

**Al Soor Fuel Marketing Company  
K.S.C.P. and its Subsidiary**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2017**

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL SOOR FUEL MARKETING COMPANY K.S.C.P.**

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

#### **Opinion**

We have audited the consolidated financial statements of Al Soor Fuel Marketing Company K.S.C.P. (the "Parent Company") and its subsidiary (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of income, consolidated statement of 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 financial statements of the current year. 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

We identified the following key audit matters:

##### *a) Early adoption of IFRS 9*

Effective 1 January 2017, the Group has early adopted IFRS 9 ahead of its mandatory effective date of 1 January 2018. As permitted by IFRS 9, the requirements have been applied retrospectively without restating comparatives.

Differences between previously reported carrying amounts and new carrying amounts of financial instruments as of 31 December 2016 and 1 January 2017 amounting to KD 162,343 and KD 4,637,050 have been recognized in the opening retained earnings and cumulative change in fair value reserve respectively.

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL SOOR FUEL MARKETING COMPANY K.S.C.P. (continued)**

### **Report on the Audit of Consolidated Financial Statements (continued)**

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

##### *a) Early adoption of IFRS 9 (continued)*

For classification and measurement of financial assets and financial liabilities, our audit procedures comprised the following;

- We reviewed the Group's IFRS 9 based classification and measurement of financial assets and financial liabilities policy and compared it with the requirements of IFRS 9;
- We obtained an understanding and checked the Group's business model assessment and the test on the contractual cash flows, which give rise to cash flows that are 'solely payments of principal and interest' [SPPI test] performed by the Group; and
- We checked the appropriateness of the opening balance adjustments.

For impairment methodology, our audit procedures comprised the following;

- We checked the Group's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9;
- We checked and understood the key data sources and assumptions for data used in the Expected Credit Loss (ECL) models (the Models) used by the Group to determine impairment provisions;
- For forward looking assumptions used by the Group's management in its ECL calculations, we held discussions with management and corroborated the assumptions using publicly available information;

We assessed the financial statement disclosures arising on early adoption of IFRS 9 to determine if they were in accordance with the requirements of the Standard. Refer to the accounting policies, critical accounting estimates and judgements, disclosures of and financial assets at fair value through other comprehensive income and accounts receivable in notes 2.2.1, 3, 10 and 11 to the consolidated financial statements.

##### *b) Valuation of financial assets at fair value through other comprehensive income*

As at 31 December 2017, the Group had financial assets at fair value through other comprehensive income amounting to KD 21,590,352 (2016: KD Nil). These financial assets are measured at fair value with the corresponding fair value change recognized in other comprehensive income. The valuation of the financial assets at fair value through other comprehensive income is inherently subjective - most predominantly for the level 3, since these are valued using inputs other than quoted prices in an active market. Fair value can be subjective in nature and involve various assumptions regarding pricing factors.

The use of different valuation techniques and assumptions could produce significantly different estimates of the values of these financial assets at fair value through other comprehensive income.

Due to the significance of estimation uncertainty associated with the fair valuation and impairment analysis of the financial assets at fair value through other comprehensive income, this is considered a key audit matter. For financial assets carried at fair value we performed audit procedures to assess the methodology and the appropriateness of the valuation models and inputs used to value financial assets available for sale. As part of these audit procedures, we assessed the accuracy of key inputs used in the valuation such as quoted market prices, market multiples, and discount rates for lack of marketability and lack of control, the expected cash flows, risk free rates and credit spreads by benchmarking them with external data, investigated significant differences. Finally, we assessed the adequacy of the disclosures relating to financial assets in note 10 to the consolidated financial statements.

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL SOOR FUEL MARKETING COMPANY K.S.C.P. (continued)**

### **Report on the Audit of Consolidated Financial Statements (continued)**

#### **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 Group's 2017 Annual Report, 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 Annual Report 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 and will not express any form of assurance conclusion thereon.

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 in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this 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 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 based on these consolidated financial statements.

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL SOOR FUEL MARKETING COMPANY K.S.C.P. (continued)**

### **Report on the Audit of Consolidated Financial Statements (continued)**

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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 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.
- 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.

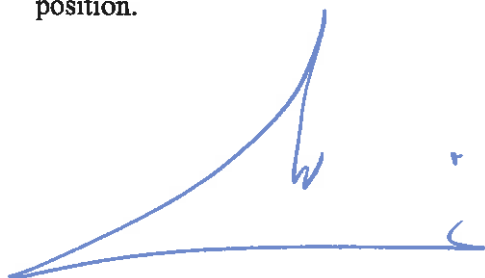
We also provide Those Charged with Governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Those Charged with Governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL SOOR FUEL  
MARKETING COMPANY K.S.C.P. (continued)**

**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, as amended, and its executive regulation, 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 No 1 of 2016, as amended, and its executive regulation, as amended, nor 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 of the Parent Company or on its financial position.



**BADER AL ABDULJADER**  
LICENCE NO. 207-A  
EY  
AL AIBAN, AL OSAIMI & Partners

21 March 2018  
Kuwait



# Al Soor Fuel Marketing Company K.S.C.P. and its Subsidiary

## CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2017

	Notes	2017 KD	2016 KD
Sales		150,328,071	116,963,194
Cost of sales	20	(137,854,788)	(104,503,018)
Operating expenses		(8,642,955)	(7,813,067)
<b>Gross profit</b>		<b>3,830,328</b>	<b>4,647,109</b>
Other income		2,934,682	2,846,993
Rental income		247,095	243,520
Net investment income	4	513,043	150,206
Share of results of investment in an associate	9	(100,412)	206,740
Impairment loss on investment in associates	9	-	(1,152,519)
Gain from sale of investment in an associate	9	575,000	-
Administrative expenses		(2,205,797)	(2,377,641)
Staff cost		(1,096,130)	(901,021)
Allowance for impairment of trade receivables	11	(1,021,210)	(53,758)
<b>PROFIT FOR THE YEAR BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), NATIONAL LABOUR SUPPORT TAX (NLST), ZAKAT AND DIRECTORS' REMUNERATION</b>		<b>3,676,599</b>	<b>3,609,629</b>
Contribution to KFAS		(33,096)	(32,487)
NLST		(91,933)	(90,241)
Zakat		(36,773)	(36,096)
Directors' remuneration	13	(55,000)	(50,000)
<b>PROFIT FOR THE YEAR</b>		<b>3,459,797</b>	<b>3,400,805</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE</b>	5	<b>8.63 fils</b>	<b>8.48 fils</b>

The attached notes 1 to 25 form part of these consolidated financial statements

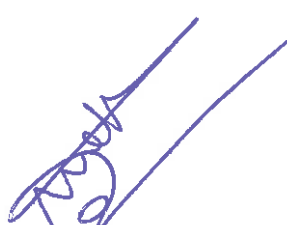
**Al Soor Fuel Marketing Company K.S.C.P. and its Subsidiary**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
For the year ended 31 December 2017

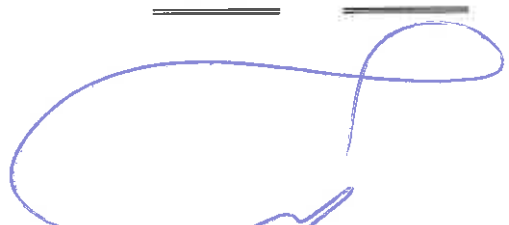
	<b>2017</b> <b>KD</b>	<b>2016</b> <b>KD</b>
<b>Profit for the year</b>	<b>3,459,797</b>	<b>3,400,805</b>
<b>Other comprehensive income</b>		
<i>Items that are or may be reclassified subsequently to the consolidated statement of income:</i>		
Change in fair value of financial assets available for sale	-	230,869
	-	230,869
<i>Items that will not be reclassified subsequently to consolidated statement of income:</i>		
Net fair value gain on financial assets at fair value through other comprehensive income	1,063,135	-
	1,063,135	-
<b>Other comprehensive income for the year</b>	<b>1,063,135</b>	<b>230,869</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>4,522,932</b>	<b>3,631,674</b>



**Al Soor Fuel Marketing Company K.S.C.P. and its Subsidiary**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
At 31 December 2017

	Notes	2017 KD	2016 KD
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	6	19,410,690	17,368,991
Intangible assets	7	12,929,500	13,623,422
Investment properties	8	4,392,672	4,422,873
Investment in associates	9	1,927,375	2,027,787
Financial assets available for sale	10	-	15,655,366
Financial assets at fair value through other comprehensive income	10	21,590,352	-
		<u>60,250,589</u>	<u>53,098,439</u>
<b>Current assets</b>			
Inventories		725,189	656,254
Accounts receivable and prepayments	11	9,795,752	6,947,600
Financial assets at fair value through profit or loss	10	-	65,280
Cash, bank balances and term deposits	12	28,039,213	12,022,073
		<u>38,560,154</u>	<u>19,691,207</u>
<b>TOTAL ASSETS</b>		<u><b>98,810,743</b></u>	<u><b>72,789,646</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	13	40,470,758	40,470,758
Statutory reserve	14	4,616,484	4,248,824
Voluntary reserve	15	4,616,484	4,248,824
Treasury shares	16	(760,279)	(760,279)
Cumulative changes in fair value reserve		6,103,229	429,074
Retained earnings		11,210,189	10,626,717
<b>Total equity</b>		<u><b>66,256,865</b></u>	<u><b>59,263,918</b></u>
<b>Liabilities</b>			
<b>Non-current liability</b>			
Employees' end of service benefits		760,442	636,539
<b>Current liabilities</b>			
Accounts payable and accruals	17	13,971,951	12,889,189
Term loan	18	17,821,485	-
<b>Total liabilities</b>		<u><b>32,553,878</b></u>	<u><b>13,525,728</b></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>98,810,743</b></u>	<u><b>72,789,646</b></u>

  
Turaif Mohammad Baqer Al Awadhi  
(Chairman)

  
Talal Ahmad Al-Khars  
(Vice Chairman & CEO)

# Al Soor Fuel Marketing Company K.S.C.P. and its Subsidiary

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share capital KD	Statutory reserve KD	Voluntary reserve KD	Treasury shares KD	Cumulative change in fair value reserve KD	Retained earnings KD	Total KD
Balance at 1 January 2017	40,470,758	4,248,824	4,248,824	(760,279)	429,074	10,626,717	59,263,918
Transition adjustment on early adoption of IFRS 9 (Note 2.2.1)	-	-	-	-	4,637,050	(162,343)	4,474,707
Restated balance at 1 January 2017	40,470,758	4,248,824	4,248,824	(760,279)	5,066,124	10,464,374	63,738,625
Profit for the year	-	-	-	-	-	3,459,797	3,459,797
Other comprehensive income for the year	-	-	-	-	1,063,135	-	1,063,135
Total comprehensive income for the year	-	-	-	-	1,063,135	3,459,797	4,522,932
Cash dividend paid (Note 13)	-	-	-	-	-	(2,004,692)	(2,004,692)
Net realised loss transferred to retained earnings on disposal of investments at fair value through other comprehensive income	-	-	-	-	(26,030)	26,030	-
Transfer to reserves	-	367,660	367,660	-	-	(735,320)	-
<b>Balance at 31 December 2017</b>	<b>40,470,758</b>	<b>4,616,484</b>	<b>4,616,484</b>	<b>(760,279)</b>	<b>6,103,229</b>	<b>11,210,189</b>	<b>66,256,865</b>
Balance at 1 January 2016	40,470,758	3,887,861	3,887,861	(760,279)	198,205	9,952,530	57,636,936
Profit for the year	-	-	-	-	-	3,400,805	3,400,805
Other comprehensive income for the year	-	-	-	-	230,869	-	230,869
Total comprehensive income for the year	-	-	-	-	230,869	3,400,805	3,631,674
Issue of bonus shares	-	-	-	-	-	(2,004,692)	(2,004,692)
Transfer to reserves	-	360,963	360,963	-	-	(721,926)	-
<b>Balance at 31 December 2016</b>	<b>40,470,758</b>	<b>4,248,824</b>	<b>4,248,824</b>	<b>(760,279)</b>	<b>429,074</b>	<b>10,626,717</b>	<b>59,263,918</b>

# Al Soor Fuel Marketing Company K.S.C.P. and its Subsidiary

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 KD	2016 KD
<b>OPERATING ACTIVITIES</b>			
Profit for the year before contribution to KFAS, NLST, and Zakat		3,621,599	3,559,629
Adjustments to reconcile profit for the year to net cash flows:			
Gain from sale of investment in an associate	9	(575,000)	-
Net investment income	4	(513,043)	(150,206)
Share of results of associates	9	100,412	(206,740)
Impairment loss on investment in associates	9	-	1,152,519
Depreciation and amortisation	6,7,8	1,811,613	1,721,263
Provision for employees' end of service benefits		139,760	211,301
Allowance for impairment of trade receivables	11	1,021,210	53,758
		<u>5,606,551</u>	<u>6,341,524</u>
Changes in the working capital:			
Inventories		(68,935)	(279,809)
Accounts receivable and prepayments		(4,031,705)	(883,486)
Accounts payable and accruals		882,277	(1,040,814)
Cash flows from operations		<u>2,388,188</u>	<u>4,137,415</u>
Employees' end of service benefits paid		(15,857)	(9,551)
KFAS paid		(32,487)	(39,512)
NLST paid		(97,378)	(121,922)
Zakat paid		(37,912)	(46,714)
Directors' fees paid		(50,000)	(50,000)
Net cash flows from operating activities		<u>2,154,554</u>	<u>3,869,716</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment	6	(3,129,189)	(3,565,917)
Purchase of financial assets available for sale		-	(3,105,405)
Purchase of financial assets at fair value through other comprehensive income		(823,536)	-
Proceeds from sale of financial assets at fair value through other comprehensive income		654,015	-
Proceeds as part of ongoing liquidation and dividend received from an associate		-	356,397
Proceeds from sales of investment in an associate	9	575,000	-
Term deposits		(1,000,000)	3,000,000
Investment income received		513,043	306,606
Net cash flows used in investing activities		<u>(3,210,667)</u>	<u>(3,008,319)</u>
<b>FINANCING ACTIVITIES</b>			
Term loan	18	37,358,520	-
Repayment of term loan		(19,537,035)	(1,000,000)
Cash dividend		(1,748,232)	(2,004,692)
Net cash flows from (used in) financing activities		<u>16,073,253</u>	<u>(3,004,692)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<u>15,017,140</u>	<u>(2,143,295)</u>
Cash and cash equivalents at 1 January		4,022,073	6,165,368
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	12	<u>19,039,213</u>	<u>4,022,073</u>

The attached notes 1 to 25 form part of these consolidated financial statements.

**Al Soor Fuel Marketing Company K.S.C.P. and its Subsidiary**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
At 31 December 2017

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**1 CORPORATE INFORMATION**

Al Soor Fuel Marketing Company K.S.C.P. (the "Parent Company") is a Kuwaiti shareholding company incorporated on 20 March 2006 and commenced its operations on 9 May 2006. The Parent Company's shares were listed on the Kuwait Stock Exchange on 30 June 2008.

The consolidated financial statements of the Parent Company and its subsidiary (collectively the "Group") for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Board of Directors' on 14 March 2018 and are subject to the approval of the general assembly of shareholders. The ordinary general assembly of the shareholders of the Parent Company has the power to amend these consolidated financial statements after their issuance.

The consolidated financial statements of the Group for the year ended 31 December 2016 approved by the shareholders of the Parent Company during the annual general assembly meeting held on 11 May 2017.

The Group conducts the following activities as set forth in Article No. 5 of the Parent Company's Articles of Association:

- Acquisition, establishment, leasing, operating, and maintenance of petrol stations;
- Establishing, developing, operating and maintaining customer service centers at petrol stations, to provide all automobile services including the changing of oil, car wash, maintenance workshop services and technical check-ups;
- The ability to fill and store fuel;
- To ship and trade in petroleum products in bulk or retail;
- The purchase, lease, acquisition, and sale of land and real estate in different locations for the purpose of compliance with the Parent Company's activities;
- Utilizing the financial surpluses of the Group by investing them in portfolios of specialised companies and entities.

The head office of the Parent Company is P.O. Box 28396, Safat 13144, State of Kuwait.

The Parent Company is a subsidiary of Alfa Energy Company K.S.C. (Closed) (the "Ultimate Parent Company").

**2.1 BASIS OF PREPARATION**

**Statement of compliance**

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

**Basis of measurement**

The consolidated financial statements of the Group are prepared under the historical cost convention as modified for the revaluation at fair value of financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss and financial assets available for sale.

**Functional and presentation currency**

The consolidated financial statements of the Group are presented in Kuwaiti Dinars ("KD"), which is the functional currency of the Parent Company.

**2.2 CHANGES IN ACCOUNTING POLICIES**

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective except for early adopting *IFRS 9 – Financial Instruments*.

The nature and the impact of each new standard or amendment is described below:

*Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative*

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the disclosure in Note 12.

## 2.2 CHANGES IN ACCOUNTING POLICIES (continued)

### *Annual Improvements Cycle - 2014-2016: Amendments to IFRS 12 Disclosure of Interests in Other Entities:*

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or associate) that is classified (or included in a disposal group that is classified) as held for sale. During 2017 and 2016, the Group had no interests classified as such, and therefore these amendments did not affect the Group's consolidated financial statements.

### *2.2.1 Early Adoption of IFRS 9- Financial instruments ("IFRS 9")*

The Group has applied IFRS 9 and related consequential amendment to other IFRS in advance of their effective date. The date of initial application (i.e. the date on which the Group has assessed its existing financial assets) is 1 January 2017. Accordingly, the Group has applied the requirements of IFRS 9 to instruments that have not been derecognised as at 1 January 2017 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2017.

IFRS 9 introduces new requirements for a) the classification and measurement of financial assets, b) impairment for financial assets and c) general hedge accounting. Details of these new requirement as well as their impact on the Group's consolidated financial statements are described below. The Group has not entered into any derivative transactions during the year and not have any outstanding derivative as at date of initial application, hence no related disclosure are included below.

- As per the transition requirements, the IFRS 9 has been applied retrospectively. However, the management has not considered to restate the comparatives. Hence, the date of initial application has been determined as 1 January 2017. Therefore, difference arising from classification and measurement of financial assets resulting from adoption of IFRS 9 are recognised in retained earnings and cumulative changes in fair values reserve as at 1 January 2017. Accordingly, the information presented in the consolidated financial statements as at and for year ended 31 December 2016 does not reflect the requirements of IFRS 9 and therefore is not comparable to information presented in the consolidated financial statements as at and for the year ended 31 December 2017 under IFRS 9.
- The following assessments have been made on the basis of facts and circumstances that existed at the date of initial application:
  - The determination of the business model within which a financial asset is held;
  - Revocation of previous designation of financial assets measured at fair value through profit or loss (FVTPL) and re-designation as at fair value through other comprehensive income (FVOCI).

The Group have reviewed and assessed the Group's existing financial assets as at 1 January 2017 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Group's financial assets in regards to their classification and measurement as given below.

### *Classification and measurement of financial assets*

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

- Financial assets such as accounts receivable, amount due from related parties and cash and cash equivalents that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at amortised cost;
- Financial assets such as equity investments are subsequently measured at fair value through other comprehensive income (FVOCI) as the Group has made irrevocable election/designation at initial application date.
- There were no financial assets or financial liabilities which the Group has elected to designate at FVTPL at the date of initial application of IFRS 9.

### *Impairment of financial assets*

IFRS 9 requires an Expected Credit Loss (ECL) model as opposed to an incurred credit loss model under IAS 39. Specifically, IFRS 9 requires the Group to recognise a loss allowance for expected credit losses on accounts receivable subsequently measured at amortised cost. In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime ECL as per simplified approach for accounts receivable.

As at 1 January 2017, the Group reviewed and assessed the Group's accounts receivable for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9 to determine ECL as at 1 January 2017 and 31 December 2017. The Group will monitor the reasonableness of the information, assumptions, estimates and judgements used for determining ECL and will update the ECL for latest and enhanced information that may be available without undue cost or effort at every reporting period end.

**Al Soor Fuel Marketing Company K.S.C.P. and its Subsidiary**  
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At 31 December 2017

**2.2 CHANGES IN ACCOUNTING POLICIES (continued)**

**2.2.1 Early Adoption of IFRS 9- Financial instruments ("IFRS 9") (continued)**

*Impact of initial application of IFRS 9 on equity*

The impact of this change in accounting policy relating to classification and measurement of financial assets as at 1 January 2017 has resulted in the decrease in retained earnings by KD 162,343 and increase the cumulative changes in fair value reserve by KD 4,637,050 as given below:

	<i>Retained earnings KD</i>	<i>Cumulative changes in fair value reserve KD</i>
Closing balance under IAS 39 as at 31 December 2016 (as originally stated)	10,626,717	429,074
<i>Impact on reclassification and remeasurement:</i>		
Change in fair value of equity investments reclassified from AFS - previously carried at cost less impairment - to FVOCI	-	4,637,050
Allowance for impairment of trade receivables based on Expected Credit losses (ECL)	(162,343)	-
Opening balance under IFRS 9 on date of initial application of 1 January 2017 (restated)	<u>10,464,374</u>	<u>5,066,124</u>

- i) Net investment income for the year is lower by KD 26,030 as there is no longer any reclassification of accumulated amounts from cumulative changes in fair values reserve to consolidated statement of income on disposal of these investments. This amount is disclosed in the consolidated statement of changes in equity as a transfer within equity from cumulative changes in fair values reserve to retained earnings
- ii) Fair value of the investments disposed during the year was KD 654,015.

No significant changes were noted in financial liabilities as the Group classified all its financial liabilities at amortised under IAS 39 and the same classification has been carried forward under IFRS 9 based on their business model.

**2.2.2 Classification of financial assets on the date of initial application of IFRS 9**

The table below illustrates the classification and measurement of financial assets under IFRS 9 and IAS 39:

	<i>Original measurement under IAS 39</i>	<i>New measurement under IFRS 9</i>	<i>Original carrying amount under IAS 39 KD</i>	<i>Additional loss allowance recognised under IFRS 9</i>	<i>Change in fair value</i>	<i>New carrying amount under IFRS 9 KD</i>
<b>1 January 2017</b>						
<i>Financial assets:</i>						
Cash, bank balances and term deposits	<i>Amortised cost</i>	<i>Amortised cost</i>	12,022,073	-	-	12,022,073
Accounts receivable	<i>Amortised cost</i>	<i>Amortised cost</i>	4,001,714	(162,343)	-	3,839,371
Trading securities	<i>FVTPL</i>	<i>FVOCI*</i>	65,280	-	-	65,280
Equity securities	<i>AFS</i>	<i>FVOCI*</i>	15,655,366	-	4,637,050	20,292,416
Total financial assets			<u>31,744,433</u>	<u>(162,343)</u>	<u>4,637,050</u>	<u>36,219,140</u>

\* Based on facts and circumstances that existed at the date of initial application, management determined that investment in equity instruments were not held for purposes of trading and were held for medium to long term strategic purposes. Accordingly, management have elected to designate these investments in equity instruments as FVOCI as they believe that recognising short term fluctuations in the fair value of investments in profit or loss would not be consistent with the Group's strategy of holding these investments for medium to long purposes and realising their performance potential in the long run.



## 2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

### *IFRS 15: Revenue from Contracts with customers*

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group will apply this standard when it becomes effective. The Group does not expect a significant impact on the consolidated financial statements on applying the new revenue standard.

### *IFRS 16 Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 determining whether an arrangement contains a lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees –leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group will apply this standard when it becomes effective.

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

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

### *Transfers of Investment Property — Amendments to IAS 40*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed. The Group will apply amendments when they become effective.



## 2.4 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiary as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the Parent Company of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company reporting date using consistent accounting policies. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. 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 derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in consolidated statement of income. Any investment retained is recognised at fair value.

The subsidiary of the Group is as follows:

<i>Name of the company</i>	<i>Country of incorporation</i>	<i>Principal activities</i>	<i>Interest in equity %</i>	
			<i>2017</i>	<i>2016</i>
Advantage for Establishing Central Markets Company K.S.C. (Closed)*	<i>Kuwait</i>	<i>Operating Central Markets</i>	<b>96%</b>	96%

\*Effective ownership percentage is 100% (2016: 100%).

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Revenue recognition

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 the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

The following specific recognition criteria described below must also be met before revenue is recognised.

#### *Sale of fuel*

Revenue from sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

#### *Rendering of services*

Revenue from rendering of services is recognised to the extent that it is probable that the economic benefits will flow to the Group and revenue can be reliably measured.

#### *Interest income*

Interest revenue is recognised as the interest accrues using the effective interest method, under which the rate used exactly discounts, estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

#### *Dividend income*

Dividend income is recognised when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

#### *Rental income*

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

### Taxation

#### *National Labour Support Tax (NLST)*

The Parent Company calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the year. As per the law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST are deducted from the profit for the year.

#### *Kuwait Foundation for the Advancement of Sciences (KFAS)*

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

#### *Zakat*

Contribution to Zakat is calculated at 1% of the profit of the Parent Company in accordance with the Ministry of Finance resolution No. 58/2007.

### Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

- |                               |            |
|-------------------------------|------------|
| • Buildings on leasehold land | 15 years   |
| • Installations and equipment | 5-15 years |
| • Furniture and fixtures      | 1-5 years  |
| • Motor vehicles              | 5 years    |

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Property and equipment (continued)**

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of equipment. All other expenditure is recognised in the consolidated statement of income as the expense is incurred.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

### **Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

*The useful lives of intangible assets are assessed as either finite or indefinite.*

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each reporting date.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income when the asset is derecognised.

### **Goodwill**

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognised in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in this circumstance is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

### **Contracts backlog**

Contracts backlog acquired separately are measured at cost on initial recognition. Contracts backlog acquired in business combination have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight line method to allocate the cost of Contracts backlog over their estimated useful lives (3 years).

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Intangible assets (continued)

#### *Contracts backlog (continued)*

The carrying amount of contracts backlog is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, an impairment loss is recognised in the consolidated statement of income, being the difference between carrying value and the asset's recoverable amount.

#### *Leasehold right*

Leasehold right acquired is measured on initial recognition at cost. Following initial recognition, leasehold rights are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Leasehold right is amortised over their useful economic life (30 years) and assessed for impairment whenever there is an indication that the leasehold right may be impaired. The amortisation period and the amortisation method for leasehold right is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on leasehold rights is recognised in the consolidated statement of income.

Gains or losses arising from derecognition of an leasehold right are measured as the difference between the net disposal proceeds and the carrying amount of the right and are recognised in the consolidated statement of income when the asset is derecognised.

#### *License*

License acquired separately is measured at cost on initial recognition. License acquired in business combination have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight line method to allocate the cost of license over their estimated useful lives (30 years).

The carrying amount of license is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, an impairment loss is recognised in the consolidated statement of income, being the difference between carrying value and the asset's recoverable amount.

#### *Software*

Software acquired separately is measured at cost on initial recognition. The software has finite useful life and is carried at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is calculated using straight line method to allocate the cost of software over its estimated useful life of 3 years. The carrying amount software is assessed and adjusted for impairment whenever there is an indication that it may be impaired.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

### Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in its associate are accounted for using the equity method.

Under the equity method, the investment in associates is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of income reflects the Group's share of the results of operations of the associate. Any change in other comprehensive income of the associate is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.



## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Investment in associates (continued)**

The Group's share of results of an associate is included as part of net investment loss shown on the face of the consolidated statement of income.

The financial statements of the associate are prepared for the same reporting period as the Parent Company. In case of different reporting date of an associate, which are not more than three months from that of the Group, adjustments are made for the effects of significant transactions or events that occur between that date and the Group's reporting date. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in associates is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises as part of net investment losses shown on the face of the consolidated statement of income.

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

### **Investment properties**

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property.

Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment. The estimated life of the buildings is 40 years and is depreciated on a straight line basis. Land on which the property is constructed is not depreciated.

Investment properties are derecognised 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. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of income in the period of derecognition.

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 cost at the date of change in use.

### **Impairment of non-financial assets**

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Cash and short-term deposits**

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash, bank balances and short-term deposits, as defined above.

### **Inventories**

Inventories are valued at the lower of cost and net realisable value. Cost includes the purchase price, import duties, transportation, handling and other direct costs. Cost is calculated using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

### **Financial instruments accounting policies applied from 1 January 2017**

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets or issue of financial liabilities (other than on financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or issue financial liabilities at fair value through profit or loss are recognised immediately in consolidated statement of income.

### **Financial assets**

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

### *Classification of financial assets*

#### *Financial assets at amortised cost*

Financial assets such as accounts receivable, amount due from related parties and cash and cash equivalents that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss except for equity instruments when the Group may make an irrevocable election/designation at initial recognition to recognize fair value in other comprehensive income.

### *Amortised cost and effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial instruments at amortised cost, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments accounting policies applied from 1 January 2017 (continued)

#### *Financial assets (continued)*

##### *Amortised cost and effective interest method (continued)*

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

##### *Financial assets at FVOCI*

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVOCI. Designation at FVOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies.

Investments in equity instruments at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the cumulative changes in fair values reserve. The cumulative gain or loss will not be reclassified to consolidated statement of income on disposal of the equity investments, instead, they will be transferred to retained earnings.

The Group has designated all investments in equity instruments that are not held for trading as at FVOCI on initial application of IFRS 9 (Note 2.2.1).

Dividends on these investments in equity instruments are recognised in consolidated statement of income when the Group's right to receive the dividends is established in accordance with IAS 18 Revenue, unless the dividends clearly represent a recovery of part of the cost of the investment.

##### *Impairment of financial assets*

The Group recognises a loss allowance for expected credit losses on financial assets that are measured at amortised cost. No impairment loss is recognised for equity instruments that are classified as financial assets at FVOCI. The amount of expected credit losses is updated at each reporting date.

The Group always recognises lifetime ECL for trade receivables which generally do not have a significant financing component. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a trade receivables.

##### *Credit-impaired financial assets at amortised cost*

A financial asset is credit-impaired when one or more events, constituting an event of default for internal credit risk management purposes as historical experience indicates, that have a detrimental impact on the estimated future cash flows of that financial asset have occurred that meet below criteria. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.



## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments accounting policies applied from 1 January 2017 (continued)

#### *Financial assets (continued)*

##### *Write-off of financial assets at amortised cost*

The Group writes off a financial asset at amortised cost when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in consolidated statement of income.

##### *Measurement and recognition of expected credit losses*

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for loan commitments and financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

The Group recognises an impairment loss in consolidated statement of income for all financial assets at amortised cost with a corresponding adjustment to their carrying amount through a loss allowance account.

#### *Derecognition*

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

From 1 January 2017 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in consolidated statement of income on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

#### *Financial liabilities*

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

The Group's financial liabilities include bank overdrafts, accounts payable and accruals and bank borrowings (term loans, murabaha payable and tawaruq payable).

#### *Subsequent measurement*

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments accounting policies applied from 1 January 2017 (continued)

#### *Financial liabilities (continued)*

##### *Bank borrowings*

##### *Term loan*

Term loan is carried on the consolidated statement of financial position at their principal amount. Instalments due within one year are shown as current liabilities. Interest is charged as an expense as it accrues, with unpaid amounts included in accounts payable and accruals.

##### *Accounts payable and accruals*

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

##### *Derecognition*

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 the consolidated statement of income.

### Financial instruments accounting policies applied up to 31 December 2016

#### **Financial assets**

##### *Initial recognition and measurement*

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, held to maturity, receivables and loan, or financial assets available for sale, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of not at fair value through consolidated statement of income, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way purchases) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include receivables, financial assets available for sale and financial assets at fair value through profit or loss.

##### *Subsequent measurement*

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

##### *Financial assets available for sale*

Financial assets available for sale include equity and debt securities. Equity investments classified as available for sale are those, which are neither classified as held for trading nor designated at fair value through consolidated statement of income. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

Financial assets available for sale are initially recognized at cost (including transaction costs associated with the acquisition of the investment) and after initial measurement, financial assets available for sale are subsequently measured at fair value unless fair value cannot be reliably determined. Changes in fair value of available for sale are reported as other comprehensive income in cumulative change in fair value reserve until the investment is derecognised, at which time the cumulative change in fair value is recognised in consolidated statement of income, or determined to be impaired, at which time the cumulative change in fair value reserve fair value reserve is recognised in the consolidated statement of income in impairment loss of investment and removed from cumulative change in fair value reserve fair value reserve. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

##### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and non-trading financial assets designated upon initial recognition as at fair value through consolidated statement of income. Financial assets at fair value through profit or loss are remeasured at fair value with all changes in fair value being recorded in the consolidated statement of income. Transaction costs associated with the acquisition of financial assets at fair value through profit or loss are expensed as incurred.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments accounting policies applied up to 31 December 2016 (continued)

#### Financial assets (continued)

##### *Financial assets at fair value through profit or loss (continued)*

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on financial assets held for trading are recognised in consolidated statement of income.

Non-trading financial assets may be designated at initial recognition as financial assets designated as at fair value through consolidated statement of income if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or (ii) the assets are part of a Group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented investment and risk management strategy.

The Group evaluated its financial assets at fair value through profit or loss (held for trading) whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through consolidated statement of income using the fair value option at designation, these instruments cannot be reclassified after initial recognition.

##### *Trade and other receivables*

These are stated at original invoice amount less provision for any doubtful accounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when incurred.

##### *Impairment and uncollectibility of financial assets*

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets may be impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in profit or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

##### *Financial assets available for sale*

For financial assets available for sale, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments may be 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 investment below its cost. 'Significant' is to be 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 impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income – is removed from fair value reserve and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; an increase in their fair value after impairment loss is recognised directly in the cumulative change in fair value reserve.

#### Financial liabilities

##### *Initial recognition and measurement*

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through consolidated statement of income and loan and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value and in the case of term loan and borrowings including directly attributable transaction costs.

The Group's financial liabilities include term loan and trade and other payables.

##### *Subsequent measurement*

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments accounting policies applied up to 31 December 2016 (continued)

#### Financial liabilities (continued)

##### *Trade and other payables*

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

##### *Term loan*

After initial recognition, interest bearing term loan is subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the consolidated statement of income when the liabilities are derecognized as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the consolidated statement of income. Unpaid amounts of term loan are included in 'Term Loan'.

#### **Derecognition of financial assets and liabilities**

A financial asset (or where applicable a part of a financial asset or a part of Group of financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired;
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or the Group has transferred its rights to receive cash flows from the asset and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the 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, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

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.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where 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 the consolidated statement of income.

#### **Fair values of financial instruments**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimizing the use of unobservable inputs.

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model and price to book model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 25 for further disclosures.



## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Fair values of financial instruments (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

An analysis of fair value of financial instruments and further details as to how they are measured are provided in note 25.

### Fair value of investments properties

The determination of fair value of investment properties requires the use of estimates such as future cash flows from assets (such as lettings, tenants' profiles, future revenue stream, capital value of fixtures and fittings, plant and machinery, any environmental matters and the overall repair and condition of the property) and discount rates applicable to those assets. In additions, development risks (such as construction and letting risks) are also taken consideration when determining the fair value of investment properties under construction. These estimates are based on local market conditions existing at reporting date.

### Offsetting of financial instruments

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

### 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, "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 and then to the statutory and voluntary reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividends are paid on these shares. The issue of stock dividend increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

### Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

#### *Group as a lessee*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of income on a straight-line basis over the lease term, except for contingent rental payments which are expensed when they arise.

### Employees' end of service benefits

The Group provides end of service benefits to its employees under the Kuwait Labour Law. 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. The expected costs of these benefits are accrued over the period of employment.

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

### **Segment reporting**

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenues and incurs costs. The operating segments are used by the management of the Group to allocate resources and assess performance is consistent with the internal reports provided to the chief executive operation and the board of directors. Operating segments exhibiting similar economic characteristics, product and services, class of customers where appropriate are aggregated and reported as reportable segments.

### **Foreign currencies**

The Group's consolidated financial statements are presented in KD, which is also the Parent Company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and has elected to recycle the gain or loss that arises from using this method.

#### *i) Transactions and balances*

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of income with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or the consolidated statement of income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

### **Contingencies**

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

## 3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Group has used judgment and estimates principally in, but not limited to, the following:

### 3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

#### *Valuation of unquoted investments*

Valuation of unquoted equity securities is normally based on one of the following:

- Recent arm's length market transactions;
- Current fair value of another instrument that is substantially the same;
- Earnings multiples;
- Price to book multiples;
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics;
- Underlying net asset base of the investment; or
- Other valuation models

The determination of the cash flows, earnings multiples, price to book multiples and discount factors for unquoted equity securities requires significant estimation.

#### *Impairment of trade receivables*

An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

#### *Impairment of financial assets at amortised cost- policy applicable from 1 January 2017*

The impairment provisions for financial assets disclosed in Note 11 are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period

#### *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.

#### *Impairment of non-financial assets*

An asset is impaired if its carrying amount exceeds its estimated recoverable amount. The recoverable amount of an asset is the higher of an asset's net selling price and value in use. Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. An assessment is made at each statement of financial position date to determine whether there is objective evidence that an asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of income.

#### *Impairment of property and equipment*

A decline in the value of property and equipment could have a significant effect on the amounts recognised in the financial statements. Management assesses the impairment of property and equipment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Factors that are considered important which could trigger an impairment review include the following:

- significant decline in the market value beyond that which would be expected from the passage of time or normal use;
- significant changes in the technology and regulatory environments; and
- evidence from internal reporting which indicates that the economic performance of the asset is, or will be, worse than expected.

#### *Useful lives of property and equipment*

The Group's management determines the estimated useful lives of its equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.



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**3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

*Impairment of goodwill and intangible assets with finite and indefinite useful life*

Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that an intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income as the expense category that is consistent with the function of the intangible assets.

The Group determines whether goodwill and intangible assets with indefinite useful life are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units. 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.

*Impairment of an associate*

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 associates. 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 loss as "Impairment loss of investment in associate" in the consolidated statement of income.

**4 NET INVESTMENT INCOME**

	<b>2017</b> <b>KD</b>	<b>2016</b> <b>KD</b>
Interest income	<b>238,375</b>	185,166
Impairment loss on financial assets available for sale (Note 10)	-	(150,000)
Unrealised loss from financial assets at fair value through profit or loss	-	(6,400)
Dividend income	<b>274,668</b>	121,440
	<b><u>513,043</u></b>	<b><u>150,206</u></b>

**5 BASIC AND DILUTED EARNINGS PER SHARE**

Basic earnings per share are calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year (excluding treasury shares). Diluted earnings per share is calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year (excluding treasury shares) plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. The Parent Company did not have any diluted shares as at 31 December. The information necessary to calculate basic and diluted earnings per share based on the weighted average number of shares outstanding, less treasury shares, during the year is as follows:

	<b>2017</b>	<b>2016</b>
Profit for the year (KD)	<b><u>3,459,797</u></b>	<b><u>3,400,805</u></b>
Weighted average number of ordinary shares outstanding during the year (excluding treasury shares)	<b><u>400,991,834</u></b>	<b><u>400,991,834</u></b>
Basic and diluted earnings per share	<b><u>8.63 fils</u></b>	<b><u>8.48 fils</u></b>

# Al Soor Fuel Marketing Company K.S.C.P. and its Subsidiary

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

### 6 PROPERTY AND EQUIPMENT

	Buildings on leasehold land KD	Installations and equipment KD	Furniture and fixtures KD	Motor vehicles KD	Capital work in progress KD	Total KD
Cost:						
At 1 January 2017	9,034,224	7,728,663	1,571,721	63,924	7,460,574	25,859,106
Additions	-	6,476	13,062	5,690	3,103,961	3,129,189
Transfers	2,575,245	64,875	-	-	(2,640,120)	-
At 31 December 2017	11,609,469	7,800,014	1,584,783	69,614	7,924,415	28,988,295
Depreciation:						
At 1 January 2017	853,294	6,027,095	1,560,913	48,813	-	8,490,115
Charged for the year	630,301	439,011	6,657	11,521	-	1,087,490
At 31 December 2017	1,483,595	6,466,106	1,567,570	60,334	-	9,577,605
Net carrying amount:						
At 31 December 2017	10,125,874	1,333,908	17,213	9,280	7,924,415	19,410,690
Cost:						
At 1 January 2016	4,873,528	6,825,212	1,567,970	63,924	8,962,555	22,293,189
Additions	-	82,133	3,751	-	3,480,033	3,565,917
Transfers	4,160,696	821,318	-	-	(4,982,014)	-
At 31 December 2016	9,034,224	7,728,663	1,571,721	63,924	7,460,574	25,859,106
Depreciation:						
At 1 January 2016	495,938	5,610,781	1,400,200	37,478	-	7,544,397
Charged for the year	357,356	416,314	160,713	11,335	-	945,718
At 31 December 2016	853,294	6,027,095	1,560,913	48,813	-	8,490,115
Net carrying amount:						
At 31 December 2016	8,180,930	1,701,568	10,808	15,111	7,460,574	17,368,991

Fuel stations and buildings on leasehold land (holding on leasehold land) are constructed on land leased from the Government of Kuwait. Capital work in progress represents major renovations and significant improvements being carried out at the fuel stations. Notwithstanding the contractual term of the lease for leasehold land, these are amortised over 30 years based on common practice in Kuwait for similar lands. Certain leasehold lands are registered in the name of related parties who have confirmed in writing that the Group is the beneficial owner of these leasehold lands.

Depreciation expense is allocated between operating expenses of KD 1,069,312 (2016: KD 773,670) and administrative expenses of KD 18,178 (2016: KD 172,048) in the consolidated statement of income.

# Al Soor Fuel Marketing Company K.S.C.P. and its Subsidiary

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 7 INTANGIBLE ASSETS

	Goodwill KD	Contracts backlog KD	Leasehold rights KD	Licenses KD	Software KD	Total KD
Cost:						
At 1 January 2017	210,483	555,877	19,087,811	1,725,128	363,494	21,942,793
At 31 December 2017	210,483	555,877	19,087,811	1,725,128	363,494	21,942,793
Amortisation:						
At 1 January 2017	-	555,876	6,786,775	613,380	363,340	8,319,371
Charged for the year	-	-	636,265	57,504	153	693,922
At 31 December 2017	-	555,876	7,423,040	670,884	363,493	9,013,293
Net carrying amount:						
At 31 December 2017	210,483	1	11,664,771	1,054,244	1	12,929,500
Cost:						
At 1 January 2016	210,483	555,877	19,087,811	1,725,128	363,494	21,942,793
At 31 December 2016	210,483	555,877	19,087,811	1,725,128	363,494	21,942,793
Amortisation:						
At 1 January 2016	-	555,876	6,150,515	555,876	311,758	7,574,025
Charged for the year	-	-	636,260	57,504	51,582	745,346
At 31 December 2016	-	555,876	6,786,775	613,380	363,340	8,319,371
Net carrying amount:						
At 31 December 2016	210,483	1	12,301,036	1,111,748	154	13,623,422

Amortisation expense is allocated between operating expenses of KD 693,769 (2016: KD 693,764) and administrative expenses of KD 153 (2016: KD 51,582) in the consolidated statement of income.

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**8 INVESTMENT PROPERTIES**

	<i>Freehold land KD</i>	<i>Buildings KD</i>	<i>Total KD</i>
Cost:			
At 1 January 2017	3,474,033	1,208,000	4,682,033
At 31 December 2017	3,474,033	1,208,000	4,682,033
Depreciation:			
At 1 January 2017	-	259,160	259,160
Charge for the year	-	30,201	30,201
At 31 December 2017	-	289,361	289,361
Net carrying amount: At 31 December 2017	<b>3,474,033</b>	<b>918,639</b>	<b>4,392,672</b>
Cost:			
At 1 January 2016	3,474,033	1,208,000	4,682,033
At 31 December 2016	3,474,033	1,208,000	4,682,033
Depreciation:			
At 1 January 2016	-	228,961	228,961
Charge for the year	-	30,199	30,199
At 31 December 2016	-	259,160	259,160
Net carrying amount: At 31 December 2016	<b>3,474,033</b>	<b>948,840</b>	<b>4,422,873</b>

\* As at 31 December 2017, the fair value of the investment properties amounted to KD 5,408,000 (2016: KD 5,483,000).

The fair value of the investment properties has been determined based on valuations obtained from two independent valuers, who are an industry specialised in valuing these types of investment properties, one of these valuers is a local bank.

Both valuers have used the following method:

- Developed properties which generate rental income have been valued using the income capitalisation approach assuming full capacity of the property.

All investment properties are considered under level 3 for the fair value hierarchy, and there were no transfers between level 1 and level 2 fair value measurements and no transfer into and out of level 3 fair value measurements.

Investment properties with total amount of KD 2,661,473 (2016: KD 2,669,473) is registered in the name of a related party (Note 20), which confirmed in writing that the Group has the beneficial ownership of those properties.

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**9 INVESTMENT IN AN ASSOCIATE**

Details of an associate are as follows:

<i>Name of the company</i>	<i>Country of incorporation</i>	<i>Principal activity</i>	<i>Effective equity interest</i>	
			<i>2017</i>	<i>2016</i>
Metalex Energy Company K.S.C. (Closed)	Kuwait	Contracting services for oil sector	-	35%
United Foodstuff Industries Group Company K.S.C. (Closed)	Kuwait	General Trading Activities	26.9%	26.9%

The movement of the investment in associates during the year is as follows:

	<i>2017 KD</i>	<i>2016 KD</i>
Carrying value at 1 January	2,027,787	3,329,963
Share of results of associates	(100,412)	206,740
Dividend received	-	(44,897)
Proceeds as part of ongoing liquidation of an associate	-	(311,500)
Impairment loss on investment in associates	-	(1,152,519)
Carrying value at 31 December	<u>1,927,375</u>	<u>2,027,787</u>

*(A) Metalex Energy Company K.S.C. (Closed)*

During the year ended 31 December 2017, the Group disposed its shares in Metalex Energy Company K.S.C. (Closed) for a consideration of KD 575,000. During previous years, the Group had recognized a full impairment against the carrying amount of the investments. Accordingly, the Group has recognized a gain from sale in the consolidated statement of income amounting to KD 575,000.

*(B) United Foodstuff Industries Group Company K.S.C. (Closed)*

The Group calculated the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognised the loss as "Impairment loss on investment in associates" in the consolidated statement of income amounted to KD Nil (2016: KD 579,985). The recoverable amount represents value in use which was determined by estimating its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment. The following rates are used by the Group:

	<i>2017</i>	<i>2016</i>
Discount rate	10.90%	12.32%
Projected annual average growth rate for sales	4%	5%
Terminal growth rate	3%	3%

The calculation of value-in-use is sensitive to projected annual average growth rate for net profit of the associate discount rate and terminal growth rate.

**Discount rate**

Discount rate reflects the current market assessment of the risk specific to the associate, which is located in Kuwait and specialised in production of food. The discount rate was estimated based on the average percentage of a weighted cost of capital for the consumer industry determined on a pre-tax basis. This rate was further adjusted to reflect the market assessment of any risks specific to the associate for which future estimates of cash flows have been adjusted after appropriate discount rate as the associate is not listed in the capital market.



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**9 INVESTMENT IN AN ASSOCIATE (continued)**

**Projected annual average growth rate for net profit**

The associate's strategic business plan is as follows:

- Working on increase the new opening branches;
- Finding new potential markets.

**Sensitivity to changes in assumptions**

The calculation of the value in use of the associate is sensitive to the following assumptions:

	<b>Changes in assumptions %</b>	<b>Effect on the recoverable amount KD</b>	
Discount rate	+ 1%	191,627	An increase in discount rate by 1% would result in an excess in the recoverable amount over the carrying amount by an amount of KD 191,627.
Projected annual average growth rate for sales 5 years	- 1%	69,370	A decrease in projected annual average growth for sales over 5 years by 1% would result in an excess in the recoverable amount over the carrying amount by an amount of KD 69,370.
Terminal growth rate	-1%	122,738	A decrease in terminal growth rate by 1% would result in an excess in the recoverable amount over the carrying amount by an amount of KD 122,738.

Investment in associates with total amount of KD 1,927,375 (2016: KD 2,027,787) are held through non-discretionary portfolio with related party (Note 20).

The following table illustrates the summarised information of the Group's associate:

*Summarised consolidated statement of financial position:*

	<b>2017 KD</b>	<b>2016 KD</b>
Assets	<b>9,033,563</b>	9,288,552
Liabilities	<b>(3,863,665)</b>	(3,745,710)
<b>Equity</b>	<b>5,169,898</b>	5,542,842
Group's share in equity - 26.92% (2016: 26.92%)	<b>1,391,944</b>	1,492,356
Goodwill	<b>535,431</b>	535,431
Carrying amount of the investment	<b>1,927,375</b>	2,027,787

*Summarised consolidated statement of income:*

Revenues	<b>11,126,623</b>	8,023,104
Expenses	<b>(11,499,569)</b>	(7,255,238)
<b>(Loss) profit for the year</b>	<b>(372,946)</b>	767,866
<b>Group's share of (loss) profit for the year</b>	<b>(100,412)</b>	206,740

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**10 OTHER FINANCIAL ASSETS**

	<b>2017</b> <b>KD</b>	<b>2016</b> <b>KD</b>
<b>Financial assets at fair value through profit or loss (FVTPL)</b>		
Managed portfolio (local quoted equity securities)	-	65,280
<b>Financial assets available for sale (AFS)</b>		
Quoted equity security	-	1,473,178
Unquoted equity securities	-	14,182,188
	-	15,655,366
<b>Financial assets at fair value through other comprehensive income (FVOCI)</b>		
Local unquoted securities	6,457,161	-
Managed portfolio (local quoted equity securities)	125,863	-
Managed portfolio (local unquoted equity securities)	15,007,328	-
	21,590,352	-
<b>Total other financial assets</b>	<b>21,590,352</b>	<b>15,720,646</b>

On 1 January 2017 on initial application of IFRS 9 (Note 2.2.1), the Group's management classified its financial assets at fair value through profit or loss with a carrying value of KD 65,280 and its financial assets available for sale with a carrying value of KD 15,655,366 as financial assets at fair value through other comprehensive income. The effects resulting from early adoption of IFRS 9 have been disclosed in Note 2.2.1.

As at 31 December 2017, financial assets at fair value through other comprehensive income amounting to KD 15,133,191 (2016: financial assets at fair value through profit or loss amounting to KD 65,280 and financial assets available for sale amounting to KD 15,655,366) are managed by a related party (Note 20).

As at 31 December 2017, Financial assets at fair value through other comprehensive income amounting to KD 18,454,810 (2016: financial assets available for sale amounting to KD 13,323,588) are in related party entities (Note 20).

During the year ended 31 December 2016, an impairment loss KD 150,000 (Note 4) has been recognised in the consolidated statement of income against certain unquoted equity shares on which there has been a significant or prolonged decline in value below their cost.

Hierarchy for determining and disclosing the fair values of financial instruments by valuation technique are presented in Note 25.

**11 ACCOUNTS RECEIVABLE AND PREPAYMENTS**

	<b>2017</b> <b>KD</b>	<b>2016</b> <b>KD</b>
Trade receivables	4,485,402	3,847,530
Advance payment for purchase investment properties	4,810,669	2,611,021
Prepaid expenses	305,431	334,865
Other receivables	194,250	154,184
	9,795,752	6,947,600

As at 31 December 2017, trade receivables of KD 1,685,839 (2016: KD 502,286) were impaired and fully provided for.

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**11 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)**

Movements in the allowance for impairment of trade receivables were as follows:

	<b>2017</b> <b>KD</b>	<b>2016</b> <b>KD</b>
Opening balance	502,286	448,528
Opening balance adjustment based on lifetime ECL (Note 2.2.1)	162,343	-
Charge for the year	1,020,504	53,758
Charge for the year based on lifetime ECL	706	-
	<b>1,685,839</b>	<b>502,286</b>

The following table shows lifetime ECL that has been recognised for trade receivables in accordance with the simplified approach set out in IFRS 9.

	<i>Lifetime ECL- not credit impaired KD</i>	<i>Lifetime ECL- credit impaired KD</i>	<i>Total KD</i>
<b>31 December 2017</b>			
Expected credit loss rate	5%*	100%	
Estimated total gross carrying amount	4,648,451	1,522,790	6,171,241
Lifetime ECL	(163,049)	(1,522,790)	(1,685,839)
As at 31 December			<b>4,485,402</b>

\* represents average expected credit loss rate

The aging of unimpaired trade receivables at 31 December is as follows:

	<i>Total</i> <i>KD</i>	<i>Past due but not impaired</i>					<i>&gt;360 days</i> <i>KD</i>
		<i>0 – 90 days</i> <i>KD</i>	<i>91 – 180 day</i> <i>KD</i>	<i>181 – 270 day</i>	<i>271 – 360 day</i> <i>KD</i>		
<b>2017</b>	<b>4,648,451</b>	<b>3,089,142</b>	<b>1,207,177</b>	<b>141,109</b>	<b>37,675</b>		<b>173,348</b>
2016	3,847,530	2,873,639	832,389	15,046	23,201		103,255

Receivables which are past due at the reporting date for which the Group has not provided for as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

**12 CASH, BANK BALANCES AND TERM DEPOSITS**

Cash, bank balances and term deposits included in the consolidated statement of cash flows include the following consolidated statement of financial position amounts:

	<b>2017</b> <b>KD</b>	<b>2016</b> <b>KD</b>
Cash	2,093	21,292
Bank balances	3,987,120	4,000,781
Term deposits	24,050,000	8,000,000
	<b>28,039,213</b>	<b>12,022,073</b>
Term deposits (maturity after 3 months from the inception date)	<b>(9,000,000)</b>	<b>(8,000,000)</b>
	<b>19,039,213</b>	<b>4,022,073</b>

Term deposits are placed with local banks denominated in KD and carry an effective interest rate of 1.855 % (2016: 2.48%) per annum.

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**12 CASH, BANK BALANCES AND TERM DEPOSITS (continued)**

Changes in liabilities from financing activities:

	<i>1 January 2017</i> <i>KD</i>	<i>Cash flows</i> <i>inflow/(outflow)</i> <i>KD</i>	<i>31 December</i> <i>2017</i> <i>KD</i>
Current interest-bearing loans and borrowings	-	<b>17,821,485</b>	<b>17,821,485</b>
<b>Total liabilities from financing activities</b>	<b>-</b>	<b>17,821,485</b>	<b>17,821,485</b>

**13 SHARE CAPITAL, CASH DIVIDEND AND BONUS SHARES**

	<i>Authorised, issued and fully paid</i> <i>2017</i> <i>KD</i>	<i>2016</i> <i>KD</i>
404,707,581 shares (2016: 404,707,581) of 100 fils paid in cash and issue of bonus shares	<b>40,470,758</b>	<b>40,470,758</b>

***Cash dividend, bonus shares and Directors' remuneration***

The Annual General Assembly Meeting held on 11 May 2017, approved a distribution of 5% cash dividend of the nominal value of shares, by 5 fils per share for the year ended 31 December 2016 (2015: 5 fils). In addition, the Annual General Assembly approved directors' remuneration for the year ended 31 December 2016 of KD 50,000 (2015: 50,000).

The Board of Directors of the Group has proposed directors' remuneration of KD 55,000 (2016: KD 50,000), which is within the amount permissible under local regulations and are subject to approval by annual Ordinary General Assembly Meeting of the Group's shareholders.

The Board of Directors of the Parent Company has proposed a distribution of 5% cash dividends of the nominal value of shares, by 5 fils per share for the year ended 31 December 2017 (2016: 5 fils) and is subject to approval by Annual Ordinary General Assembly Meeting of the Parent Company's shareholders.

**14 STATUTORY RESERVE**

In accordance with the Companies' Law and the Parent Company's Memorandum of Incorporation and Articles of Association, 10% of the profit for the year before contribution to KFAS, NLST, Zakat and Directors' remuneration shall be transferred to the statutory reserve. The annual general assembly of the Parent Company may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital. The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice, unless such reserve exceeds 50% of the issued share capital

**15 VOLUNTARY RESERVE**

In accordance with the Companies' Law, and the Parent Company's Memorandum of Incorporation and Articles of Association, a maximum of 10% of the profit for the year before contribution to KFAS, NLST, Zakat and Directors' remuneration is transferred to voluntary reserve. The Annual General Assembly of shareholders may, upon a recommendation by the Board of Directors, resolve to discontinue such annual transfers.

**16 TREASURY SHARES**

	<i>2017</i>	<i>2016</i>
Number of treasury shares	<b>3,715,747</b>	<b>3,715,747</b>
Percentage of ownership	<b>0.92%</b>	<b>0.92%</b>
Market value (KD)	<b>408,732</b>	<b>431,027</b>

Reserves equivalent to the cost of the treasury shares held are not available for distribution.

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**17 ACCOUNTS PAYABLE AND ACCRUALS**

	<i>2017</i> <i>KD</i>	<i>2016</i> <i>KD</i>
Trade payables	9,494,106	9,218,398
Accrued expenses	1,600,021	1,095,790
Dividend payables	1,669,755	1,413,295
Advances from customers	1,208,069	1,161,706
	<u>13,971,951</u>	<u>12,889,189</u>

Trade payable amounting to KD 8,667,009 (2016: 8,425,102) are due to a related party (Note 20).

**18 TERM LOAN**

Term loans with total amount of KD 17,821,485 (2016: Nil) were obtained from local banks and carries effective interest rate from 4% to 4.875 % (2016: Nil%) with maturity dates less than one year.

**19 CONTINGENCIES AND COMMITMENTS**

	<i>2017</i> <i>KD</i>	<i>2016</i> <i>KD</i>
Letters of guarantee	5,435,223	8,097,720
Capital commitments	<u>2,587,114</u>	<u>1,648,615</u>

The Group has entered into several lease arrangements, mainly for renting of land over which fuel stations are constructed. The future minimum lease payments under the non-cancellable operating leases as at 31 December are as follows:

	<i>2017</i> <i>KD</i>	<i>2016</i> <i>KD</i>
Not later than one year	654,294	639,873
After one year and not later than five years	222,911	213,290
	<u>877,205</u>	<u>853,163</u>

**20 RELATED PARTY TRANSACTIONS**

Related parties represent i.e. major shareholders, associates, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the management and board of directors.

Transactions with related parties included in the consolidated statement of income are as follows:

	<i>Entities under common control KD</i>	<i>Major shareholder KD</i>	<i>2017 Total KD</i>	<i>2016 Total KD</i>
Cost of sales (purchase of fuel)	-	137,854,788	137,854,788	104,503,018
Operating expenses	965,628	-	965,628	836,358
Administrative expenses	1,169,987	-	1,169,987	1,266,068



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**20 RELATED PARTY TRANSACTIONS (continued)**

Balances with related parties included in the consolidated statement of financial position are as follows:

	<i>Entities under common control KD</i>	<i>Major shareholder KD</i>	<i>2017 Total KD</i>	<i>2016 Total KD</i>
Accounts receivable and prepayments*	4,150,716	-	4,150,716	2,031,000
Accounts payable and accruals*	8,667,009	-	8,667,009	8,456,610
Financial assets available for sale	-	-	-	13,323,588
Financial assets at fair value through other comprehensive income	18,454,810	-	18,454,810	-

Investment in associates with total amount of KD 1,927,375 (2016: KD 2,027,787) are held through non-discretionary portfolio with a related party (Note 9).

Investment properties with total amount of KD 2,661,473 (2016: KD 2,669,473) is registered in the name of related party (Note 8), which confirmed in writing that the Group has the beneficial ownership of those properties.

Financial assets at fair value through other comprehensive income amounting to KD 15,133,191 (2016: financial assets at fair value through profit or loss amounting to KD 65,280 and financial assets available for sale amounting to KD 15,655,366) are managed by a related party (Note 10).

\* Amounts due to/from Entities under common control that are interest free and due within one year from the reporting date.

	<i>2017 KD</i>	<i>2016 KD</i>
<b>Key management compensation</b>		
Short-term benefits	478,864	370,854
Employees' end of service benefits	35,587	27,522
	<u>514,451</u>	<u>398,376</u>

**21 SEGMENTAL INFORMATION**

For management purposes, the Group is organized into business units based on their products and services, and has two reportable operating segments as follows:

- Fuel marketing and other related services -- represents the sale of fuel and other related services arising from fuel stations.
- Investment operations -- represents investment in managed portfolio, short-term money market placements and real estate.

	<i>Fuel marketing and other related services KD</i>	<i>Investment operations KD</i>	<i>Unallocated KD</i>	<i>Total KD</i>
<b>31 December 2017</b>				
Segment revenue	153,262,753	1,234,726	-	154,497,479
Depreciation and amortization	1,705,577	30,201	75,835	1,811,613
Segment results	5,668,880	1,234,726	(3,443,809)	3,459,797

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**21 SEGMENTAL INFORMATION (continued)**

	<i>Fuel marketing and other related services KD</i>	<i>Investment operations KD</i>	<i>Unallocated KD</i>	<i>Total KD</i>
<i>31 December 2016</i>				
Segment revenue	119,810,187	(552,053)	-	119,258,134
Depreciation and amortization	1,409,930	30,199	281,134	1,721,263
Segment results	6,593,081	(552,053)	(2,640,223)	3,400,805
	<i>Fuel marketing and other related services KD</i>	<i>Investment operations KD</i>	<i>Unallocated KD</i>	<i>Total KD</i>
Segment assets as at 31 December 2017	46,850,344	51,960,399	-	98,810,743
Segment liabilities as at 31 December 2017	13,810,149	17,821,485	922,244	32,553,878
Segment assets as at 31 December 2016	42,618,340	30,171,306	-	72,789,646
Segment liabilities as at 31 December 2016	12,730,365	-	795,363	13,525,728

**22 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk. The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Group's policy is to monitor those business risks through Group's strategic planning process. No changes were made in the risk management objectives, policies or processes during the years ended 31 December 2017 and 2016.

**22.1 Credit risk**

Credit risk is the risk that a counter party will not meet its obligations under a financial instrument leading to a financial loss. Financial assets subject to credit risk consist principally of bank balances, fixed deposits and accounts receivable.

The Group has adopted a policy of only dealing with creditworthy counterparties. The Group's exposure are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

**Maximum exposure to credit risk**

The Group's exposure to credit risk from bank balances, cash with a portfolio manager, fixed deposits and accounts receivable arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Where financial instruments are recorded at fair value, it represents the current maximum credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values. The maximum exposure is the carrying amount as described in the consolidated statement of financial position.

The maximum exposure to credit risk at the reporting date was:

	<i>2017 KD</i>	<i>2016 KD</i>
Cash, bank balances and term deposits (Note 12)	28,037,120	12,000,781
Trade and other receivables (Note 11)	4,679,652	4,001,714
	<u>32,716,772</u>	<u>16,002,495</u>

## 22 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### 22.1 Credit risk (continued)

#### *Risk concentration of maximum exposure to credit risk*

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

Trade receivables consist of a large number of customers, spread across diverse industries. Ongoing credit evaluation is performed on the financial condition of accounts receivable. Concentration of credit risk is represented by one major customer representing 32% (2016: 25%) of the trade receivables balance.

### 22.2 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. To manage this risk, the Group periodically assess the financial viability of the receivables and ensures that adequate bank facilities are available.

The management has built an appropriate liquidity risk management framework for the management of the Group's short and medium funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate cash and cash equivalents and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets.

All the financial liabilities of the Group are due within one year from the consolidated statement of financial position date.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

	<i>Within 3 months KD</i>	<i>3 to 12 months KD</i>	<i>Total KD</i>
<b>2017</b>			
Accounts payable and accruals	11,242,551	2,729,400	13,971,951
Term loan	18,029,543	-	18,029,543
	<u>29,272,094</u>	<u>2,729,400</u>	<u>32,001,494</u>
<b>2016</b>			
Accounts payable and accruals	10,671,333	2,217,856	12,889,189

### 22.3 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of foreign currency risk, interest rate risk and equity price risk. The sensitivity analyses in the following sections relate to the position as at 31 December in 2017 and 2016.

#### 22.3.1 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's presentation currency).

At the reporting date, the Group is not exposed to foreign currency risk as majority of the assets and liabilities are denominated in Kuwaiti Dinars.

**22 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****22.3 Market risk (continued)****22.3.2 Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Company's term loan obligation with fixed interest rates.

The Group is exposed to interest rate risk on its interest bearing assets and liabilities (short term deposit, term loan).

The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates on the Group's profit, based on fixed interest rates and financial liabilities held at 31 December. The following table demonstrates the sensitivity of the consolidated statement of income to reasonably possible changes in interest rates, with all other variables held constant.

	<i>Increase in basis points</i>	<i>Effect on profit for the year KD</i>
<b>2017</b>	<b>+100</b>	<b>62,285</b>
<b>2016</b>	<b>+100</b>	<b>80,000</b>

**22.3.3 Equity price risk**

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The Group is exposed to equity price risk on its investments held at fair value through profit or loss. The Group manages this risk through diversification of investments in terms of industry concentration.

The following table demonstrates the sensitivity of the consolidated statement of income to reasonably possible changes in equity prices, with all other variables held constant.

	<i>Market indices</i>	<i>Increase/decrease in stock prices (%)</i>	<i>Effect on OCI KD</i>	<i>Effect on profit for the year KD</i>
<b>2017</b>				
<b>Financial assets at fair value through other comprehensive income</b>	<b>Kuwait</b>	<b>± 5</b>	<b>± 5,492</b>	<b>-</b>
<b>2016</b>				
<b>Financial assets held at fair value through profit or loss</b>	<b>Kuwait</b>	<b>± 5</b>	<b>-</b>	<b>± 3,688</b>
<b>Financial assets available for sale</b>	<b>Kuwait</b>	<b>± 5</b>	<b>± 4,219</b>	<b>-</b>

**23 CAPITAL MANAGEMENT**

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2017 and 2016.

Capital comprises of share capital, statutory reserve, voluntary reserve, treasury shares cumulative change in fair value reserve and retained earnings and is measured at KD 66,256,865 as at 31 December 2017 (2016: KD 59,263,918).

**24 MATURITY ANALYSIS OF ASSETS AND LIABILITIES**

The table below summarises the maturity profile of the Group's assets and liabilities. The maturity profile of, accounts receivable and prepayments, accounts payable and accruals at the year-end is based on contractual repayment arrangements. The maturity profile for the remaining assets and liabilities is determined based on the management estimate of liquidation of those assets.

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**24 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)**

	<i>Within 3 months KD</i>	<i>3 to 12 months KD</i>	<i>1 to 5 years KD</i>	<i>Total KD</i>
<b>31 December 2017</b>				
<b>Assets</b>				
Property and equipment	-	-	19,410,690	19,410,690
Intangible assets	-	-	12,929,500	12,929,500
Investment properties	-	-	4,392,672	4,392,672
Investment in associates	-	-	1,927,375	1,927,375
Financial assets at fair value through other comprehensive income	-	-	23,070,561	23,070,561
Inventories	-	725,189	-	725,189
Accounts receivable and prepayments	4,357,583	5,438,169	-	9,795,752
Cash, bank balances and term deposits	19,039,213	9,000,000	-	28,039,213
<b>TOTAL ASSETS</b>	<b>23,396,796</b>	<b>15,163,358</b>	<b>61,730,798</b>	<b>100,290,952</b>
<b>Liabilities</b>				
Employees end of service benefits	-	-	760,442	760,442
Accounts payable and accruals	11,242,551	2,729,400	-	13,971,951
Term loans	17,821,485	-	-	17,821,485
<b>TOTAL LIABILITIES</b>	<b>29,064,036</b>	<b>2,729,400</b>	<b>760,442</b>	<b>32,553,878</b>
<b>31 December 2016</b>				
<b>Assets</b>				
Property and equipment	-	-	17,368,991	17,368,991
Intangible assets	-	-	13,623,422	13,623,422
Investment properties	-	-	4,422,873	4,422,873
Investment in associates	-	-	2,027,787	2,027,787
Financial assets available for sale	-	-	15,655,366	15,655,366
Inventories	-	656,254	-	656,254
Accounts receivable and prepayments	3,557,718	3,389,882	-	6,947,600
Financial assets at fair value through profit or loss	-	65,280	-	65,280
Cash, bank balances and term deposits	4,022,073	8,000,000	-	12,022,073
<b>TOTAL ASSETS</b>	<b>7,579,791</b>	<b>12,111,416</b>	<b>53,098,439</b>	<b>72,789,646</b>
<b>Liabilities</b>				
Employees end of service benefits	-	-	636,539	636,539
Accounts payable and accruals	10,671,333	2,217,856	-	12,889,189
<b>TOTAL LIABILITIES</b>	<b>10,671,333</b>	<b>2,217,856</b>	<b>636,539</b>	<b>13,525,728</b>

**25 FAIR VALUE OF FINANCIAL INSTRUMENTS**

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of financial assets fair value through other comprehensive income, accounts receivable and prepayments and cash, bank balances and term deposits. Financial liabilities consist of accounts payable and accruals and term loans.

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



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**25 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

Level 1: quoted (unadjusted) prices in an active market for identical assets and liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: other techniques which use inputs which have a significant effect on the recorded fair value are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Level 1 KD	Level 3 KD	Total KD
<b>2017</b>			
<b>Financial assets at fair value through other comprehensive income (FVOCI)</b>			
Local unquoted securities	-	6,457,161	6,457,161
Managed portfolio (local quoted equity securities)	125,863	-	125,863
Managed portfolio (local unquoted equity securities)	-	15,007,328	15,007,328
	<u>125,863</u>	<u>21,464,489</u>	<u>21,590,352</u>
<b>2016</b>			
<b>Financial assets at fair value through profit or loss</b>			
Managed portfolio (local quoted equity securities)	65,280	-	65,280
	<u>65,280</u>	<u>-</u>	<u>65,280</u>
<b>Financial assets available for sale</b>			
<b>Managed portfolios (local equity securities):</b>			
Quoted equity security	1,473,178	-	1,473,178
	<u>1,473,178</u>	<u>-</u>	<u>1,473,178</u>

The following table shows a reconciliation of the opening and closing amount of level 3 financial assets which are recorded at fair value.

	As at 1 January 2017 KD	Reclassification due to early adoption of IFRS 9 KD	Gain recorded in other comprehensive income KD	Net purchases, (sales) and settlements KD	Transfer from Level 1* KD	As at 31 December 2017 KD
<b>Financial assets at fair value through other comprehensive income</b>						
Local unquoted securities	-	5,810,911	646,250	-	-	6,457,161
Managed portfolio (local unquoted equity securities)	-	13,270,828	412,473	152,499	1,171,528	15,007,328

\* During the year, Kuwait Stock Exchange announced delisting of one of the equity securities from the Kuwait stock market. Accordingly, the Group transferred the equity investment of KD 1,171,528 from level 1 to level 3.