return for a fee. The agent is obliged to return the amount in case of default, negligence or violation of any terms and conditions of Wakala.

- **Loans and advances**

Loans and advances are financial assets originated by the Group by providing money directly to the borrower that have fixed or determinable payments and are not quoted in an active market.





## Notes to the consolidated financial statements (continued)

### 5 Summary of significant accounting policies (continued)

#### 5.13. Financial instruments (continued)

##### 5.13.2. Classification and subsequent measurement of financial assets (continued)

- **Bank balances cash and Short term deposits**

Cash on hand and demand deposits are classified under bank balances and cash and short term deposits represent deposits placed with financial institutions with a maturity of less than one year.

- **Receivables and other financial assets**

Trade receivable are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Loans and receivables which are not categorised under any of the above are classified as "Other receivables/Other financial assets"

- **Financial assets at FVTPL**

Classification of investments as financial assets at FVTPL depends on how management monitor the performance of these investments. Investments at FVTPL are either "held for trading" or "designated" as such on initial recognition.

The Group classifies investments as trading if they are acquired principally for the purpose of selling or are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of statement of profit or loss in the management accounts, they are as designated at FVTPL upon initial recognition.

All derivative financial instruments fall into the category of FVTPL, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply. Assets and liabilities in this category are measured at fair value with gains or losses recognised in consolidated statement of profit or loss.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

- **HTM investments**

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the Group has the intention and ability to hold them until maturity.

HTM investments are measured subsequently at amortised cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognised in profit or loss. The Group currently has not classified any assets in to this category.



## Notes to the consolidated financial statements (continued)

### 5 Summary of significant accounting policies (continued)

#### 5.13. Financial instruments (continued)

##### 5.13.2. Classification and subsequent measurement of financial assets (continued)

- **AFS financial assets**

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

Financial assets whose fair value cannot be reliably measured are carried at cost less impairment losses, if any. Impairment charges are recognised in profit or loss. All other AFS financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within the fair value reserve within equity, except for impairment losses, and foreign exchange differences on monetary assets, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income.

The Group assesses at each reporting date whether there is objective evidence that a financial asset available for sale or a group of financial assets available for sale is impaired. In the case of equity investments classified as financial assets available for sale, objective evidence would include a significant or prolonged decline in the fair value of the equity investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss is removed from other comprehensive income and recognised in the consolidated statement of profit or loss.

Reversals of impairment losses are recognised in other comprehensive income, except for financial assets that are debt securities which are recognised in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

AFS financial assets are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

##### 5.13.3. Classification and subsequent measurement of financial liabilities

The Group's financial liabilities include trust certificates issued, borrowings, leasing creditors, due to banks, trade payables and other liabilities and derivative financial instruments.

The subsequent measurement of financial liabilities depends on their classification as follows:

- **Financial liabilities other than at fair value through profit or loss (FVTPL)**

These are stated at amortised cost using effective interest rate method. The Group categorises financial liabilities other than at FVTPL into the following categories:

- **Borrowings**

All borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated statement of income when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.



## Notes to the consolidated financial statements (continued)

### 5 Summary of significant accounting policies (continued)

#### 5.13. Financial instruments (continued)

##### 5.13.3. Classification and subsequent measurement of financial liabilities (continued)

- **Financial liabilities other than at fair value through profit or loss (FVTPL) (continued)**
- **Bonds**

Bonds are stated on the consolidated statement of financial position at their principal amount, net of directly related costs of issuing the bonds to the extent that such costs have not been amortised. These costs are amortised through the consolidated statement of profit or loss over the life of the bonds using the effective interest rate method.

Finance cost is charged as an expense as it accrues, with unpaid amounts included in accounts payable and other liabilities.

- **Wakala payables**

Wakala payables represent short-term borrowings under Islamic principles, whereby the Group receives funds for the purpose of financing its investment activities and are stated at amortised cost.

- **Murabaha finance payables**

Murabaha finance payables represent amounts payable on a deferred settlement basis for assets purchased under murabaha arrangements. Murabaha finance payables are stated at the gross amount of the payable, net of deferred finance cost. Deferred finance cost is expensed on a time apportionment basis taking into account the borrowing rate attributable and the balance outstanding.

- **Ijara financing**

Ijara finance payable ending with ownership is an Islamic financing arrangement through which a financial institution provides finance to purchase an asset by way of renting the asset ending with transferring its ownership. This ijara finance payable is stated at the gross amount of the payable, net of deferred finance cost. Deferred finance costs are expensed on a time apportionment basis taking into account the borrowing rate attributable and the balance outstanding.

- **Leasing and hire purchase payables**

Assets acquired under finance leases and hire purchase arrangements are capitalised and the related liabilities, excluding finance charges are included in liabilities. Finance charges in respect of such liabilities are charged to the consolidated statement of profit or loss as incurred.

- **Accounts payables and other financial liabilities**

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not, and classified as trade payables. Financial liabilities other than at FVTPL which are not categorised under any of the above are classified as "Other financial liabilities"

All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss, are included within finance costs or other income.



## Notes to the consolidated financial statements (continued)

### 5 Summary of significant accounting policies (continued)

#### 5.13. Financial instruments (continued)

##### 5.13.3. Classification and subsequent measurement of financial liabilities (continued)

- Financial liabilities at fair value through profit or loss (FVTPL)

Financial liabilities at FVTPL are either held for trading or designated as such on initial recognition.

Financial liabilities held for trading or designated at FVTPL, are carried subsequently at fair value with gains or losses recognised in profit or loss. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

- Derivative financial instruments

Where the Group uses derivative financial instruments, such as interest rate to mitigate its risks associated with interest rate fluctuations, such derivative financial instruments are initially recognised at cost, being the fair value on the date on which a derivative contract is entered into, and are subsequently re-measured at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using valuation quotes provided by financial institutions, based on prevailing market information. Derivatives, if any, are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The Group does not adopt hedge accounting, and any realised and unrealised (from changes in fair value) gain or losses are recognised directly in the consolidated statement of profit or loss.

##### 5.13.4. Amortised cost of financial instruments

This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

##### 5.13.5. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

##### 5.13.6. Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 36.

#### 5.14. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Costs of ordinarily interchangeable items are assigned using the weighted average cost formula.

Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.



## Notes to the consolidated financial statements (continued)

### 5 Summary of significant accounting policies (continued)

#### 5.15. Equity, reserves and dividend payments

Share capital represents the nominal value of shares that have been issued and paid up.

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Statutory and voluntary reserves comprise appropriations of current and prior period profits in accordance with the requirements of the companies' law and the Parent Company's articles of association.

Other components of equity include the following:

- foreign currency translation reserve – comprises foreign currency translation differences arising from the translation of financial statements of the Group's foreign entities into KD and the Group's share of foreign currency translation reserves shown in the associates statement of financial position.
- Fair value reserve – comprises gains and losses relating to available for sale financial assets

Accumulated losses include all current and prior period profit/(losses) incurred. All transactions with owners of the Parent Company are recorded separately within equity.

Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general assembly meeting.

#### 5.16. Treasury shares

Treasury shares consist of the Parent Company's own issued shares that have been reacquired by the Group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity.

When the treasury shares are reissued, gains are credited to a separate account in equity, (the "gain on sale of treasury shares reserve"), which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to the voluntary reserve and statutory reserve. No cash dividends are paid on these shares. The issue of stock dividend shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

#### 5.17 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the consolidated statement of financial position, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.





## Notes to the consolidated financial statements (continued)

### 5 Summary of significant accounting policies (continued)

#### 5.18 Foreign currency translation

##### 5.18.1 Functional and presentation currency

The consolidated financial statements are presented in currency Kuwait Dinar (KD), which is also the functional currency of the parent company. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

##### 5.18.2 Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in profit or loss. Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined. Translation difference on non-monetary asset classified as, "fair value through profit or loss" is reported as part of the fair value gain or loss in the consolidated statement of income and "available for sale" are reported as part of the cumulative change in fair value reserve within other comprehensive income.

##### 5.18.3 Foreign operations

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the KD are translated into KD upon consolidation.

On consolidation, assets and liabilities have been translated into KD at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into KD at the closing rate. Income and expenses have been translated into KD at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the foreign currency translation reserve in equity. On disposal/liquidation of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to profit or loss and are recognised as part of the gain or loss on disposal/liquidation.

#### 5.19. End of service indemnity

The parent and its local subsidiaries provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period in accordance with relevant labour law and the employees' contracts. The expected costs of these benefits are accrued over the period of employment. This liability, which is unfunded, represents the amount payable to each employee as a result of termination on the reporting date.

In addition to the end of service benefits with respect to its Kuwaiti national employees, the Group also makes contributions to the Public Institution for Social Security calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

#### 5.20. Pensions (related to the foreign subsidiaries)

Contributions are paid to both defined benefit and defined contribution pension schemes in accordance with the recommendations of independent actuaries and advisors. Contributions to defined contribution schemes are charged to the consolidated statement of profit or loss on an accrual basis.





## Notes to the consolidated financial statements (continued)

### 5 Summary of significant accounting policies (continued)

#### 5.20. Pensions (related to the foreign subsidiaries) (continued)

In respect of defined benefit schemes a defined benefit liability (or asset) is recognised in the consolidated statement of financial position and it is calculated as the present value of the defined benefit obligation using the projected unit credit method plus any unrecognised actuarial gains or losses less any past service cost not recognised less the market value of the plan assets.

Pension expense is charged to the consolidated statement of profit or loss and is calculated as the aggregate of current service cost (using the projected unit credit method), a net interest cost on the discounted defined benefit obligation net of the expected return on plan assets, recognised actuarial gains and losses, recognised past service costs and the effect of curtailments or settlements.

Actuarial gains or losses are recognised in full in other comprehensive income.

#### 5.21. Share-based Payment

Certain employees of the Group receive remuneration in the form of share-based payment transactions, whereby the employees render services in exchange for shares ("equity settled transactions").

Equity-settled transactions

The cost of equity-settled transactions with employees is measured under the intrinsic value method. Under this method, the cost is determined by comparing the period end market value of the company's shares with the issue price. The cost of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the shares vest.

#### 5.22. Taxation

##### 5.22.1. National Labour Support Tax (NLST)

NLST is calculated in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit of the Group. As per law, allowable deductions include, share of profits of listed associates and cash dividends from listed companies which are subjected to NLST.

For the year ended 31 December 2017, one of the subsidiaries of the Group has no liability towards NLST in line with agreement between The Islamic Republic of Pakistan and the State of Kuwait for the "avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income" which state that income source shall be taxed only in the Contracting State.

##### 5.22.2. Kuwait Foundation for the Advancement of Sciences (KFAS)

The contribution to KFAS is calculated at 1% of taxable profit of the Group in accordance with the modified calculation based on the Foundation's Board of Directors' resolution, which states that income from Kuwaiti shareholding associates and subsidiaries and transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

##### 5.22.3. Zakat

Contribution to Zakat is calculated at 1% of the profit of the Group in accordance with the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.



## Notes to the consolidated financial statements (continued)

### 5 Summary of significant accounting policies (continued)

#### 5.22. Taxation (continued)

##### 5.22.3. Zakat (continued)

For the year ended 31 December 2016 and 2017, the Parent Company has no liability towards NLST, KFAS and Zakat due to tax losses incurred.

##### 5.22.4. Withholding taxes

The Group is exempt from income taxation and withholding taxes in Kuwait. However, in some jurisdictions, investment income and capital gains are subject to withholding tax deducted at the source of the income. Withholding tax is a generic term used for the amount of withholding tax deducted of the source of the income and is not significant for the Group. The Group presents the withholding tax separately from the gross investment income in the consolidated statement of profit or loss. For the purpose of the consolidated statement of cash flows, cash inflows from investments are presented net of withholding taxes, when applicable.

##### 5.22.5. Taxation on overseas subsidiaries

Taxation on overseas subsidiaries is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries where these subsidiaries operate.

Deferred taxation is provided in respect of all temporary differences. Deferred tax assets are recognised in respect of unutilised tax losses when it is probable that the loss will be used against future profits.

#### 5.23. Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and bank balances, short-term deposits, murabaha and wakala investments and short term highly liquid investments maturing within three months from the date of inception less due to banks and blocked bank balances.

#### 5.24. Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these consolidated financial statements.

### 6 Significant management judgements and estimation uncertainty

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

#### 6.1. Significant management judgments

In the process of applying the Group's accounting policies, management has made the following significant judgments, which have the most significant effect on the amounts recognised in the consolidated financial statements:



## Notes to the consolidated financial statements (continued)

### 6 Significant management judgements and estimation uncertainty (continued)

#### 6.1. Significant management judgments (continued)

##### 6.1.1. Classification of financial instruments

Judgements are made in the classification of financial instruments based on management's intention at acquisition. Such judgement determines whether it is subsequently measured at cost, amortised cost or at fair value and if the changes in fair value of instruments are reported in the statement of profit or loss or profit or loss and other comprehensive income.

The Group classifies financial assets as held for trading if they are acquired primarily for the purpose of short term profit making.

Classification of financial assets as fair value through profit or loss depends on how management monitors the performance of these financial assets. When they are not classified as held for trading but have readily available fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified as fair value through profit or loss.

Classification of assets as loans and receivables depends on the nature of the asset. If the Group is unable to trade these financial assets due to inactive market and the intention is to receive fixed or determinable payments the financial asset is classified as loans and receivables.

All other financial assets are classified as available for sale.

##### 6.1.2. Classification of real estate

Management decides on acquisition of a real estate whether it should be classified as trading or investment property. Such judgement at acquisition determines whether these properties are subsequently measured at cost or net realisable value whichever is lower or fair value and if the changes in fair value of these properties are reported in the statement of profit or loss.

The Group classifies property as trading property if it is acquired principally for sale in the ordinary course of business.

The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

##### 6.1.3 Control assessment

When determining control, management considers whether the Group has the practical ability to direct the relevant activities of an investee on its own to generate returns for itself. The assessment of relevant activities and ability to use its power to affect variable return requires considerable judgement.

##### 6.1.4. Equity method accounting for entities in which the Group holds less than 20% of the voting rights

Management has assessed the level of influence that the Group has over its material associate, Mabanee Company - KPSC and determined that it has significant influence even though the shareholding in this associate is below 20%, because of the factors mentioned in note 17.3. Consequently, this investment has been classified as an associate and has been accounted for using the equity method.



## Notes to the consolidated financial statements (continued)

### 6 Significant management judgements and estimation uncertainty (continued)

#### 6.2. Estimates uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

##### 6.2.1 Impairment of goodwill and other intangible assets

The Group determines whether goodwill and intangible assets are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

##### 6.2.2. Impairment of associates

After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss on the Group's investment in its associated companies, at each reporting date based on existence of any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of profit or loss.

##### 6.2.3. Impairment of available for sale investments

The Group treats available for sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

During the year 2017 the Group recognised an impairment loss of KD5,247 thousand (2016: KD18,696 thousand) against available for sale investments.

##### 6.2.4. Impairment of loans and receivables

The Group's management reviews periodically items classified as loans and receivables (including wakala investments note 22) to assess whether a provision for impairment should be recorded in the consolidated statement of profit or loss. In particular, considerable judgement by management is required in the estimation of amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty.

During the 2017 the Group has recognised net impairment losses of KD246 thousand (2016: KD1,056 thousand) against loans and receivables.

##### 6.2.5. Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.



## Notes to the consolidated financial statements (continued)

### 6 Significant management judgements and estimation uncertainty (Continued)

#### 6.2. Estimates uncertainty (continued)

##### 6.2.5. Impairment of inventories (continued)

Management estimates the net realisable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realisation of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

At the financial position date, gross inventories were KD34,963 thousand (2016: KD34,129 thousand), with provision for old and obsolete inventories of KD1,769 thousand (2016: KD1,695 thousand). Any difference between the amounts actually realised in future periods and the amount expected will be recognised in the consolidated statement of profit or loss.

##### 6.2.6. Useful lives of depreciable/amortisable assets

Management reviews its estimate of the useful lives of depreciable/amortisable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical and other obsolescence that may change the utility of certain software, intangible assets and property, plant and equipment.

##### 6.2.7. Fair value of financial instruments

Management apply valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

##### 6.2.8. Revaluation of investment properties

The Group carries its investment properties at fair value, with changes in fair value being recognised in the consolidated statement of profit or loss. The Group engaged independent valuation specialists to determine fair values and the valuers have used valuation techniques to arrive at these fair values. These estimated fair values of investment properties may vary from the actual prices that would be achieved in a arm's length transaction at the reporting date.

##### 6.2.9. Defined benefits obligation

Management's estimate of the defined benefit obligation is based on number of critical underlying assumption such as standard rates of inflation, mortality, discount rate and anticipation of future pension increases. Variation in these assumptions may significantly impact the defined benefit obligations and amount and the annual defined benefits expenses (as analysed in note 33).

##### 6.2.10. Provision for foreign taxation

The Group has made provision for potential tax liabilities which may arise on foreign income. These provisions have been assessed based on information available to management as of the reporting date. The actual liability which may or may not arise if and when the relevant tax authorities make an official assessment may substantially differ from the actual provision made (refer note 30 c).





## Notes to the consolidated financial statements (continued)

### 7 Subsidiary companies

**7.1 Details of the Group's material consolidated subsidiaries at the end of the reporting period are as follows:**

	Country of registration and place of business	Nature of business	Proportion of ownership interest	
			31 Dec. 2017	31 Dec. 2016
			%	%
Al Durra National Real Estate – KSC (Closed)	Kuwait	Real Estate	97*	97*
National Combined Industries Holding Company for Energy – KSC (Closed)	Kuwait	Investments	96*	96*
Pearl National Holding – KSC (Closed)	Kuwait	Investments	99*	99*
Economic Holding Company – KSC (Closed)	Kuwait	Investments	97*	97*
BI Group Plc	United Kingdom	Specialist Engineering	100	100
Proclad Group Limited	UAE	Specialist Engineering	100	100
Eagle Proprietary Investments Limited	UAE	Investments	100	100
Pearl Offshore Enterprises Limited (note 7.3)	BVI	Investments Holdings	100	100
Denham Investment Limited	Cayman Islands	Investments	85	85
Ikarus Petroleum Industries Company – KPSC	Kuwait	Petroleum	72	72
National Industries Company - KPSC	Kuwait	Industrial	51	51
Noor Financial Investment Company – KPSC	Kuwait	Investments	51	51

\* The Group's holding of these subsidiaries are 100% and the remaining stake is held by nominees on its behalf.

### 7.2 Subsidiaries with material non-controlling interests

The Group includes three subsidiaries with material non-controlling interests (NCI):

Name	Proportion of ownership interests and voting rights held by the NCI		Profit allocated to NCI		Accumulated NCI	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
			KD '000	KD '000	KD '000	KD '000
Noor Financial Investment Company - KPSC (NFI)	49%	49%	505	(21)	47,333	51,281
National Industries Company - KPSC (NIC)	49%	49%	1,247	122	51,541	52,909
Ikarus Petroleum Industries Company – KPSC (IPI)	28%	28%	33	(245)	26,503	28,758
Individual immaterial subsidiaries with non-controlling interests			242	441	4,750	4,099
			2,027	297	130,127	137,047





## Notes to the consolidated financial statements (continued)

### 7 Subsidiary companies (continued)

#### 7.2 Subsidiaries with material non-controlling interests (continued)

Summarised financial information for the above subsidiaries, before intragroup eliminations, is set out below:

	31 December 2017			31 December 2016		
	NFI	NIC	IPI	NFI	NIC	IPI
	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000
Non-current assets	103,731	68,261	87,994	116,191	70,069	98,304
Current assets	67,383	45,478	21,702	67,396	42,844	18,989
Total assets	171,114	113,739	109,696	183,587	112,913	117,293
Non-current liabilities	8,333	6,244	12,911	52,793	5,938	14,845
Current liabilities	100,358	17,334	3,747	61,878	16,411	1,910
Total liabilities	108,691	23,578	16,658	114,671	22,349	16,755
Equity attributable to the shareholders of the Parent Company	21,856	42,668	67,360	23,339	43,099	72,082
Non-controlling interest (including non-controlling interests in the subsidiary's statement of financial position)	40,567	47,493	25,678	45,577	47,465	28,456

	For the year ended 31 December 2017			For the year ended 31 December 2016		
	NFI	NIC	IPI	NFI	NIC	IPI
	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000
Revenue	28,063	45,809	2,183	24,887	42,894	850
Profit/(loss) for the year attributable to the shareholders of the Parent Company	1,461	1,618	566	561	344	(518)
Profit/(loss) for the year attributable to NCI	639	1,353	216	(77)	140	(205)
Profit/(loss) for the year	2,100	2,971	782	484	484	(723)
Other comprehensive (loss)/income for the year attributable to the shareholders of the Parent Company	(3,295)	9	(6,003)	1,103	716	22,374
Other comprehensive (loss)/income for the year attributable to NCI	(3,419)	(42)	(2,288)	(674)	730	8,833
Total other comprehensive (loss)/income for the year	(6,714)	(33)	(8,291)	429	1,446	31,207
Total comprehensive (loss)/income for the year attributable to the shareholders of the Parent Company	(1,834)	1,627	(5,437)	1,664	1,060	21,856
Total comprehensive (loss)/income for the year attributable to NCI	(2,780)	1,311	(2,072)	(751)	870	8,628
Total comprehensive (loss)/income for the year	(4,614)	2,938	(7,509)	913	1,930	30,484
Dividend paid to non-controlling interests	-	(1,749)	-	-	(3,477)	-



## Notes to the consolidated financial statements (continued)

### 7 Subsidiary companies (continued)

#### 7.2 Subsidiaries with material non-controlling interests (continued)

	For the year ended 31 December 2017			For the year ended 31 December 2016		
	NFI	NIC	IPI	NFI	NIC	IPI
	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000
Net cash flow from/(used in) operating activities	2,709	9,668	(2,367)	(525)	5,174	(981)
Net cash flow from/(used in) investing activities	5,429	(2,260)	3,737	14,477	2,249	23,143
Net cash flow used in financing activities	(11,222)	(4,169)	(683)	(6,264)	(7,101)	(18,049)
Net cash (outflow)/inflow	(3,084)	3,239	687	7,688	322	4,113

7.3 Pearl Offshore Enterprises Limited is a special purpose vehicle (SPV) which was incorporated during the year 2011 and total assets with a carrying value of KD121,842 thousand (2016: KD117,966 thousand) and total liabilities of KD83,472 thousand (2016: KD74,418 thousand) of the Parent Company are held by the SPV.

### 8 Income from investments

	Year ended 31 Dec. 2017	Year ended 31 Dec. 2016
	KD <000	KD <000
Dividend income:		
- From investments at fair value through profit or loss	806	609
- From available for sale investments	6,572	6,259
Profit on sale of available for sale investments	18,124	3,689
Realised gain on investments at fair value through profit or loss	1,342	166
Unrealised gain on investments at fair value through profit or loss	7,726	3,046
	34,570	13,769

### 9 Interest and other income

	Year ended 31 Dec. 2017	Year ended 31 Dec. 2016
	KD <000	KD <000
Interest/profit on bank balances, short term deposits, murabaha and wakala investments	617	501
Income from financing of future trade by customers	55	265
Service income	219	23
Management and placement fees	253	279
Gain on disposal of property, plant and equipment	-	1,001
Discount on settlement of borrowings (refer note 28 a)	2,063	-
Others	1,553	1,132
	4,760	3,201



## Notes to the consolidated financial statements (continued)

### 10 Net gain on financial assets

Net gain on financial assets, analysed by category, is as follows:

	Year ended 31 Dec. 2017	Year ended 31 Dec. 2016
	KD <000	KD <000
Loans and receivables		
- bank balances and short term deposits	602	262
- murabaha and wakala investments	15	239
- accounts receivable and other assets (income from future trade)	55	265
- impairment in value of receivable and other assets	(246)	(1,056)
At fair value through profit or loss		
- held for trading	1,658	1,189
- designated as such on initial recognition	8,216	2,632
Available for sale investments		
- recognised in other comprehensive income (including non-controlling interests share)	(11,186)	19,430
- recycled from other comprehensive income to consolidated statement of profit or loss		
• On impairment	(5,247)	(18,696)
• On disposal	11,444	2,704
- recognised directly in consolidated statement of profit or loss	13,252	7,244
	18,563	14,213
Net gain/(loss) recognised in the consolidated statement of profit or loss	29,749	(5,217)
Net (loss)/gain recognised in the other comprehensive income	(11,186)	19,430
	18,563	14,213

### 11 Finance costs

Finance costs relate mainly to due to banks, short term borrowings, long term borrowings & bonds and lease creditors. All these financial liabilities are stated at amortised cost.

### 12 Taxation and other statutory contributions

#### (a) Foreign taxation

Taxation of subsidiaries\*

	Year ended 31 Dec. 2017	Year ended 31 Dec. 2016
	KD <000	KD <000
<b>Current tax expense</b>		
Current year charge	(527)	(256)
<b>Deferred tax income</b>		
Current year income	39	548
	(488)	292

\* Foreign taxation includes an amount of KD482 thousand charged (2016: KD292 thousand reversed) by certain foreign subsidiaries which is calculated based on the tax law adopted in United Kingdom.



## Notes to the consolidated financial statements (continued)

### 12 Taxation and other statutory contributions (continued)

(b) KFAS, NLST and Zakat of local subsidiaries

	Year ended 31 Dec. 2017	Year ended 31 Dec. 2016
	KD <000	KD <000
Contributions to Kuwait Foundation for Advancement of Science (KFAS)	(266)	(17)
Provision for National Labour Support Tax (NLST)	(166)	(58)
Provision for Zakat	(285)	(20)
	(717)	(95)

The contributions and provisions are on profit of local subsidiaries, whereas no contribution and provision for the Parent Company was recognised in the current year (2016: Nil) as the net taxable results attributable to the Parent Company was a loss.

### 13 Profit/(loss) for the year

Profit/(loss) for the year is stated after charging:

	Year ended 31 Dec. 2017	Year ended 31 Dec. 2016
	KD <000	KD <000
Staff costs	27,385	28,018
Depreciation and amortisation	6,727	7,473
Provision for cost of gas usage for previous years	-	2,700
Net provision (reversal)/charged for obsolete and slow moving inventories	(74)	335

The number of staff employed by the Parent Company at 31 December 2017 was 67 (2016: 64).

### 14 Basic and diluted earnings/(loss) per share attributable to the owners of the Parent

Earnings/(loss) per share are calculated by dividing the profit/(loss) for the year attributable to the owners of the Parent Company by the weighted average number of shares outstanding during the year as follows:

	Year ended 31 Dec. 2017	Year ended 31 Dec. 2016
Profit/(loss) for the year attributable to the owners of the Parent Company (KD <000)	24,160	(24,192)
Weighted average number of shares outstanding during the year (excluding treasury shares) – shares	1,325,056,996	1,325,056,996
Basic and diluted earnings/(loss) per share	18.2 Fils	(18.3) Fils

	Year ended 31 Dec. 2017	Year ended 31 Dec. 2016
	KD <000	KD <000
Balance at 1 January	10,708	9,255
Additions	83	2,520
Foreign exchange adjustment	573	(1,067)
	11,364	10,708



## Notes to the consolidated financial statements (continued)

### 15 Goodwill and intangible assets

#### 15.1 Goodwill

Goodwill represents the excess of cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the acquired subsidiaries. Goodwill of KD2,029 thousand (2016: KD2,029 thousand) and KD9,335 thousand (2016: KD8,679 thousand) has been allocated to the IT service business and specialist engineering unit of the Group, respectively as these are the cash generating unit (CGU) which is expected to benefit from the synergies of the business combination. It is also the lowest level at which goodwill is monitored for impairment purposes.

#### Impairment testing

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the CGUs to which these items are allocated. The recoverable amount is determined based on higher of value-in-use calculations or fair value less cost to sell.

Management used the following approach to determine values to be assigned to the following key assumptions in the value in use calculations:

<i>Key assumption</i>	Basis used to determine value to be assigned to key assumption
	Anticipated average growth rate of 0% to 3% (2016: 0% to 3%) per annum. Value assigned reflects .past experience and changes in economic environment
Growth rates	Cash flows beyond the five-year period have been extrapolated using a growth rate of 0% to 3% (2016: 0% to 3%). This growth rate does not exceed the long term average growth rate of the market .in which the CGU operates
Discount rates	Discount rates of 3.5% to 17% (2016: 3.5% to 17.2%). Discount rates used are pre-tax and reflect .specific risks relating to the relevant CGU

The Group has performed a sensitivity analysis by varying these input factors by a reasonably possible margin and assessing whether the change in input factors result in any of the goodwill allocated to appropriate cash generating units being impaired. Based on the above analysis, there are no indications that goodwill included in any of the cash generating units is impaired.

#### 15.2 Intangible assets – Indefeasible right of use (IRU)

This represents an intangible asset in the form of an indefeasible right of use (IRU) to a telecommunication asset carried at KD2,757 thousand (31 December 2016: KD3,317 thousand) arising from a subsidiary acquired during 2014 and the movement is as follows:

	Year ended 31 Dec. 2017	Year ended 31 Dec. 2016
	KD <000	KD <000
<b>Cost</b>		
At the beginning of the year	3,631	3,631
Disposal of intangible assets*	(363)	-
Balance at the end of the year	3,268	3,631
<b>Accumulated amortization</b>		
At the beginning of the year	(314)	(63)
Relating to disposal*	48	-
Charge for the year	(245)	(251)
At the end of the year	(511)	(314)
Net book value at the end of the year	2,757	3,317
Total goodwill and intangible assets	14,121	14,025

\*During the year the Group has disposed a portion of its IRU rights for a consideration equivalent to KD180 thousand equivalent to USD600 thousand realising a loss of KD135 thousand. Consequently, management has performed an internal impairment assessment of the intangible assets and no indications were noted that the carrying value of the intangible assets are impaired.



## Notes to the consolidated financial statements (continued)

### 16 Property, plant and equipment

Year ended 31 December 2017

	Land	Freehold property	Leasehold property	Property on leasehold land	Plant and machinery	Motor vehicles	Furniture and equipment	Leased plant, machinery & vehicles	Property under construction	Total
	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000
<b>Cost or valuation</b>										
At 1 January 2017	1,483	18,619	598	35,249	91,579	12,812	13,210	2,567	2,540	178,657
Foreign exchange adjustments	(20)	69	10	(32)	1,856	20	15	189	-	2,107
Additions/transfer/consolidation of new subsidiaries	-	402	4	137	4,220	327	235	24	2,534	7,883
Reclassification	-	1,124	6	-	(1,130)	-	-	-	-	-
Disposals	-	-	-	(29)	(1,263)	(93)	(32)	-	-	(1,417)
At 31 December 2017	1,463	20,214	618	35,325	95,262	13,066	13,428	2,780	5,074	187,230
<b>Accumulated depreciation and impairment losses</b>										
At 1 January 2017	-	4,704	51	24,891	56,310	10,642	9,563	1,659	-	107,820
Foreign exchange adjustments	-	3	10	(9)	1,824	19	(6)	127	-	1,968
Charge for the year	-	721	12	765	3,415	650	773	146	-	6,482
Relating to disposals	-	-	-	(18)	(1,236)	(68)	(32)	-	-	(1,354)
At 31 December 2017	-	5,428	73	25,629	60,313	11,243	10,298	1,932	-	114,916
<b>Net book value</b>										
At 31 December 2017	1,463	14,786	545	9,696	34,949	1,823	3,130	848	5,074	72,314

Properties on lease hold land are on lands which have been leased from the government of Kuwait through renewable lease contracts. Property under construction mainly represents the cost incurred, on the expansion of one of the subsidiaries existing factories and the construction of a manufacturing lines by a subsidiary. During the prior years, portions of the manufacturing lines which were completed and ready for intended use were capitalised in the appropriate categories. The costs relating to the remaining manufacturing lines and facilities will be transferred to the appropriate asset categories when the assets are ready for their intended use.





## Notes to the consolidated financial statements (continued)

### 16 Property, plant and equipment (continued)

Year ended 31 December 2016

	Land KD '000	Freehold property KD '000	Leasehold property KD '000	Property on leasehold land KD '000	Plant and machinery KD '000	Motor vehicles KD '000	Furniture and equipment KD '000	Leased plant, machinery & vehicles KD '000	Property under construction KD '000	Total KD '000
<b>Cost or valuation</b>										
At 1 January 2016	1,468	16,754	599	34,892	88,548	11,682	14,371	3,040	3,863	175,217
Foreign exchange adjustments	15	(16)	(28)	22	(1,072)	-	(673)	(435)	1	(2,186)
Additions/transfer/consolidation of new subsidiaries	-	67	27	335	7,787	1,547	698	-	(1,324)	9,137
Reclassification	-	1,814	-	-	(1,853)	16	-	23	-	-
Disposals	-	-	-	-	(1,831)	(433)	(1,186)	(61)	-	(3,511)
At 31 December 2016	1,483	18,619	598	35,249	91,579	12,812	13,210	2,567	2,540	178,657
<b>Accumulated depreciation and impairment losses</b>										
At 1 January 2017	-	4,132	53	24,096	54,179	10,417	9,902	1,770	-	104,549
Foreign exchange adjustments	-	(126)	(19)	5	(793)	-	(10)	(249)	-	(1,192)
Charge for the year	-	698	17	790	4,216	635	728	138	-	7,222
Relating to disposals	-	-	-	-	(1,292)	(410)	(1,057)	-	-	(2,759)
At 31 December 2016	-	4,704	51	24,891	56,310	10,642	9,563	1,659	-	107,820
<b>Net book value</b>										
At 31 December 2016	1,483	13,915	547	10,358	35,269	2,170	3,647	908	2,540	70,837



## Notes to the consolidated financial statements (continued)

### 17 Investment in associates

Details of the Group's material associates at the end of the reporting period are as follows:

	Country of registration and principal place of business	Nature of business	Percentage ownership	
			31 Dec. 2017	31 Dec. 2016
Meezan Bank Ltd – (Quoted)	Pakistan	Islamic banking	49	49
Privatization Holding Company – KPSC (Quoted)	Kuwait	Financial services	36	36
Kuwait Cement Company – KPSC (Quoted)	Kuwait	Industrial	26	26
Mabane Company - KPSC - (Quoted) (17.3)	Kuwait	Real estate	18	18
Airport International Group - P.S.C (Unquoted) (refer note 17.8)	Jordan	Airport operations	-	24

	31 Dec. 2017	31 Dec. 2016
	KD '000	KD '000
Movement during the year is as follows:		
Balance at 1 January	350,540	337,187
Additions during the year	5,558	2,182
Disposal/capital reduction (refer note 17.8)	(28,388)	(3,108)
Share of results	19,035	21,177
Share of other comprehensive income	3,368	1,143
Dividend received	(9,376)	(9,286)
Foreign currency translation adjustment	(4,376)	1,082
Other adjustments	(316)	163
Balance at the end of the year	336,045	350,540

- 17.1 All of the above named associates are accounted for using the equity method in these consolidated financial statements.
- 17.2 A major portion of an associate with a carrying value of KD148,644 thousand (2016: KD143,673 thousand) is kept in a custody portfolio account with specialised institution (note 28c).
- 17.3 Although the Group owns 18% of the investee, the Group exercises significant influence over the associate by way of board representation.
- 17.4 Investment in associates includes foreign quoted associate with a carrying value of KD58,704 thousand (2016: KD57,445 thousand) having quoted market value of KD95,481 thousand at 31 December 2017 (2016: KD98,085 thousand) based on published quotes. Further investment in associates also includes local quoted associates with a carrying value of KD257,869 thousand (2016: KD244,739 thousand) having quoted market value of KD213,230 thousand at 31 December 2017 (2016: KD217,044 thousand.) based on published quotes. In accordance with IAS 36 "impairment of assets" the Group's recoverable amount of these associates (which represent the higher of fair value less costs to sell, and value in use) was in excess of their carrying values and accordingly no impairment was recognized against these investments during the year ended 31 December 2017.
- 17.5 During the current year, one of the subsidiaries of the Group has subscribed an amount of KD4,236 thousand towards the right issue of an associate, Meezan Bank Limited, Pakistan and this amount has been accounted as an investment in associate as of the reporting date. The right issue did not result in any changes to the ownership percentage of the Group in the associate.



## Notes to the consolidated financial statements (continued)

### 17 Investment in associates (continued)

#### 17.6 Summarised financial information of material associates

Summarised financial information in respect of each of the Group's material associates named above, are set out below. The summarised financial information below represents the amounts presented in the financial statements of the associates (and not the Groups share of those amounts) adjusted for differences in accounting policies between the Group and the associate.

	Mabane Company – KPSC*		Kuwait Cement Company – KPSC		Meezan Bank Ltd.		Privatization Holding Company – KPSC		Airport International Group P.S.C (note 17.8)	
	2017 KD <000	2016 KD <000	2017 KD <000	2016 KD <000	2017 KD <000	2016 KD <000	2017 KD <000	2016 KD <000	2017 KD <000	2016 KD <000
<b>As at 31 December</b>										
Non-current assets	1,182,106	1,100,614	232,680	229,007	584,929	773,266	112,197	121,479	-	264,332
Current assets	57,627	76,459	73,063	71,381	1,557,461	1,166,235	41,158	40,977	-	42,347
Non-current liabilities	(302,743)	(280,088)	(61,526)	(62,707)	(145,922)	(153,814)	(29,329)	(33,894)	-	(121,336)
Current liabilities	(56,429)	(38,980)	(46,797)	(46,675)	(1,891,771)	(1,684,007)	(23,792)	(34,705)	-	(62,783)
Non-controlling interests	(61,169)	(69,027)	(144)	(136)	(2,748)	(3,573)	(1,804)	(4,218)	-	-
Equity attributable to the owners of the associate	819,392	788,978	197,276	190,870	101,949	98,107	98,430	89,639	-	122,560
<b>For the year ended 31 December</b>										
Revenue	44,891	54,242	97,257	98,516	98,388	91,905	8,215	32,864	-	72,917
Profit/(loss) for the year attributable to shareholders	39,421	48,547	17,191	19,486	15,315	18,077	3,069	(1,091)	-	(5,709)
Other comprehensive (loss)/income for the year	(776)	376	3,476	(482)	(4,821)	4,698	1,894	(1,633)	-	4,100
Total comprehensive income/(loss) for the year	38,645	48,923	20,667	19,004	10,494	22,775	4,963	(2,724)	-	(1,609)
Dividends received from the associate during the year	1,567	1,492	3,797	3,757	3,812	3,833	-	-	-	-
<b>As at 31 December</b>										
Net assets of the associate attributable to the shareholders of the associate	819,392	788,978	197,276	190,870	101,949	98,107	98,430	89,639	-	122,560
Proportion of the Group's ownership interest	17.68%	17.57%	25.89%	25.89%	49.11%	49.11%	35.82%	35.82%	-	24%
Interest in the associate	144,869	138,623	51,075	49,416	50,067	48,180	35,258	32,109	-	29,414
Goodwill	10,496	10,819	14,893	14,893	8,637	9,265	-	-	-	-
Other adjustments	402	125	4,142	2,834	-	-	(5,883)	(5,587)	-	(1,877)
Carrying value of the investment	155,767	149,567	70,110	67,143	58,704	57,445	29,375	26,522	-	27,537
Fair value of the Group's interests in the quoted associates which are based on the quoted market prices available on the respective Stock Exchanges, which are Level 1 inputs in terms of IFRS 13.	116,448	131,643	84,482	74,990	95,481	98,085	11,143	9,395	-	N/A

\*Has been adjusted for the differences in accounting policies between Group & the associate.



## Notes to the consolidated financial statements (continued)

### 17 Investment in associates (continued)

#### 17.6 Summarised financial information of material associates (continued)

Aggregate information of associates that are not individually material to the Group;

	31 Dec. 2017	31 Dec. 2016
	KD '000	KD '000
Group share of results for the year	(1,005)	486
Group share of comprehensive income/(loss)	4,294	(1,504)
Group share of total comprehensive income/(loss)	3,289	(1,019)
Aggregate carrying value of the Group interest in associates	22,089	22,326
Aggregate dividend received from the associates during the year	200	204

#### 17.7 Group's share of associates' contingent liabilities:

a) The Group's share of associates' contingent liabilities amounted to KD164,195 thousand (2016: KD149,083 thousand). This includes the Group's share of contingent liabilities related to a foreign bank (Meezan Bank Ltd.) which amounted to KD120,559 thousand (2016: KD102,509 thousand).

b) During the previous year, the local income tax authority in Pakistan has raised a demand requesting Meezan Bank Limited, an associate of one of the subsidiaries of the Group, to pay additional tax amounting to KD4.9 million (Subsidiary's share KD2.4 million) for tax year 2015. The associate has obtained a stay order against this demand and has also filed appeals with the relevant Appellate Authorities. Subsidiary's management, in consultation with tax advisors, is confident that the decision in respect of this matter would be in Subsidiary's favour and, accordingly, no provision is made in these consolidated financial statements with respect thereto.

17.8 During the 4th quarter of 2017, the management of the Group (along with few other shareholders of the investee) were in final negotiations with prospective buyers to fully dispose one of its foreign associates (Airport International Group P.S.C.) with a carrying value of KD27,227 thousand in which the Group holds 24%. Consequently, in December 2017, the management along with the few other shareholders of the associate entered into a sale & purchase agreement with the buyers to sell their entire stake. Accordingly the Group has recognised a net gain of KD17,504 thousand (including the recycling of previously recognised Group's share of the said associate's other comprehensive income of KD1,703 thousand to the consolidated statement of profit or loss) on disposal of the associate in the consolidated statement of profit or loss and the net proceeds on the disposal amounting to KD43,028 thousand is included in accounts receivable and other assets (refer note 21) in the consolidated financial statements.

Subsequent to the reporting date upon satisfactory conclusion of the conditions, the total consideration due to the sellers have been transferred by the buyers to a designated Escrow account (including the Group's share of the sales consideration) and the Group, along with all sellers, have exchanged the related signed ownership transfer documents with the buyers. The Group expects that their share of the proceeds will be released from the Escrow account shortly.

The Group has recognised share of losses of KD310 thousand on the above associate for the year 2017 until the effective date of disposal.



## Notes to the consolidated financial statements (continued)

### 18 Investment properties

The movement in investment properties is as follows:

	31 Dec. 2017	31 Dec. 2016
	KD '000	KD '000
Fair value as at 1 January	64,294	69,482
Additions	7,493	8,973
Disposal	(2,200)	(11,677)
Transfers in settlement of receivable	-	881
Changes in fair value	(3,455)	(3,246)
Foreign currency translation	(11)	(119)
	66,121	64,294

Investment properties comprise of lands and buildings in the following countries:

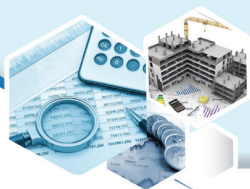
	31 Dec. 2017	31 Dec. 2016
	KD '000	KD '000
Kuwait	52,365	54,780
Saudi	6,071	5,694
Jordan	501	494
UAE	6,267	2,513
London	917	813
Total	66,121	64,294

- Investment properties are stated at fair value, which has been determined based on valuations performed by independent valuers. (refer note 36.4 for details).
- Investments properties amounting to KD44,728 thousand (2016: KD44,014 thousand) are secured against bank loans and other Islamic financing arrangements (refer note 28).
- At the reporting date, a property located in Kuwait with a carrying value of KD11,470 thousand (2016: Two properties with a carrying value of KD22,696 thousand) is under development. During the year borrowing cost of KD481 thousand (2016: KD256 thousand) has been capitalised for two investment properties which were under development. Another properties in UAE & KSA with a carrying value of KD4,278 thousand (2016: KD2,045 thousand) and KD1,290 thousand (2016: KD840 thousand) respectively are also being developed.

### 19 Available for sale investments

	31 Dec. 2017	31 Dec. 2016
	KD '000	KD '000
<b>Non-current</b>		
Managed funds		
- Local	-	465
- Foreign	110,527	111,543
	110,527	112,008
Unquoted equity participations		
- Local	32,669	24,851
- Foreign	81,326	77,686
	113,995	102,537
Quoted shares		
- Local	68,015	62,241
- Foreign	118,829	129,149
	186,844	191,390
<b>Total non-current</b>	<b>411,366</b>	<b>405,935</b>





## Notes to the consolidated financial statements (continued)

### 19 Available for sale investments (continued)

	31 Dec. 2017	31 Dec. 2016
	KD '000	KD '000
<b>Current</b>		
Quoted shares (a)		
– Local	42,189	43,899
– Foreign	2,409	1,171
	44,598	45,070
Unquoted equity participations		
– Local	6,720	6,200
– Foreign	62,518	81,848
	69,238	88,048
<b>Total current</b>	<b>113,836</b>	<b>133,118</b>
	<b>525,202</b>	<b>539,053</b>

- a) The quoted shares classified as current at 31 December includes an amount of KD42,557 thousand (2016: KD43,562 thousand) which is the remaining investments from those shares which were transferred from investments at fair value through profit or loss as of 1 July 2008 (refer note 23 a).

The unquoted shares and certain quoted shares classified as current represents an amount of KD71,169 thousand (2016: KD89,556 thousand) which are determined based on management's estimate of liquidation of those investments.

- b) Managed funds include investments in private equity funds with a carrying value of KD33,372 thousand (2016: KD30,657 thousand). Information for these investments is limited to periodic financial reports provided by the investment managers. These investments are carried at net asset values reported by the investment managers. Due to the nature of these investments, the net asset values reported by the investment managers represent the best estimate of fair values available for these investments.
- c) At the end of the year, the Group recognised an impairment loss of KD1,365 thousand (2016: KD10,140 thousand) for certain local and foreign quoted shares, as the market value of these shares at reporting dates declined significantly below their costs. Further the Group also recognised an impairment loss of KD3,882 thousand (2016: KD8,556 thousand) against certain unquoted shares, local and foreign funds based on estimates made by management as per information available to them and the net assets values reported by the investment managers.
- d) Unquoted investments and managed funds of KD20,214 thousand (2016: KD22,037 thousand) are carried at cost less impairment in value if any, since their fair value cannot be reliably determined. The Group's management is not aware of any circumstance that would indicate impairment/further impairment in value of these investments.
- e) Investments with a fair value of KD173,683 thousand (2016: KD166,700 thousand) are secured against short term borrowings (refer note 31) and long term borrowings (refer note 28).
- f) During the previous year, the Group signed a conditional agreement with a foreign party to sell 10.45% shareholding in K-Electric Company, one of the Pakistani listed companies involved in the generation, transmission and distribution of electricity. The above shares are held through certain subsidiaries of the Group and have been recorded under available for sale investments. However, the completion of the sale contemplated in the conditional agreement is further extended during the year until the receipt of applicable regulatory approvals and satisfaction of other conditions precedent specified therein and therefore profit or loss expected from the above sale has not yet been determined.





## Notes to the consolidated financial statements (continued)

### 20 Inventories

	31 Dec. 2017	31 Dec. 2016
	KD '000	KD '000
Finished goods and work-in-progress	16,490	16,083
Raw materials and consumables	12,986	13,311
Spare parts and others	3,652	3,601
Goods in transit	1,835	1,134
	34,963	34,129
Provision for obsolete and slow moving inventories	(1,769)	(1,695)
	33,194	32,434

### 21 Accounts receivable and other assets

	31 Dec. 2017	31 Dec. 2016
	KD '000	KD '000
<b>Financial assets</b>		
Net trade receivables	25,360	26,347
Amounts due on sale of investments	5,420	9,711
Amounts due on disposal of an associate (refer note 17.8)	43,028	-
Due from related parties (refer note 21 b & 35)	6,740	5,037
Due from Kuwait Clearing Company (future trade)	-	2,909
Due from investment brokerage companies	578	1,759
Interest and other accrued income	1,267	1,730
Retentions and refundable deposits	961	1,159
Other financial assets	7,094	7,806
	90,448	56,458
Less: amount due after one year	(3,755)	(1,410)
	86,693	55,048
<b>Non-financial assets</b>		
Other assets	5,459	5,111
	5,459	5,111
	92,152	60,159

- a) Trade receivables are non-interest bearing and generally on 30 to 90 days terms.  
As at 31 December the aging analysis of trade receivables is as follows:

	31 Dec. 2017	31 Dec. 2016
	KD '000	KD '000
Neither past due nor impaired	20,504	20,947
Past due but not impaired		
- less than 3 months	654	1,083
- 3 – 6 months	4,202	4,317
Total trade receivables	25,360	26,347

Trade receivables that are less than six months past due, are not considered impaired since they relate to customers for whom there is no recent history of default.



## Notes to the consolidated financial statements (continued)

### 21 Accounts receivable and other assets (continued)

- b) This includes an amount of KD1,814 thousand equivalents to USD6mn loan provided by a foreign subsidiary of the Group to a related party which is a US based real estate developer. The loan carries fixed interest rate of 8.5% and is receivable, at the latest by 3 April 2021. As of the reporting date, the above subsidiary is committed to provide a further USD 9mn to the developer.
- c) During the year, the Group recognised a net impairment loss of KD246 thousand (2016: KD1,056 thousand) against trade and other receivables.

### 22 Murabaha, wakala and sukuk investments

	Effective profit rate % (per annum)			
	2017	2016	31 Dec.2017 KD '000	31 Dec.2016 KD <000
<b>Murabaha and wakala investments</b>				
Placed with local Islamic banks	1.37%	1.37%	1,000	1,011
<b>Sukuk investments</b>			153	153
			1,153	1,164

Wakala investments of KD14,324 thousand (2016: KD14,324 thousand) placed with a local Islamic investment company matured in the last quarter of 2008 by a local subsidiary of the Group. The investee company defaulted on settlement of these balances on the maturity date. However, revised maturity dates were stipulated by the court. The investee company again defaulted the payment of 2nd, 3rd, 4th and 5th instalments due in June 2014, 2015, 2016 and 2017 respectively. The Subsidiary has initiated various legal cases against the investing company to recover these amounts. Full provision is made for receivable in accordance with the Central Bank of Kuwait provision rules.

During the previous years, one of the local subsidiaries of the Group assumed the financial and legal obligations on wakala investments of KD9,968 thousand (in violation of the Commercial Companies Law of 1960) that the subsidiary had placed with the above investment company as part of total wakala investments of KD14,324 thousand in a fiduciary capacity under a wakala agreement with certain related parties, despite having no such obligation under the wakala agreement. The Subsidiary initiated legal proceedings against the above parties to recover the amount including profits thereon. During the year 2014, the Court of Appeal had ordered the related parties to pay KD8,285 thousand with 7% of profit thereon to the Subsidiary which was overturned by the Court of Cassation in favour of the related party during the year 2015. The Subsidiary also initiated legal proceeding relating to the remaining amount of KD1,683 thousand against the related parties. During the year ended 31 December 2017, the court of first instance has ordered the related parties to pay KD1,683 thousand to the Subsidiary and the related party has appealed against the court decision.

No profit was recognised on impaired wakala investments during the current year (2016: Nil).



## Notes to the consolidated financial statements (continued)

### 23 Investments at fair value through profit or loss

	31 Dec. 2017	31 Dec. 2016
	KD '000	KD '000
<b>Held for trading :</b>		
Quoted shares		
– Local	18,099	16,919
– Foreign	6,829	6,779
	24,928	23,698
<b>Designated on initial recognition :</b>		
Local funds	5,334	6,600
International managed portfolios and funds	44,518	46,484
	49,852	53,084
	74,780	76,782

a) In 2008, as a result of significant developments in the global financial markets, the Group had reclassified investments with a fair value of KD380,755 thousand as at 1 July 2008 from “investment at fair value through profit or loss” category to “available for sale” category. The fair value of remaining reclassified investments as of 31 December 2017 is KD42,557 thousand (2016: KD43,562 thousand) and it is included in current portion of quoted shares of available for sale investments (refer note 19).

b) Quoted shares, held by local subsidiaries, with a fair value of KD3,365 thousand (2016: KD3,093 thousand) are secured against short term borrowings (refer note 31) and long term borrowings (refer note 28).

### 24 Share capital and share premium

b) As of 31 December 2017, authorized issued and fully paid share capital in cash of the Parent Company comprised of 1,359,853,075 shares of 100 Fils each (31 December 2016: 1,359,853,075 shares).

b) Share premium is not available for distribution.

### 25 Treasury shares

	31 Dec. 2017	31 Dec. 2016
	KD '000	KD '000
Number of shares	34,796,079	34,796,079
Percentage of issued shares	2.56%	2.56%
Market value (KD '000)	5,219	4,245
Cost (KD'000)	30,375	30,375

Reserves of the Parent Company equivalent to the cost of the treasury shares have been earmarked as non-distributable.

As at 31 December 2017, an associate company of the Group held 135,692,090 (2016: 135,692,090) shares equivalent to 10% (2016: 10%) of the Parent Company's shares issued.



## Notes to the consolidated financial statements (continued)

### 26 Cumulative changes in fair value and other components of equity

#### a) Cumulative changes in fair value

	31 Dec. 2017	31 Dec. 2016
	KD '000	KD '000
Balance at 1 January	108,729	96,378
<i>Other comprehensive income:</i>		
Net change in fair value of available for sale investments	(1,579)	(1,718)
Transferred to consolidated statement of profit or loss on disposal of available for sale of investments	(11,034)	(2,822)
Transferred to consolidated statement of profit or loss on impairment in value of available for sale investments	5,026	16,909
Share of other comprehensive income of associates		
- Changes in fair value	4,520	(18)
- Transferred to consolidated statement of profit or loss on disposal (refer 17.8)	(1,703)	-
Other comprehensive (loss)/income for the year	(4,770)	12,351
Balance at 31 December	103,959	108,729

#### b) Other components of equity

	Statutory reserve	General reserve	Gain on Sale of treasury shares reserve	Foreign currency translation reserve	Total
	KD '000	KD '000	KD '000	KD '000	KD '000
<b>Balances as at 31 December 2016</b>	11,167	1,694	18,452	213	31,526
<i>Other comprehensive income:</i>					
Currency translation differences	-	-	-	(2,755)	(2,755)
<b>Comprehensive income</b>	-	-	-	(2,755)	(2,755)
Reserve transfers	1,686	-	-	-	1,686
<b>Balances as at 31 December 2017</b>	12,853	1,694	18,452	(2,542)	30,457
<b>Balances at 31 December 2015</b>	11,167	1,694	18,452	(2,486)	28,827
<i>Other comprehensive income:</i>					
Currency translation differences	-	-	-	2,699	2,699
<b>Comprehensive income</b>	-	-	-	2,699	2,699
<b>Balances at 31 December 2016</b>	11,167	1,694	18,452	213	31,526

#### Statutory reserve

In accordance with the Companies Law and the Parent Company's articles of association, 10% of the profit for the year before KFAS, NLST, Zakat and directors' remuneration but after Non-controlling interests is to be transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfer when the reserve totals 50% of the paid up share capital. Distribution of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of paid-up share capital to be made in years when retained earnings are not sufficient for the distribution of a dividend of that amount. No transfer is required in a year in which the Group has incurred a loss or where accumulated losses exist. During the year, the Group has transferred an amount of KD1,686 thousand to statutory reserve.



## Notes to the consolidated financial statements (continued)

### 26 Cumulative changes in fair value and other components of equity (continued)

#### b) Other components of equity (continued)

##### General reserve

In accordance with the Parent Company's articles of association, a certain percentage of the profit for the year before KFAS, NLST, Zakat and directors' remuneration but after Non-controlling interests is to be transferred to the general reserve at the discretion of the Board of Directors which is to be approved at the General Assembly. No transfer is required in a year in which the Group has incurred a loss or where accumulated losses exist. During the year, the Board of Directors of the Parent Company do not propose any transfer to general reserve and this is subject to approval at the General Assembly.

### 27 Non-controlling interests

	Year ended 31 Dec. 2017	Year ended 31 Dec. 2016
	KD '000	KD '000
Balance at 1 January	137,047	128,909
Increase in non-controlling interests of subsidiaries during the year*	-	3,627
Non-controlling interests arising on acquisition of new subsidiaries**	302	735
Dividend paid to non-controlling interests by the subsidiaries	(2,187)	(4,837)
Other net changes in non-controlling interests	(396)	297
<b>Transactions with non-controlling interests</b>	<b>(2,281)</b>	<b>(178)</b>
Profit for the year	2,027	297
<i>Other comprehensive income :</i>		
Exchange differences arising on translation of foreign operations	(1,915)	(203)
Net change in fair value of available for sale investments	(3,410)	5,156
Transferred to consolidated statement of profit or loss on disposal of available for sale investments	(410)	118
Transferred to consolidated statement of profit or loss on impairment in value of available for sale investments	221	1,787
Share of other comprehensive income of associates	(1,152)	1,161
<b>Total other comprehensive (loss)/income for the year</b>	<b>(6,666)</b>	<b>8,019</b>
<b>Total comprehensive (loss)/income for the year</b>	<b>(4,639)</b>	<b>8,316</b>
<b>Balance at 31 December</b>	<b>130,127</b>	<b>137,047</b>

\* During the previous year, one of the local subsidiaries of the Group increased its share capital from KD15,000 thousand to KD20,000 thousand (50,000,000 shares with a par value of 100 fils per each share). The above Subsidiary subscribed partially for this increase through another subsidiary of the Group and consequently the Group's shareholding in this subsidiary diluted from 82.85% to 77.94%. The proportionate carrying value of net assets on the date of dilution amounting to KD2,049 thousand relating to non-controlling interests was transferred to non-controlling interests in the consolidated statement of changes in equity, in the previous year. Consequently, the difference between cash proceeds received and non-controlling interests share of net assets on the date of dilution amounting to KD209 thousand was recognized as a dilution loss in the consolidated statement of changes in equity as of 31 December 2016.

\*\*During the year, the Group acquired controlling interests of certain foreign subsidiaries during the year & previous year and as a result of these acquisitions, non-controlling interests increased by KD302 thousand (2016: KD735 thousand).



## Notes to the consolidated financial statements (continued)

### 28 Long-term borrowings and bonds

Currency	Effective Interest rate	31 Dec. 2017	31 Dec. 2016
		KD '000	KD '000
Long-term borrowings			
Conventional loans			
Kuwaiti Dinars (note 28c)	4.25% - 5.5%	284,319	295,194
US Dollars	2.14% - 5.36%	86,261	42,188
Euro & AED	1.4% - 4.75%	4,076	2,476
		374,656	339,858
Less : Due within one year		(228,990)	(123,535)
Total conventional loans		145,666	216,323
Islamic financing arrangements			
Murabaha payables (note 28c)	3.06%-4.75%	79,688	80,094
Other Islamic financing arrangements	4.0% - 6.75%	70,953	58,099
		150,641	138,193
Less: Due within one year		(113,334)	(25,497)
Total Islamic financing arrangements		37,307	112,696
Total long-term borrowings		182,973	329,019
Bonds (note 28 d)		25,000	25,000
Total long-term borrowings & bonds		207,973	354,019

- a During the years 2011 and 2012, one of the local subsidiaries of the Group restructured its financing arrangements with some local banks and accordingly loans amounting to KD154,710 thousand (out of which KD64,891 thousand has been settled till reporting date) were converted into secured long term facilities. As per loan restructuring agreements, these loans are required to be 100% secured. As of 31 December 2017, these are partly secured (refer notes 18, 19 and 23) and the identification and securitization of the required balance is still in process.

The third instalment of the loan of KD38,677 thousand fell due in the years 2014 and 2015 and the lenders agreed for payment of 50% of that amount which was paid by the subsidiary in 2015 and 2016.

The process of rescheduling the subsidiary's loans amounting to KD89,819 thousand as of the reporting date comprising of the remaining 50% (KD17,964 thousand of the third instalment and KD71,855 thousand for the final instalment) is ongoing. However, based on the previous agreements, the final instalment of one loan (along with the 50% of the third instalment) totalling to KD39,059 thousand fell due on September 2017 and the final instalments of the other loans (along with the 50% of the third instalment) totalling to KD50,759 thousand are falling due in the year 2018.

During the current year, a loan of a local subsidiary due to one of the lenders amounting to KD6,875 thousand has been settled in cash with a 30% discount. The gain which has resulted from the waiver of the principal which amounted to KD2,063 thousand has been recognised as other income during the current year (refer note 9).





## Notes to the consolidated financial statements (continued)

### 28 Long-term borrowings and bonds (continued)

The local subsidiary had submitted a debt rescheduling plan to all its lenders and had also requested from all of the lenders to extend the standstill as the restructuring is still in process and to continue negotiations to reach an acceptable debt rescheduling solution. During the year ended 31 December 2017 and subsequent to the reporting date, the lenders have agreed to extend the final repayment dates and/or have confirmed that they will continue to negotiate the terms and conditions of the restructuring to bring it to a successful closure. Accordingly, the local subsidiary's management expects to finalize the debt rescheduling within the next few months.

Debt rescheduling may involve upfront settlement of part of the debts, providing collateral to financiers over the Subsidiary assets, renegotiation of pricing and repayments period of credit facilities and other terms and restrictions usually associated with such debt rescheduling process.

- b Islamic financing arrangement amounting to KD7,894 thousand (2016: KD7,977 thousand) are secured against property, plant and equipment with a book value of KD6,153 thousand (2016: KD5,905 thousand). Also, certain conventional loans of KD1,284 thousand (2016: KD1,057 thousand) are secured against property, plant and equipment with a book value of KD1,604 thousand (2016: KD809 thousand).
- c During August 2015, the Parent Company settled an Islamic syndicated loan amounting to KD101,563 thousand at maturity, from the proceeds obtained through two new facilities entered into, one of which is a Murabaha facility comprising of local and regional banks for an amount of KD79,688 thousand due in August 2018 and the other is a short term conventional loan facility with a new foreign bank for an amount of KD20,000 thousand. The above Murabaha facility has been reclassified to short term loans as of the reporting date. Under the terms of the new facilities agreements, shares of one of the listed associates having a carrying value of KD148,644 thousand (2016: KD143,673 thousand) are kept in a custody portfolio account with specialised institutions (refer note 17.2).

#### Bonds

- d During the previous year, the Parent Company issued a floating rate bonds of KD25,000 thousand at face value maturing on 20 December 2021. The bonds benefit from certain uncollateralized available for sale investments and investment in subsidiary through one of the local subsidiaries of the Group to ensure repayment.

### 29 Provisions

	31 Dec. 2017	31 Dec. 2016
	KD '000	KD '000
Pension liability (refer note 33)	3,328	2,743
Provision for staff indemnity	11,429	11,135
Provision for land-fill expenses	400	767
	<b>15,157</b>	<b>14,645</b>



## Notes to the consolidated financial statements (continued)

### 30 Accounts payable and other liabilities

	31 Dec. 2017	31 Dec. 2016
	KD '000	KD '000
<b>Financial liabilities</b>		
Trade payables	18,954	16,504
Accrued interest	2,031	1,861
Dividend payable	754	1,469
Leasing creditors	156	352
Payable on acquisition of subsidiary	1,509	1,505
National labour support tax	4,356	4,226
Provision for cost of gas usage for previous years (a)	2,700	2,700
Deferred consideration on acquisition of new subsidiaries (b)	1,179	2,126
Provision for foreign taxation (c)	1,578	1,578
Kuwait Foundation for the Advancement of Sciences and Zakat	862	387
Other accruals	5,214	4,513
Due to related parties (refer note 35)	1,512	542
Amounts payable to non-controlling interest due to capital reduction of one of the local subsidiaries	883	905
Other liabilities	5,805	4,875
	<b>47,493</b>	<b>43,543</b>
Less: Non-current portion of leasing creditors & deferred consideration (b)	(27)	(1,197)
	<b>47,466</b>	<b>42,346</b>
<b>Non-financial liabilities</b>		
Other creditors	734	1,753
Accruals	164	186
	<b>898</b>	<b>1,939</b>
	<b>48,364</b>	<b>44,285</b>

- a) This represents provision for cost of gas usage by one of the local subsidiaries of the Group during the previous years amounting to KD2,700 thousand. During previous year, above subsidiary received a letter from a government owned entity which supplies gas to one of the factories of the subsidiary demanding payment for usage of gas for 2004 till 2011. The subsidiary rejected this claim on several grounds and the supplier filed a legal case against the subsidiary claiming its right to recover the amount. The court in its first hearing transferred the case to the Expert's department. During the year, the court issued a ruling ordering the subsidiary to pay an amount of USD9,300 thousand to the plaintiff. Accordingly, the subsidiary recorded a provision against this liability during the year ended 31 December 2016. Further, the subsidiary appealed the ruling and the judgment is still pending.
- b) During the previous year, one of the Group's foreign subsidiaries acquired 66.67% equity stake in Wilhelm Schulenburg Nachf. GmbH & Co KG and Fiedler & Co. for a total consideration of KD3,400 thousand and the acquisition was made through UCB German GmbH, a foreign subsidiary of the Group. Out of the total consideration an amount of KD2,221 thousand was settled in cash as of reporting date and the remaining deferred consideration of KD1,179 thousand is payable in 2018. The fair value of the deferred consideration has been included within current liabilities.
- c) Represents potential tax liability of one of the local subsidiaries of the Group on dividend income received in previous years from foreign entities located in a GCC country (at the rate of 5%). No tax claims or assessments have been made by any regulatory authority as of date. However, based on advice received from consultants and other information available to the Subsidiary's management, on a conservative basis, the Subsidiary provided an amount of KD1,578 thousand in a previous year.



## Notes to the consolidated financial statements (continued)

### 31 Short-term borrowings

Currency	Effective Interest rate	31 Dec. 2017	31 Dec. 2016
		KD '000	KD '000
Conventional loans			
Kuwaiti Dinars	4.75% - 5.25%	75,792	80,546
US Dollars	2.64%	28,714	74,255
		104,506	154,801
Long term borrowings due within one year		228,990	123,535
		333,496	278,336
Islamic financing arrangements			
Murabaha/wakala/ljara payables	4.75%	18,512	17,074
Long term Islamic financing arrangements due within one year (refer note 28 c)		113,334	25,497
		131,846	42,571
Total		465,342	320,907

- a. Islamic financing arrangements include ljara payables (including long term portion) of KD22,324 thousand (2016: KD17,461 thousand) which is secured against investment properties of local subsidiaries (refer note 18).
- b. During the year, one of the local subsidiaries had utilised KD Nil (net) (2016: KD Nil) from the KD5,570 thousand loan facility from a local bank which has been expired on 1 December 2017, which is secured against local quoted investments with a fair value of KD7,113 thousand (2016 : KD7,394 thousand). Subsequent to reporting date, the subsidiary sent a letter to bank to release the pledged shares.
- c. US Dollar loan equivalent to KD75,632 thousand (2016: KD74,255 thousand) and Kuwait Dinar borrowings of KD121,111 thousand (2016: KD86,063 thousand) are secured by certain available for sale investments (refer note 19).

### 32 Cash and cash equivalents

	Effective Interest rate	31 Dec. 2017	31 Dec. 2016
		KD '000	KD '000
Short term deposits	0.41% - 1.35%	8,020	9,224
Bank balances and cash	0.62% - 1.35%	38,436	33,696
Due to banks (a)	5.5% - 6.0%	(22,315)	(21,186)
		<b>24,141</b>	21,734
Less: Blocked balances		(219)	(325)
Cash and cash equivalents for the purpose of consolidated statement of cash flows		<b>23,922</b>	21,409

- a) Due to banks includes bank overdraft facilities of KD918 thousand (2016: KD1,198 thousand) utilised by one of the subsidiaries of the Group which is secured against short term deposits of KD1,008 thousand (2016: KD994 thousand) as at 31 December 2017.
- b) Short term deposit of KD1,000 thousand (2016: KD Nil) are secured against bank loans.



## Notes to the consolidated financial statements (continued)

### 33 Defined benefit pensions schemes

The Group has defined benefit pension schemes for the employees of certain subsidiaries in the United Kingdom. The Schemes provide benefits based on final salary and length of service on retirement. The Schemes are subject to the Statutory Funding Objective under the United Kingdom Pensions Act 2004. A valuation of the schemes is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process the Group must agree with the Trustees of the Schemes the contributions to be paid to address any shortfall against the Statutory Funding Objective.

The Schemes are managed by a professional trustee appointed by the Group. The Trustee has responsibility for obtaining valuation of the fund, administering benefit payments and investing the Schemes' assets. The Trustee delegates some of these functions to their professional advisers where appropriate.

The Schemes expose the Group to a number of risks:

- Investment risk: The Scheme holds investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide the real returns over the long-term the short term volatility can cause additional funding to be required if deficit emerges.
- Interest rate risk: The Schemes' liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Schemes hold assets such as equities the value of the assets and liabilities may not move in the same way.
- Inflation risk: A significant proportion of the benefits under the Schemes are linked to inflation. Although the Schemes' assets are expected to provide a good hedge against inflation over the long term, movements over the short-term could lead to deficits emerging.
- Mortality risk: In the event that members live longer than assumed a deficit will emerge in the Schemes.
- For certain sections of the Schemes, members are assumed to commute 20% of their pension for cash at retirement. If on average less pension is taken this would lead to a deficit emerging.
- The Trustee holds insurance policies for some members of the Schemes. There is a very small risk that the insurers may default on their policies which would cause additional funding to be required.

#### ***Effect of the Schemes on the Group's future cash flows***

The Group is required to agree Schedules of Contributions with the Trustee of the Schemes following the valuation which must be carried out at least once every three years. In the event the valuation reveals a larger deficit than expected the Group may be required to increase contributions above those set out in the existing Schedules of Contributions. Conversely if the position is better than expected contributions may be reduced.

The Group expects to contribute KD631 thousand to its defined benefit plan in 2018 which has been agreed with the pension trustee in line with actuarial advice and aims to eliminate the deficit within an acceptable period of time.

During the year the Group disposed of the BI Group section C scheme within the UK Pension liability, this scheme was in surplus.

The following disclosures cover all the schemes on an aggregated basis. The schemes are closed to new members and do not accrue further benefits. Actuarial calculations have been made in order to determine pension liabilities and pension expenses in connection with the Group's defined benefit pension schemes.



## Notes to the consolidated financial statements (continued)

### 33 Defined benefit pensions schemes (continued)

#### *Effect of the Schemes on the Group's future cash flows (continued)*

The following assumptions have been used in calculating the liabilities and expenses incurred:

	31 Dec. 2017	31 Dec. 2016
	KD '000	KD '000
Discount rate at 31 December	2.80%	3.20%
Inflation assumption (RPI)	3.35%	3.45%
Revaluation in deferment (CPI)	2.35%	2.45%
Expected return on plan assets	2.80%	3.20%
Future salary increases	0%	0%
Future pension increases	3.35%	3.45%
Mortality after retirement	2017: SAPS (S2NA) (2016: SAPS (S2NA)) tables with medium cohort year of birth projections and minimum of 1.25% (2016: 1.25%) per annum improvement.	

Under the mortality tables adopted, the expected age at death for a member at age 65 is as follows:

	31 Dec. 2017	31 Dec. 2016
	KD '000	KD '000
Male currently aged 45	89.6	89.5
Female currently aged 45	91.9	91.8
Male currently aged 65	87.8	87.7
Female currently aged 65	90.0	89.9

The average of the weighted average duration of the liabilities of each of the schemes is 16 years (2016: 16 years).

#### **Consolidated statement of profit or loss**

	31 Dec. 2017	31 Dec. 2016
	KD '000	KD '000
Interest cost	(641)	(721)
Expected return on assets	562	615
Accrued expenses	(8)	(57)
Settlement cost	-	(39)
Net annual charge included in general and administrative expenses	(87)	(202)

A reconciliation of the movement in the liability for defined benefit pension scheme is as follows:

#### **Consolidated statement of financial position**

	31 Dec. 2017	31 Dec. 2016
	KD '000	KD '000
Brought forward liability	2,743	3,784
Consolidated statement of profit or loss (net)	87	202
Contributions	(639)	(645)
Actuarial losses/(gain)	940	(21)
Foreign exchange adjustments	197	(577)
Carried forward liability	3,328	2,743



## Notes to the consolidated financial statements (continued)

### 33 Defined benefit pensions schemes (continued)

Reconciliation of consolidated statement of financial position liability

	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
Present value of obligations	22,095	20,551
Fair value of plan assets	(18,767)	(17,816)
Net plan deficit	3,328	2,735
Unrecognised actuarial losses	-	8
Net liability recognised in the consolidated statement of financial position	3,328	2,743

Changes in the present value of the defined benefit obligation

	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
Opening defined benefit obligation	20,551	23,396
Corporate disposal	(583)	-
Interest cost	641	721
Actuarial losses	1,151	1,361
Accrued expenses	8	57
Benefits and expenses paid	(1,021)	(1,083)
Foreign exchange adjustment	1,348	(3,901)
Closing defined benefit obligation	22,095	20,551

Changes in the fair value of the plan assets

	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
Opening fair value of plan assets	17,816	19,745
Expected return on assets	562	615
Actuarial gains	203	1,267
Contributions by employer	639	645
Benefits and expenses paid	(1,021)	(1,083)
Corporate disposal	(614)	-
Foreign exchange adjustment	1,182	(3,373)
Closing fair value of plan assets	18,767	17,816

The fair value of the plan assets, by category is as follows:

	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
Plan assets:		
Equities	8,820	4,632
Bonds	8,633	12,471
Other assets	1,314	713
	18,767	17,816

The actual return on the Schemes' assets net of expenses over the period was 4.2% (2016: 10.4%).





## Notes to the consolidated financial statements (continued)

### 33 Defined benefit pensions schemes (continued)

Sensitivity of the value placed on liabilities

The defined benefit obligation would be affected by changes in the actuarial assumptions. The table below shows the potential impact of relatively small changes in the key assumptions:

Adjustment to assumptions	Approximate effect on liabilities
	KD '000
<i>Discount rate</i>	
Plus 0.5%	1,644
Minus 0.5%	(1,862)
<i>Inflation</i>	
Plus 0.25%	383
Minus 0.25%	(387)
<i>Life expectancy</i>	
Plus 1 year	802
Minus 1 year	(799)

Note the above sensitivities are approximate and only show the likely effect of an assumption being adjusted whilst all other assumptions remain the same.

### 34 Segmental analysis

The Group activities are concentrated in four main segments: investment, building material, specialist engineering and hotel and IT operations. The segments' results are reported to the higher management in the Group. In addition, the segments results, assets and liabilities are reported based on the geographic locations which the Group operates in.



## Notes to the consolidated financial statements (continued)

### 34 Segmental analysis (Continued)

The following is the segments information, which conforms with the internal reporting presented to management:

	Investment							
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
	KD <000	KD <000	KD <000	KD <000	KD <000	KD <000	KD <000	KD <000
Segment revenue	74,216	36,350	45,141	40,998	48,060	54,353	17,309	14,908
Less:								
Income from investments							(34,570)	(13,769)
Share of result of associates							(19,035)	(21,177)
Profit on disposal of associates							(17,447)	-
Loss on disposal of investment properties							-	852
Changes in fair value of investment properties							3,455	3,246
Rent income							(1,859)	(2,301)
Interest and other income							(4,760)	(3,201)
Sales, per consolidated statement of profit or loss							110,510	110,259
Segment profit/(loss)	55,880	4,849	3,046	786	(1,610)	(140)	428	138
Less:							57,744	5,633
Finance costs							(31,412)	(28,188)
Other unallocated gain/(loss)							1,540	(1,537)
Profit/(loss) before foreign taxation							27,872	(24,092)
Segment assets	1,098,855	1,095,467	69,615	61,262	77,332	77,723	19,491	19,166
Segment liabilities	(14,631)	(13,129)	(23,578)	(22,255)	(17,576)	(17,205)	(7,763)	(7,538)
Segment net assets	1,084,224	1,082,338	46,037	39,007	59,756	60,518	11,728	11,628
Borrowings, bonds and due to banks							1,201,745	1,193,491
Total equity, per consolidated statement of financial position							(695,630)	(696,112)
							506,115	497,379



## Notes to the consolidated financial statements (continued)

### 34 Segmental analysis (Continued)

Property, plant and equipment of the Group are primarily utilised by the building materials segment, hotel & IT services segment and the specialist engineering segment. The additions and depreciation relating to property, plant and equipment along with impairment in values by each segment, in which the assets are used, are as follows:

	Investment	Building materials	Specialist engineering	Hotel & IT services	Total
	KD <000	KD <000	KD <000	KD <000	KD <000
<b>At 31 December 2017</b>					
Additions to property, plant and equipment	4	3,760	4,024	95	7,883
Depreciation	221	3,129	2,806	326	6,482
Impairment in value of available for sale investments	5,247	-	-	-	5,247
<b>At 31 December 2016</b>					
Additions to property, plant and equipment	61	4,538	4,413	125	9,137
Depreciation	230	3,662	2,924	406	7,222
Impairment in value of available for sale investments	18,696	-	-	-	18,696

### Geographical segments

The geographical analysis is as follows;

	Assets		Sales	
	31 Dec. 2017	31 Dec. 2016	Year ended 31 Dec. 2017	Year ended 31 Dec. 2016
	KD <000	KD <000	KD <000	KD <000
Kuwait	628,293	599,904	59,656	53,400
Outside Kuwait	637,000	653,714	50,854	56,859
	1,265,293	1,253,618	110,510	110,259

### 35 Related party transactions

Related parties represent associates, directors and key management personnel of the Group, and other related parties such as major shareholders and companies in which directors and key management personnel of the Group are principal owners or over which they are able to exercise significant influence or joint control. Pricing policies and terms of these transactions are approved by the Group's management.

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

	31 Dec. 2017	31 Dec. 2016
	KD '000	KD <000
<b>Transactions and balances included in the consolidated statement of financial position</b>		
Due from related parties (included in accounts receivable and other assets)		
– Due from associate companies	825	2,029
– Due from other related parties	5,845	2,938
– Due from key managements personal	70	70
Due to related parties (included accounts payable and other liabilities)		
– Due to associates	20	20
– Due to other related parties	1,492	522
<b>Transactions with related parties</b>		
Development and construction costs	2,555	4,679
Purchase of raw materials – from associates	2,899	3,260
Sale of available for sale investments and investment properties to related parties	1,173	395
Transfer of assets to a related party	350	-
Purchase of available for sale investments	-	609



## Notes to the consolidated financial statements (continued)

### 35 Related party transactions (continued)

	31 Dec. 2017	31 Dec. 2016
	KD '000	KD '000
<b>Compensation of key management personnel of the Group</b>		
Short term employee benefits and directors' remuneration	4,638	3,924
End of service benefits	253	288
	4,891	4,212

### 36 Summary of assets and liabilities by category and fair value measurement

#### 36.1 Categories of financial assets and liabilities

The carrying amounts of the Group's financial assets and liabilities as stated in the consolidated statement of financial position may also be categorized as follows:

	31 Dec. 2017	31 Dec. 2016
	KD '000	KD '000
<b>Financial assets:</b>		
Loans and receivables (at amortised cost):		
• Accounts receivable and other financial assets (refer note 21)	90,448	56,458
• Murabaha, wakala and sukuk investments	1,153	1,164
• Short term deposits	8,020	9,224
• Bank balances and cash	38,436	33,696
	138,057	100,542
Assets at fair value through profit or loss:		
• Investments at fair value through profit or loss (refer note 23)		
- Held for trading	24,928	23,698
- Designated on initial recognition	49,852	53,084
	74,780	76,782
Available for sale investments (refer note 19)		
- At fair value	504,988	517,016
- At cost / cost less impairment	20,214	22,037
	525,202	539,053
<b>Total financial assets</b>	<b>738,039</b>	<b>716,377</b>
<b>Financial liabilities:</b>		
At amortised cost		
• Long term borrowings & bonds	207,973	354,019
• Accounts payable and other financial liabilities (refer note 30)	47,493	43,543
• Short term borrowings	465,342	320,907
• Due to banks	22,315	21,186
	743,123	739,655



## Notes to the consolidated financial statements (continued)

### 36 Summary of assets and liabilities by category (continued)

#### 36.2 Fair value measurement

Fair value represents 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. Investments at fair value through profit or loss and available for sale investments (excluding certain available for sale investments which are carried at cost/cost less impairment for reasons specified in Note 19 to the consolidated financial statements) are carried at fair value and measurement details are disclosed in note 36.3 to the consolidated financial statements. In the opinion of the Group's management, the carrying amounts of all other financial assets and liabilities which are at amortised costs are considered a reasonable approximation of their fair values.

The Group also measures non-financial asset such as investment properties at fair value at each annual reporting date (refer 36.4).

#### 36.3 Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurement, as follows:

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

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The financial assets and liabilities measured at fair value on a recurring basis in the statement of consolidated financial position are grouped into the fair value hierarchy as follows;

#### At 31 December 2017

	Note	Level 1	Level 2	Level 3	Total Balance
		KD'000	KD'000	KD'000	KD'000
<b>Assets at fair value</b>					
Available for sale investments					
-Managed funds					
Private equity funds	c	-	-	33,372	33,372
Other managed funds	c	-	3,786	72,655	76,441
-Unquoted equity participations	d	-	61,531	102,202	163,733
-Quoted shares	a	216,808	-	14,634	231,442
Investment at fair value through profit or loss					
-Quoted shares	a	24,928	-	-	24,928
-Local funds	b	-	5,334	-	5,334
-International managed portfolios and funds	e	654	36,417	7,447	44,518
Total assets		242,390	107,068	230,310	579,768



## Notes to the consolidated financial statements (continued)

### 36 Summary of financial assets and liabilities by category (continued)

#### 36.3 Fair value hierarchy (continued)

At 31 December 2016

	Note	Level 1	Level 2	Level 3	Total Balance
		KD'000	KD'000	KD'000	KD'000
<b>Assets at fair value</b>					
Available for sale investments					
-Managed funds					
Private equity funds	c	-	-	30,657	30,657
Other managed funds	c	-	3,278	74,665	77,943
-Unquoted equity participations	d	-	13,391	158,565	171,956
-Quoted shares	a	210,580	1,135	24,745	236,460
Investment at fair value through profit or loss					
-Quoted shares	a	23,698	-	-	23,698
-Local funds	b	-	6,600	-	6,600
-International managed portfolios and funds	e	4,119	33,862	8,503	46,484
Total assets		238,397	58,266	297,135	593,798

#### Measurement at fair value

The Group's finance team performs valuations of financial items for financial reporting purposes, including Level 3 fair values, in consultation with third party valuation specialists for complex valuations, where required. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximizing the use of market-based information.

The methods and valuation techniques used for the purpose of measuring fair values, are unchanged compared to the previous reporting year, except for certain foreign unquoted shares that have been fair valued based on certain observable market prices as the Group's management believes that such valuations are more representative of the fair values of such investments based on the information available to the management. Accordingly, these investments with a carrying value of KD67,321 thousand has been transferred from level 3 to 2 level. Further, certain quoted shares which were valued based on certain valuation techniques have also been valued based on market bid prices as of 31 December 2017 as management believes that bid prices are now more representative of the fair values of those shares. These investments with a carrying value of KD9,234 thousand has been transferred from level 3 to 1 respectively as of 31 December 2017. Further investments with a carrying value of KD208 thousand has been transferred from level 1 & 2 to level 3.

#### a) Quoted shares & debt instruments (Level 1 & 3)

Quoted shares represent all listed equity securities which are publicly traded in stock exchanges. Where quoted prices in an active market are available, the fair value of such investments have been determined by reference to their quoted bid prices at the reporting date (Level 1) and if the market for an investment is not active, the Group has established fair value by using valuation techniques (Level 3)

#### b) Local funds (Level 2)

The underlying investments of these funds mainly comprise of local quoted shares and money market instruments and the fair value of the investment has been determined based on net asset values reported by the fund manager as of the reporting date.





## Notes to the consolidated financial statements (continued)

### 36 Summary of assets and liabilities by category (continued)

#### 36.3 Fair value hierarchy (continued)

##### c) Private equity funds (Level 3)

The underlying investments in these private equity funds mainly represent foreign quoted and unquoted securities. Information for these investments is limited to periodic financial reports provided by the investment managers. These investments are carried at net asset values reported by the investment managers. Due to the nature of these investments, the net asset values reported by the investment managers represent the best estimate of fair values available for these investments.

##### Other managed funds (Level 2 & 3)

The underlying investments of other managed funds represent foreign quoted and unquoted securities. They are valued based on periodic reports received from the portfolio/fund managers.

##### d) Unquoted equity participations (Level 2 & 3)

The consolidated financial statements include holdings in unlisted securities which are measured at fair value. Fair value is estimated using discounted cash flow model or observable market prices or other valuation techniques which include some assumptions that are not supportable by observable market prices or rates.

##### e) International managed portfolios and funds (Level 1, 2 & 3)

The underlying investments of international managed portfolios and funds represent quoted and unquoted securities. They are valued based on fund managers' report.

#### Level 3 Fair value measurements

The Group measurement of financial assets and liabilities classified in level 3 uses valuation techniques inputs that are not based on observable market data. The financial instruments within this level can be reconciled from beginning to ending balances as follows:

	31 Dec. 2017	31 Dec. 2016
	KD '000	KD '000
Opening balance	297,135	286,587
Net change in fair value recognised in other comprehensive income	1,618	(2,880)
Impairment recognised in profit or loss	(3,401)	(13,214)
Net change in fair value recognised in profit or loss	805	752
Net addition/(disposals) during the year	10,500	(3,328)
Reclassification	(76,347)	29,218
Closing balance	230,310	297,135

The following table provides information about the sensitivity of the fair values measurement to changes in the most significant unobservable inputs:



## Notes to the consolidated financial statements (continued)

### 36 Summary of assets and liabilities by category (continued)

#### 36.3 Fair value hierarchy (continued)

31 December 2017

Financial asset	Valuation technique	Significant unobservable input	Range	Sensitivity of the fair value measurement to the input
Unquoted Equity participations & certain quoted shares	DCF Method/ market multiples	Long term growth rate for cash flows for subsequent years	4.0% - 2.5%	Higher the growth rate, higher the value
		WACC	16.45% 10.07%-	Higher the WACC, lower the value
		Discount for lack of marketability	15% - 10%	Higher the discount rate, lower the value
Private equity and direct equity funds	NAV reported by investment manager	Fair market value of the underlying assets	N/A	Higher the FMV of the assets, higher the value
Other managed portfolios	NAV reported by investment manager	Fair market value of the underlying assets	N/A	Higher the FMV of the assets, higher the value

31 December 2016

Financial asset	Valuation technique	Significant unobservable input	Range	Sensitivity of the fair value measurement to the input
Unquoted Equity participations & certain quoted shares	DCF Method/ market multiples	Long term growth rate for cash flows for subsequent years	4% - 2%	Higher the growth rate, higher the value
		WACC	13.0% - 9.6%	Higher the WACC, lower the value
		Discount for lack of marketability	25% - 10%	Higher the discount rate, lower the value
Private equity and direct equity funds	NAV reported by investment manager	Fair market value of the underlying assets	N/A	Higher the FMV of the assets, higher the value
Other managed portfolios	NAV reported by investment manager	Fair market value of the underlying assets	N/A	Higher the FMV of the assets, higher the value

The impact on profit or loss and other comprehensive income would be immaterial if the relevant risk variable used to fair value the level 3 investments were changed by 5%.

Discount for lack of marketability represents the amounts that the Group has determined that market participants would take into account these premiums and discounts when pricing the investments.

In case of AFS assets, the impairment charge in the profit or loss would depend on whether the decline is significant or prolonged. An increase in the fair value would only impact equity (through OCI) and, would not have an effect on profit or loss.



## Notes to the consolidated financial statements (continued)

### 36 Summary of assets and liabilities by category (continued)

#### 36.4 Fair value measurement of non-financial assets

The following table shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis at 31 December 2016 and 2017.

	Level 1 KD'000	Level 2 KD'000	Level 3 KD'000	Total KD'000
<b>31 December 2017</b>				
Investment property				
- Lands and buildings in Kuwait	-	-	38,045	38,045
- Lands and buildings in Saudi Arabia	-	-	4,781	4,781
- Lands and buildings in UAE	-	-	354	354
- Properties under development	-	-	17,038	17,038
- Lands in UAE	-	-	1,635	1,635
- Lands in Jordan	-	-	501	501
- Lands in Kuwait	-	-	2,850	2,850
- Building in London	-	-	917	917
	-	-	66,121	66,121
<b>31 December 2016</b>				
Investment property				
- Lands and buildings in Kuwait	-	-	29,234	29,234
- Lands and buildings in Saudi Arabia	-	-	4,854	4,854
- Lands and buildings in UAE	-	-	298	298
- Lands in Jordan	-	-	494	494
- Lands in UAE	-	-	170	170
- Properties under development	-	-	25,581	25,581
- Lands in Kuwait	-	-	2,850	2,850
- Building in London	-	-	813	813
	-	-	64,294	64,294

The above buildings mainly represent rental properties on freehold land categorized as "Investment Lands" (i.e. land which can be used to construct multiple residential unit buildings, apartments, villas, Duplex and Studios), in Kuwait, Jordan, UAE, London and Saudi Arabia. The freehold lands above also mainly represent lands categorized as investment lands. The fair value of the investment properties have been determined based on valuations obtained from two independent valuers, who are specialised in valuing these types of investment properties. The significant inputs and assumptions are developed in close consultation with management. One of these valuers is a local bank (for local investment properties) who has valued the investment properties using primarily two methods, one of which is the Yield Method and other being a combination of the market comparison approach for the land and cost minus depreciation approach for the buildings. The other valuer who is a local reputable valuer has also valued the investment properties primarily by using a combination of the methods noted above. When the market comparison approach is used adjustments have been incorporated for factors specific to the land in question, including plot size, location and current use. For the valuation purpose, the Company has selected the lower value of the two valuations (2016: lower of two valuations). Further information regarding the level 3 fair value measurements is set out in the table below:



## Notes to the consolidated financial statements (continued)

### 36 Summary of assets and liabilities by category (continued)

#### 36.4 Fair value measurement of non-financial assets (continued)

31 December 2017

Description	Valuation technique	Significant unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Land and buildings in Kuwait and Saudi Arabia (rental properties)	Yield method and Market comparison approach for land & cost less depreciation for buildings	Estimated market price for land (per sqm)	<b>KD1,100 to KD8,052</b>	The higher the price per square meter, the higher the fair value
		Construction cost ((per sqm	<b>KD59 to KD662</b>	The higher the construction cost per square meter, the higher the fair value
		Average monthly (rent (per sqm	<b>KD2.5 to KD154</b>	The higher the rent per square meter, the higher the fair value
		Yield rate	<b>to 5.23% 14.89%</b>	The higher the yield rate, the lower the value
		Vacancy rate	<b>10%</b>	The higher the vacancy rate the lower the fair value
Freehold lands Kuwait, UAE and Jordan	Market comparison approach	Estimated market price for land (per sqm)	<b>KD55 to KD8,050</b>	The higher the price per square meter, the higher the fair value
Building in London	Yield method	Average monthly (rent (per sqm	<b>KD11.12</b>	The higher the rent per square meter, the higher the fair value
		Yield rate	<b>5.86%</b>	The higher the yield rate, the lower the value
		Vacancy rate	<b>10%</b>	The higher the vacancy rate the lower the fair value



## Notes to the consolidated financial statements (continued)

### 36 Summary of assets and liabilities by category (continued)

#### 36.4 Fair value measurement of non-financial assets (continued)

31 December 2016

Description	Valuation technique	Significant unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Land and buildings in Kuwait and Saudi Arabia (rental properties)	Yield method and Market comparison approach for land & cost less depreciation for buildings	Estimated market price for land (per sqm)	KD930 to KD8,576	The higher the price per square meter, the higher the fair value
		Construction cost ((per sqm	KD58 to KD419	The higher the construction cost per square meter, the higher the fair value
		Average monthly rent (per sqm	KD2.53 to KD154	The higher the rent per square meter, the higher the fair value
		Yield rate	to 5.02% 12.89%	The higher the yield rate, the lower the value
		Vacancy rate	10%	The higher the vacancy rate the lower the fair value
Freehold land Kuwait and Jordan	Market comparison approach	Estimated market price for land (per sqm)	KD54 to KD8,200	The higher the price per square meter, the higher the fair value
Building in London	Yield method	Average monthly rent (per sqm	KD8.73	The higher the rent per square meter, the higher the fair value
		Yield rate	5.19%	The higher the yield rate, the lower the value
		Vacancy rate	10%	The higher the vacancy rate the lower the fair value

#### Level 3 Fair value measurements

The Group measurement of investment properties classified in level 3 uses valuation techniques inputs that are not based on observable market data. The movement in the investment properties is disclosed in note 18.

### 37 Risk management objectives and policies

The Group's financial liabilities comprise due to banks, short term and long term borrowings and bond, leasing creditors and accounts payable and other liabilities. The main purpose of these financial liabilities is to raise finance for Group operations. The Group has various financial assets such as accounts receivable and other assets, bank balance and cash, murabaha, wakala and sukuk investments, short term deposits and investments and investment securities which arise directly from operations.

The Group's activities expose it to variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.



## Notes to the consolidated financial statements (continued)

### 37 Risk management objectives and policies (continued)

The board of directors sets out policies for reducing each of the risks discussed below.

The Group also enters into derivative transactions, primarily interest rate swaps. The purpose is to manage the interest rate risks arising from the Group's sources of finance. The Group's policy is not to trade in derivative financial instruments.

#### 37.1 Market risk

The most significant financial risks to which the Group is exposed to are described below.

##### a) Foreign currency risk

Foreign currency risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group mainly operates in the Middle East, USA and United Kingdom and is exposed to foreign currency risk arising, primarily from US Dollar, Saudi Riyal and GBP. The consolidated statement of financial position can be significantly affected by the movement in these currencies. To mitigate the Group's exposure to foreign currency risk, non-Kuwaiti Dinar cash flows are monitored.

Generally, the Group's risk management procedures distinguish short-term foreign currency cash flows (due within twelve months) from longer-term cash flows. Foreign currency risk is managed on the basis of limits determined by the Parent Company's board of directors and a continuous assessment of the consolidated open positions.

The Group's significant net exposure to foreign currency denominated monetary assets less monetary liabilities at the reporting date, translated into Kuwaiti Dinars at the closing rates are as follows:

	31 Dec. 2017 Equivalent KD '000	31 Dec. 2016 Equivalent KD '000
US Dollars	(140,043)	(102,496)
Saudi Riyals	15,670	14,964
GBP	2,634	3,740

The Parent Company's management estimates that a reasonable possible change in the above exchange rate would be 5%.

If the Kuwaiti Dinar had strengthened against the foreign currencies assuming the above sensitivity (5%), then this would have the following impact on the (loss)/profit for the year. There is no impact on the Group's other comprehensive income.

	(Impact on profit/(loss))	
	31 Dec. 2017 KD <000	31 Dec. 2016 KD <000
US Dollars	7,002	5,125
Saudi Riyals	(783)	(748)
GBP	(132)	(187)
	6,087	4,190





## Notes to the consolidated financial statements (continued)

### 37 Risk management objectives and policies (continued)

#### 37.1 Market risk (continued)

##### a) Foreign currency risk (continued)

If the Kuwaiti Dinar had weakened against the foreign currencies assuming the above sensitivity (5%), then there would be an equal and opposite impact on the profit/(loss) for the year, and the balances shown above would be negative for US Dollars and positive for Saudi Riyals and GBP (2016: negative for US Dollars and positive for GBP and Saudi Riyals).

Exposures to foreign exchange rates vary during the year depending on the volume and nature of the transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to the foreign currency risk.

##### b) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Group is exposed to interest rate risk on its short term deposits (refer note 32), short and long term borrowings (refer note 31 and 28) and due to banks which are both at fixed and floating interest rates. The risk is managed by the Group by managing an appropriate mix between fixed and floating rate, short term deposits and borrowings.

Positions are monitored regular to ensure positions are maintained within established limits.

The following table illustrates the sensitivity of the profit/(loss) for the year to reasonable possible change of interest rate of +25 (0.25%) and -75 (0.75%) basis points with effect from the beginning of the year. The calculation is based on the Group's financial instruments held at each reporting date. All other variables are held constant. There is no impact on Group's other comprehensive income.

	Increase in interest rates		Decrease in interest rates	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
	KD <000	KD <000	KD <000	KD <000
Effect on profit/(loss) for the year	(1,616)	(1,630)	4,860	4,890

##### c) Equity price risk

This is a risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether these changes are caused by factors specific to individual instrument or its issuer or factors affecting all instruments, traded in the market. The Group is exposed to equity price risk with respect to its listed equity investments which are primarily located in Kuwait, Jordan, Bahrain, Abu Dhabi, Saudi Arabia, Egypt, Pakistan and USA. Equity investments are classified either as "investments at fair value through profit or loss" or "available for sale investments".

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits determined by the Group.

The equity price risk sensitivity is determined on the exposure to equity price risks at the reporting date. If equity prices had been 10% higher/lower, the effect on the profit for the year and other comprehensive income for the year ended 31 December would have been as follows:



## Notes to the consolidated financial statements (continued)

### 37 Risk management objectives and policies (continued)

#### 37.1 Market risk (continued)

##### c) Equity price risk (continued)

A positive number below indicates an increase profit and other comprehensive income where the equity prices increase by 10%. All other variables are held constant.

	Profit for the year		Other comprehensive income	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
	KD '000	KD '000	KD '000	KD '000
Investments at fair value through profit or loss	2,558	2,782	-	-
Available for sale investments*	1,085	366	21,680	21,058
	3,643	3,148	21,680	21,058

\* Had equity prices been higher by 10% the impairment loss which was recognised in the consolidated statement of profit or loss would be reduced and consequently the profit for the year 2017 and 2016 would be higher.

For a 10% decrease in the equity prices there would be an equal and opposite impact on the profit for the years and other comprehensive income and the amounts shown above would be negative.

#### 37.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group credit policy and exposure to credit risk is monitored on an ongoing basis. The Group seeks to avoid undue concentrations of risks with individuals or groups of customers in specific locations or business through diversification of its activities.

The Group's exposure to credit risk is limited to the carrying amounts of financial assets recognised at the reporting date, as summarized below:

	31 Dec. 2017	31 Dec. 2016
	KD '000	KD '000
Available for sale investments	525,202	539,053
Accounts receivable and other assets (refer note 21)	90,448	56,458
Murabaha, wakala and sukuk investments	1,153	1,164
Investments at fair value through profit or loss	74,780	76,782
Short term deposits	8,020	9,224
Bank balances and cash	38,436	33,696
	738,039	716,377

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by Group, and incorporate this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties. None of the above financial assets are past due nor impaired except for certain wakala investments referred to in note 22, certain available for sale investments, account receivable and other asset and investment at fair value through profit or loss referred to in note 19, 21 and 23 respectively. The Group's management considers that all the above financial assets that are neither past due nor impaired for each of the reporting dates under review are of good credit quality.



## Notes to the consolidated financial statements (continued)

### 37 Risk management objectives and policies (continued)

#### 37.2 Credit risk (continued)

In respect of receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty. The credit risk for bank balances and short term deposits is considered negligible, since the counterparties are reputable financial institution with high credit quality. Information on other significant concentrations of credit risk is set out in note 37.3.

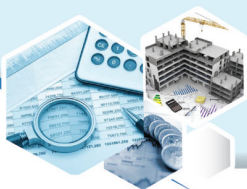
#### 37.3 Concentration of assets

The distribution of financial assets by geographic region was as follows:

	Kuwait	Other Middle Eastern Countries	Asia & Africa	UK & Europe	USA	Total
	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000
<b>At 31 December 2017</b>						
<b>Geographic region:</b>						
Available for sale investments	160,195	197,070	69,963	4,977	92,997	525,202
Accounts receivable and other assets	20,524	56,000	2,306	6,212	5,406	90,448
Investments at fair value through profit or loss	17,436	13,555	873	34,702	8,214	74,780
Murabaha, wakala and sukuk investments	1,153	-	-	-	-	1,153
Short term deposits	7,473	547	-	-	-	8,020
Bank balances and cash	27,316	6,923	121	4,063	13	38,436
	234,097	274,095	73,263	49,954	106,630	738,039
<b>At 31 December 2016</b>						
<b>Geographic region:</b>						
Available for sale investments	150,158	196,792	84,424	15,924	91,755	539,053
Accounts receivable and other assets	25,563	20,162	1,925	8,581	227	56,458
Investments at fair value through profit or loss	20,033	10,363	1,671	40,462	4,253	76,782
Murabaha, wakala and sukuk investments	1,164	-	-	-	-	1,164
Short term deposits	9,065	159	-	-	-	9,224
Bank balances and cash	21,762	4,212	103	2,054	5,565	33,696
	227,745	231,688	88,123	67,021	101,800	716,377

#### 37.4 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a regular basis.



## Notes to the consolidated financial statements (continued)

### 37 Risk management objectives and policies (continued)

#### 37.4 Liquidity risk (continued)

The contractual maturities of financial liabilities based on undiscounted cash flows are as follows:

	Up to 1 month	1-3 months	3-12 months	1-5 Years	Total
	KD '000	KD '000	KD '000	KD '000	KD '000
<b>31 December 2017</b>					
<b>Financial liabilities (undiscounted)</b>					
Long-term borrowings and bonds	483	1,760	4,798	229,804	236,845
Accounts payable and other liabilities	20,125	8,254	19,087	27	47,493
Short-term borrowings	40,558	79,426	363,856	-	483,840
Due to banks	22,315	-	-	-	22,315
	83,481	89,440	387,741	229,831	790,493
<b>31 December 2016</b>					
<b>Financial liabilities (undiscounted)</b>					
Long-term borrowings and bonds	-	2,025	6,024	381,002	389,051
Accounts payable and other liabilities	16,262	6,691	19,393	1,197	43,543
Short-term borrowings	681	161,974	166,534	-	329,189
Due to banks	21,186	-	-	-	21,186
	38,129	170,690	191,951	382,199	782,969

The Group's short term borrowings principally represent revolving facilities with local and foreign banks and financial institutions. During the year 2017, the Group's management has successfully renewed all short term facilities which were classified as falling due within one month and one to three months.

### 38 Reconciliation of liabilities arising from financing activities

The changes in the Group's liabilities arising from financing activities can be classified as follows:

	Long term Borrowings & bonds	Short term borrowings	Total
	KD	KD	KD
<b>1 January 2017</b>	<b>354,019</b>	<b>320,907</b>	<b>674,926</b>
- Repayment (cash flow)	(13,263)	(19,019)	(32,282)
- Proceeds (cash flow)	20,612	13,415	34,027
- Reclassification (non-cash)	(153,890)	153,890	-
- Discount on settlement (non-cash)	-	(2,063)	(2,063)
- Foreign currency translation adjustment	495	(1,788)	(1,293)
<b>31 December 2017</b>	<b>207,973</b>	<b>465,342</b>	<b>673,315</b>
1 January 2016	437,845	263,190	701,035
- Repayment (cash flow)	(32,586)	(52,255)	(84,841)
- Proceeds (cash flow)	44,562	13,080	57,642
- Reclassification (non-cash)	(95,955)	95,955	-
- Foreign currency translation adjustment	153	937	1,090
<b>31 December 2016</b>	<b>354,019</b>	<b>320,907</b>	<b>674,926</b>



## Notes to the consolidated financial statements (continued)

### 39 Capital risk management

The Group's capital management objectives are to ensure that the Group maintains a strong credit rating and healthy ratios in order to support its business and maximise shareholder value.

The Group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, buy back shares, issue new shares or sell assets to reduce debt.

The capital structure for the Group consists of the following:

	31 Dec. 2017	31 Dec. 2016
	KD '000	KD '000
Long term borrowings and bonds (refer note 28)	207,973	354,019
Short term borrowings (refer note 31)	465,342	320,907
Due to banks	22,315	21,186
	695,630	696,112
Less :		
Murabaha, wakala and sukuk investments	(1,153)	(1,164)
Short term deposits	(8,020)	(9,224)
Bank balances and cash	(38,436)	(33,696)
Net debt	648,021	652,028
Total equity	506,115	497,379

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio.

This ratio is calculated as net debt divided by the total equity as follows:

	31 Dec. 2017	31 Dec. 2016
	%	%
Net debt to equity ratio	128	131

### 40 Fiduciary assets

One of the subsidiaries of the Group manages mutual funds, portfolios on behalf of related and third parties, and maintains securities in fiduciary accounts which are not reflected in the consolidated statement of financial position. Assets under management at 31 December 2017 amounted to KD8,840 thousand (2016: KD5,465 thousand) of which assets managed on behalf of related parties amounted to KD2,968 thousand (2016: KD3,175 thousand).

### 41 Contingent liabilities and capital commitments

At 31 December 2017, the Group had contingent liabilities in respect of outstanding bank guarantees amounting to KD24,705 thousand (2016: KD19,550 thousand) and other contingencies with regard to pending litigations and tax claims amounting to KD356 thousand (2016: KD251 thousand)

At the reporting date the Group had commitments for the purchase of investments and the acquisition of property, plant and equipment and investment properties totalling KD43,418 thousand (2016: KD53,467 thousand) and committed loan to a related party KD2,720 thousand (2016: KD Nil).

At the reporting date, the Group had commitment to pay lease rentals amounting to KD4,815 thousand (2016: KD5,173 thousand).



## Notes to the consolidated financial statements (continued)

### 42 Dividend distribution

Subject to the requisite consent of the relevant authorities and approval from the general assembly, the Parent Company's Board of Directors propose a cash dividend of 10% (2016: Nil) equivalent to 10 Fils (2016: Nil) per share, by utilizing the retained earnings and general reserve.

At the Annual General Meeting held on 23 May 2017, the shareholders approved not to distribute any cash dividend (2015: 10% equivalent to 10 Fils per share amounting to KD13,251 thousand) for the year ended 31 December 2016.

### 43 Comparative information

Certain other comparative figures have been reclassified to conform to the presentation in the current year, and such reclassification does not affect previously reported net assets, net equity and net results for the year or net decrease in cash and cash equivalents.