بسم الله الرحمن الرحيم

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

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

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

Contents

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

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

Chairman Speech

Distinguished Shareholders,

Distinguished Shareholders,

My colleagues, fellow Board members, and I, have the pleasure to welcome you to the 57th Annual General Meeting (AGM), where we present to you the consolidated financial statements and the auditor>s report for the financial year ended 31/12/2016.

Turmoil was the hallmark of 2016, where many countries like Syria, Libya and Yemen are still experiencing a deterioration in security conditions. The GCC experienced difficult times economically due to the low oil prices, which led the Governments to adapt new precautions to be aligned with this fall. IMF recommended to speed up the restructuring process to diversify its economy away from petrochemicals, and enhance national role for the private sector and create proper jobs for citizens. Some GCC countries issued international bonds to ease the burden on the financial reserves and improve liquidity in the market in general. Saudi Arabia issued international bonds worth US$ 17.5 billion, which was the biggest deal for bonds of emerging market countries. Qatar also issued Government bonds worth US $9 billion, Abu Dhabi Government sold bonds worth US $5 billion, Kuwait, on the other hand postponed the planned bond issuance worth US $ 9.9 billion until 2017.

Kuwait, had proposed plans to introduce income tax, cut spending, and privatizations programs on many public services to attract more foreign investment and boost the economy.

Locally, the Kuwaiti index was the worst performer among peers within GCC markets, Kuwaiti price index ended down by 0.4% after the oil and gas sector fell by 15.2%, the banking sector fell by 7%, while the industrial index increased by 17.9%, consumer goods sector, and telecom sector also rose by 16.5% and 11.3% respectively, while Kuwait 15 Index closed down 1.7%. During the year NIG issued bonds amounted KD 25 million, by Ahli Bank of Kuwait and ABK capital, NIG had received requests for subscription that exceeded the allowable threshold.

NIG achieved an estimated loss of about KD 24 million compared with a profit of about KD 29 million for the same period in 2015, as a result of falling sales by 21% to KD 110 million compared with KD 140 million for the year 2015, as well as

the decrease of the investment revenue by 84% to record KD 35 million, compared to KD 64 Million during 2015, In addition to recording provisions of KD 18 million during 2016. The international investment recorded revenues amounted to KD 4.2 million, which represent around 6% of the total investment revenue.

During 2016, we will present to you the annual Corporate Governance report that explore the effort performed by both the Board of Directors and executive management, in order to achieve a system of sound Corporate Governance pursuant to leading practices and according to the Capital Market Authority (CMA) law to achieve a better environment for shareholders and stakeholders of the company. As I thank all fellow board members as well as the executive management for the high level of cooperation and the sincere effort to serve both the shareholders and the stakeholders.

It was recommended to the annual general meeting that neither a distribution nor board remuneration should be provided for the year then ended December 31, 2016.

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

Success is from Allah,

Chairman of the Board

Sa'ad Mohammed Al Sa'ad

Annual Performance for the Dubsidiaries and Associates

First: the subsidiaries

- **NIC**

In 2016, sales dropped around 18% to about KD 41 million compared with KD 48 million in 2015. The profit for the year was recorded to KD 700 thousand compared to KD 7.8 million during 2015. In 2016, the South mixing plant was upgraded as well as the ready mix transportation fleet. The year 2016 witnessed the installation and operation of the white brick packaging machines.

- **Noor financial investment company**

Noor completed another successful year of growth and profitability despite the mild performance of Kuwait Stock Exchange and downtrend of real estate valuation. Noor retained focus on rebalancing its asset portfolio towards investments that generate profits and cash flows for the company.

On the other hand, Noor has been steadily reducing its debt and it has been in continuous dialogue with its creditors to successfully close the second round of debt restructuring.

In 2016, Noor has achieved a Net Profit of KD 1 million, and its shareholders equity amounted to KD 69 million, compared to KD 64 million, with an EPS of FILS 2.75 per share.

- **IKARUS petroleum services company**

IKARUS ended 2016 with slight losses amounting to KD 730 thousand compared to a loss of KD 7.8 million during 2015. This is due to the increase in the share market value of circa 48% during 2016 for both SIPCHEM & Tasnee. The company applied for a delisting from the Kuwait Borsa, which is expected to take effect in February 2017.

The company>s assets rose from KD 104 million during 2015 to KD 117 million in 2016. The stockholder's equity increased to KD 100 million, while the long-term liability decreased to KD 14 million, compared with KD 30 Million in 2015 after the re-payment of a local loan during 2016.

- ***Al Durra National real estate company Dura***

Al Durra achieved positive results despite the marked slowdown in real estate activity sector in Kuwait. The company is still trying to procure proper opportunities in developing real estate projects, as well as developing their projects in the areas of Mahboula and Sapheya within the State of Kuwait and outside the region in Riyadh and Dubai.

- ***National Industries Combined Energy Holding:***

During the year 2016, Airport International Group inaugurated the second phase of the Queen Alia International Airport New Terminal Project, which would contribute towards increasing the annual capacity of the airport from 9 million passengers to 12 million passengers.

As for passenger traffic, the airport witnessed an increase in passenger traffic to 7.4 million passengers i.e. a 4.4% growth when compared to the year 2015.

- ***Proclad Group***

End of 2016, Proclad Group opened its second new facility in Dubai with the state-of-the-art equipment serving the global market. Proclad UK, BI Group Plc and UCB Group who are all under the umbrella of Proclad Group, are now working closer after the 2014 and 2015 capital expenditure, and are now serving new products to new markets and industries. They are also working towards product development such as core parts of diesel engine, speciality items for nuclear waste, renewable energy plants; and of course our traditional Oil & Gas and Power Generation markets. The vision for Proclad Group is to serve minimum 6 industries mentioned above, going into Products and Services focusing on its niche specialty Corrosion Resistant Alloys areas and related industries.

Associate Companies

- ***Kuwait Cement Company***

The company continued to achieve an increase in value and volume of both the packed and the loose ordinary Portland cement and sulphate resistant cement compared to 2015. During 2016, the company conducted the first of this kind of trial in Kuwait to generate electricity from burning loads of used tires, where they nearly burned more than 10,000 used tire as an alternative clean fuel-source. In addition, the company's activity rose in Shuwaikh branch for cement and its branch in Fujairah in the U.A.E. along with the installation and operation of a new production line, where production capacity increased by 8% compared to the year 2015.

During the year the Amwaj International Real-estate company's activity rose through real estate investment activities. The company achieved growth in sales around 7% to achieve KD 99 million compared to KD 93 million during 2015.

Net profit rose to a record of KD 19.5 million compared to KD 19 million in 2015 to score a 2% growth, with a profit per share amounted to 27.40 Fils per share

- ***Privatization holding company***

The company made a loss of KD 1.3 million during 2016, compared to the profit of KD 110 thousand in 2015, due to increase of cost of services and goods sold by 166% to record KD 27 million, compared to KD 10 million in 2015.

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

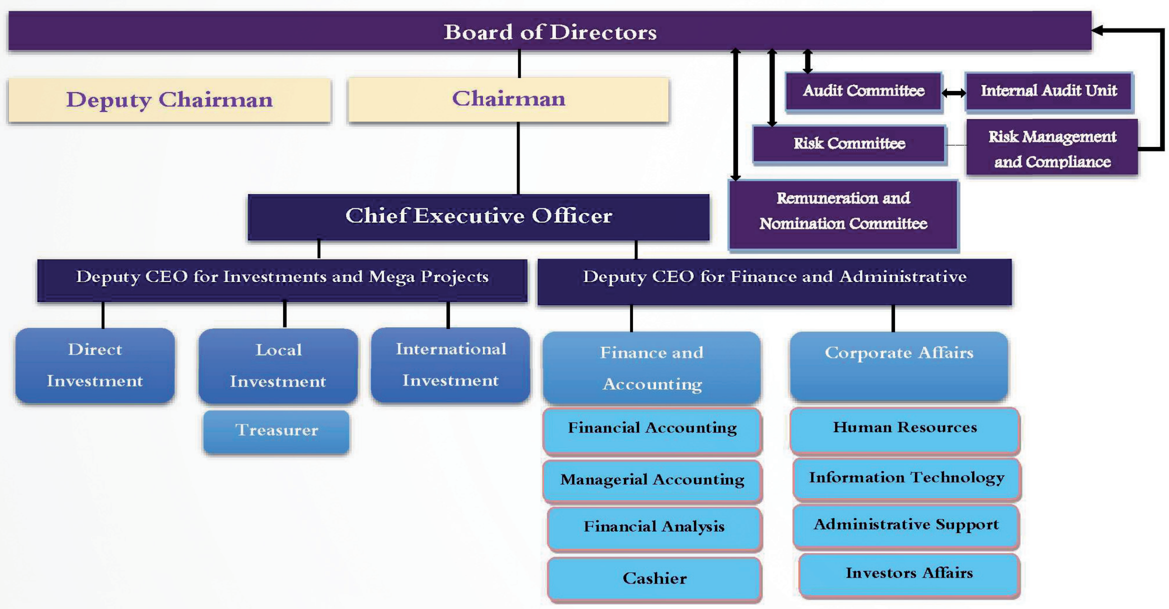
Corporate Governance report
2016

Introduction

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

Rule I: Construct a Balanced Board Composition

National Industries Group Holding Organizational Structure



Board Composition

The name	Membership	Qualification	first election
Mr. Saad Mohamed Al Saad	Chairman of the Board-non-executive	Bachelor of Commerce	1973.
Mr. Sulaiman Hamad Al Dalali	Vice President – non-executive	Bachelor of Commerce	2004
Mr. Abdul-Aziz Ibrahim Al Rabiah	Non-Executive	Bachelor of Commerce	1979.
Mr. Ali Murad Behbehani	Non-Executive	Bachelor of Arts in English language	1996.
Mr. Salah Khaled Al-Fulaij	Non-Executive	Bachelor>s degree in economics	1995.
Mr. Hossam Fawzi Al-Kharafi	Non-Executive	Bachelor of civil engineering	2007
Mr. Dr. Abdul-Aziz Al Rashed	Non-Executive	PhD in electrical engineering.	2016
Mr. Mohamed Abdul Mohsen Al Asfour	Independent Non-Executive	Bachelor of business administration	2013
Mrs. Maha Khalid Al-Ghunaim	Non-Executive	Bachelor of mathematics	1995.
Mr. Mohamed Rashed Al Mutairi	Secretary of the Board	Master of business administration	1999.

Board meetings during the year 2016

Member name	Meeting No. 1 was 2016/2/held on 8	Meeting No. 2 was 2016/3/held on 23	Meeting No. 3 was 2016/5/held on 1	Meeting No. 4 was 2016/5/held on 12	Meeting No. 5 was 2016/11/held on 8	Meeting No. 6 was 2016/11/held on 14	Meeting No. 7 was 2016/12/held on 20	Number of meetings
Mr. Saad Mohamed Al Saad	√	√	√	√	√	√	√	7
Mr. Sulaiman Hamad Al Dalali	√	√	√	√	√	√	√	7
Mr. Abdul-Aziz Ibrahim Al Rabiah	√	√	√	√	√	√	√	7
Mr. Ali Murad Behbehani	√	√	√	√	√	√	√	7
Mr. Salah Khaled Al-Fulaij	√	√	√	√	√	√	√	7
Mr. Hossam Fawzi Al-Kharafi	√	√	√	√	√	√	√	7
Mr. Dr. Abdul-Aziz Al Rashed	√	√	√	√	√	√	√	7
Mr. Mohamed Abdul Mohsen Al Asfour	√	√	√	√	√	√	√	7
Mrs. Maha Khalid Al-Ghunaim	√	√	√	√	√	√	√	7

Managing the Board meetings

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

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

Rule II: Establish Appropriate Roles and Responsibilities

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

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

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

The Board achievements in 2016

During 2016 the Board was elected for three years as per the articles of association, and held its first meeting in 12-5-2016 to discuss the first quarter financial statements for of 2016, the Board of Directors adopted during the year many resolutions on many topics regarding holding company, related party transactions, and investment opportunities offered by the company executive management, the Board discussed many mega investment opportunities, discussed the sale of the Company's stake in one of the subsidiaries, which carried a lot of discussion. The Board discussed and decided to issue bonds that were issued and managed by Ahli Bank of Kuwait.

Formation of a specialized committees to promote independence

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

Composition of the Audit Committee

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

The Audit Committee	Members	Meeting No. 1 on 2016/10/23	Meeting No.2 on 2016/11/14	Number of meetings
Mr. Abdul-Aziz Ibrahim Al Rabiah	Chairman	√	√	2
Mr. Mohamed Abdul Mohsen Al Asfour	Member	√	√	2
Dr. Abdul-Aziz Rashed Al Rashed	Member	√	√	2
Mr. Hossam Fawzi Al-Kharafi	Member	√	√	2

The Audit Committee Role

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

Achievements of the Audit Committee

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

Composition of risk Committee

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

Risk Committee	Members	Meeting # 1 2016/10/23	Meeting # 1 2016/11/14	Number of meetings
Mrs. Maha Khalid Al-Ghunaim	Chairman	√	√	2
Mr. Ali Murad Behbehani	Member	√	√	2
Mr. Hossam Fawzi Al-Kharafi	Member	√	√	2
Mr. Mohamed Abdul Mohsen Al Asfour	Member	√	√	2

The Role of the Risk Committee

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

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

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

The Company's Risk Committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

Achievements of the risk Committee

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

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

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

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

Board members

Mr. Saad Mohammad Al Saad - Chairman

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

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

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

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

Mr. Sulaiman Hamad Al Dalali - Deputy Chairman

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

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

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

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

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

Mr. Ali Morad Behbehani - Board member

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

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

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

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

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

Mr. Salah Khalid Al-Fulaij - Board Member

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

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

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

Mrs. Maha Khalid Al Ghunaim - Board member

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

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

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

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

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

Mr. Hossam Fawzi Al Kharafi - Board member

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

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

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

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

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

Mr. Abdul Aziz Ibrahim Al Rabia - Board member

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

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

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

Mr. Mohamed Abdul Mohsen Al Asfour - Board member

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

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

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

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

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

Dr. Abdul Aziz Rashed Al Rashed - Board member

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

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

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

Executive Management

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

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

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

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

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

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

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

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

Composition of the nomination and remuneration Committee

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

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

The Role of Nomination and remuneration Committee

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

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

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

Board membership, and executive management remuneration

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

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

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

Remuneration of executive management

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

	2016 Thousand KD	2015 Thousand KD
BoD remuneration	0	470
Executive Management remuneration	836*	1,191*

* The executive management remunerations includes salaries, end of service indemnities, bonuses and other incentives. The 2016 bonuses figures represents the amounts that was paid based on the 2015 performance.

Rule IV: Safeguard the Integrity of Financial Reporting

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

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

مجموعة الصناعات الوطنية ش.م.ك (القابضة)
NI Group
National Industries Group (Holding)

الإدارة العامة Head Office
ص.ب : 417 الصفاة، الكويت 13006
P.O. Box: 417, Safat, Kuwait, 13005
Tel. : (965) 4849466 هاتف:
Opt : 4811220 هاتف:
Fax : (965) 4839582 فاكس:

السادة / مساهمي مجموعة الصناعات الوطنية المحترمين

يتعهد مجلس إدارة مجموعة الصناعات الوطنية القابضة بأن البيانات والتقارير المالية للشركة للسنة المنتهية فى 31/12/2016 تم عرضها بصورة سليمة وعادلة، وأنها تستعرض كافة الجوانب المالية للشركة من بيانات ونتائج تشغيلية، كما أنه يتم إعدادها وفق معايير المحاسبة الدولية المعتمدة من قبل الهيئة.

وتفضلوا بقبول وافر الاحترام،،،،،

رئيس مجلس الإدارة
سعد محمد السعد

مجموعة الصناعات الوطنية ش.م.ك (القابضة)
NI Group
National Industries Group (Holding)

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السيد / رئيس مجلس الإدارة

السادة /أعضاء مجلس الإدارة

تتعهد الإدارة التنفيذية متمثلة فى الرئيس التنفيذى ونوابة أن التقارير المالية للشركة للسنة المالية المنتهية فى 31/12/2016 يتم عرضها بصورة سليمة وعادلة، وأنها تستعرض كافة الجوانب المالية للشركة من بيانات ونتائج تشغيلية، كما أنه يتم إعدادها وفق معايير المحاسبة الدولية المعتمدة من قبل الهيئة.

وتفضلوا بقبول وافر الاحترام،،،،،

الرئيس التنفيذى
أحمد محمد حسن

Independence and Fairness of the External Auditor

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

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

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

Internal control systems

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

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

BDO

برج الشهيد، الدور السادس
شارع خالد بن الوليد، شرق
ص.ب 25578، الصفاة 13116
الكويت

تليفون : 6999 2242 965+
فاكس : 1666 2240 965+
www.bdointernational.com

خطاب الراي

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

19 مارس 2017

تحية طيبة وبعد،

تقرير حول السجلات المحاسبية والسجلات الأخرى وأنظمة الرقابة الداخلية

وفقا لخطاب تعييننا المورخ في 14 نوفمبر 2016، قمنا بفحص، ومراجعة أنظمة الرقابة الداخلية لشركة مجموعة الصناعات الوطنية ش.م.ك.ع للسنة المنتهية في 31 ديسمبر 2016:

وقد شمل الفحص كافة الإدارات/الوظائف بالشركة وهي كما يلي:

- الحوكمة
- بيئة الرقابة العامة
- التدقيق الداخلي
- المخاطر والإلتزام
- الموارد البشرية والشئون الإدارية
- المحاسبة
- الإستثمارات الأجنبية
- الإستثمارات المباشرة
- الإستثمارات المحلية
- تقنية المعلومات

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

وبصفتكم أعضاء مجلس إدارة الشركة فإنكم مسئولون عن إرساء نظم للرقابة الداخلية مع الأخذ في الاعتبار المنافع المتوقعة والتكاليف المتعلقة بتأسيس تلك الأنظمة والإلتزام بمتطلبات هيئة أسواق المال المذكورة في الفقرة أعلاه. إن الهدف من التقرير هو اعطاء تأكيدات معقولة وليست قاطعة عن مدى انسيابية الاجراءات و الانظمة المتبعة بغرض حماية الموجودات ضد أية خسائر ناتجة عن أي استخدام أو تصرف غير مصرح به، وأن المخاطر الرئيسية يتم مراقبتها وتقييمها بشكل ملائم، وأن المعاملات يتم تنفيذها طبقا لإجراءات التفويض المقررة و انه يتم تسجيلها بشكل صحيح، وذلك لتمكينكم من القيام بأعمالكم بشكل سليم.

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

مع الاستثناءات للأمور الموضوعة للتقارير المرفقة، ونظرا لطبيعة وحجم عمليات الشركة، خلال السنة المنتهية في 31 ديسمبر 2016، وأهمية وتقييم المخاطر لملاحظاتنا في رأينا:

أ. أنظمة الرقابة الداخلية للشركة قد تم إنشاؤها والاحتفاظ بها طبقا لمتطلبات هيئة أسواق المال وقواعد حوكمة للشركات.
ب. الملاحظات التي تم رفعها في فحص وتقييم الرقابة الداخلية لا تؤثر بشكل جوهري على العرض العادل للقوائم المالية للشركة للسنة المنتهية في 31 ديسمبر 2016، و
ج. الإجراءات التي تم أخذها من قبل الشركة لمعالجة الملاحظات التي تم ذكرها في التقرير، تعتبر إجراءات مرضية.

وتفضلوا بقبول فائق الاحترام والتقدير،،،

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

Rule VI: Promote Code of Conduct and Ethical Standards

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

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

Mechanisms to limit the conflicts of interest

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

Rule VII: Ensure Timely and High Quality Disclosure and Transparency

Mechanisms for timely disclosure and transparency

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

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

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

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

Corporate Governance and Information Technology

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

Rule VIII: Respect the Rights of Shareholders

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

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

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

Protection of Shareholders' Rights Policy

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

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

Shareholders' Register

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

Participate in the General meetings of shareholders

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

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

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

Rule IX: Recognize the Roles of Stakeholders

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

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

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

Rule X: Encourage And Enhance Performance

Assessment and Development of the Board

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

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

Assessment and Development of the Executive Management

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

Value Creation

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

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

Rule XI: Focus on the Importance of Corporate Social Responsibility

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

In its social responsibility in home service the national industries company holdings to create "charity" to national charities called it "charity" national industries company, the Company's Board of Directors has placed great confidence and great moral and material support it with a separate headquarters, thereby providing an element of stability in the work Al mabarrah and support productivity and contribute to meetings regularly.

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

And the activities supported by Al mabarrah

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

Consolidated financial statements and independent auditors' report

National Industries Group Holding

(KPSC)

Kuwait
31 December 2016

Contents

Independent auditors' report

To the shareholders of

National Industries Group Holding – KPSC

Kuwait

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of National Industries Group Holding – Kuwaiti Public Shareholding Company (the "Parent Company") and Subsidiaries, (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Key Audit Matters

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

Valuation of investments held at fair value

The Group invests in various assets classes, of which 47% of the total assets represent investments carried at fair value and classified either as investments at fair value through profit or loss or as available for sale investments. These investments are fair valued on a basis considered most appropriate by the management, depending on the nature of the investment, and the valuation is performed by the Group using a fair value hierarchy as detailed in note 35.3. 40% of these investments are carried at fair value based on Level 1 valuations, and the balance 60% of these investments are carried at fair value either based on Level 2 or Level 3 valuations. Fair value measurement can be a subjective area and more so for the investments classified under level 2 and level 3 since these are valued using inputs other than quoted prices in an active market. Given the inherent subjectivity in valuation of investments classified under level 2 and level 3, we determined this to be a key audit matter. Refer to Note 5.13.2, 5.13.6, 6.1, 6.2, 19, 23 and 35.3 for more information on fair valuation of available for sale investments and investments at fair value through statement of profit or loss.

Independent auditors' report to the shareholders of National Industries Group Holding – KPSC (continued) Key Audit Matters (continued)

Valuation of investments held at fair value (continued)

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

Impairment of investments in associates

The Group's investments in associates represent 28% of the total assets and are accounted for under the equity method of accounting and considered for impairment in case of indication of impairment. The investment in associates is significant to our audit due to the Group's share of results in the associates and the carrying value of these associates. In addition significant management judgment and number of assumptions are required in the assessment of impairment, including the determination of the recoverable value of the investment based on its value-in-use, in case there is a significant or prolonged decline in value based on published price quotes.

Further, the projected future cash flows and discount rates used by the Group in determining the investment's value in use are also subject to estimation uncertainty and sensitivity. Accordingly, we considered this as a key audit matter. Refer note 5.4, 6.1, 6.2, and 17 for more information on investment in associates.

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

Valuations of investment properties

The Group's investment properties represent 5% of the total assets and comprise of land and rental buildings located in Kuwait, other Middle East countries and United Kingdom. The Groups policy is that property valuations are performed at year end by external valuators, as detailed in note 35.4. These valuations are based on number of assumptions, including estimated rental revenues, capitalization yields, historical transactions, market knowledge, occupancy rates and cost of construction. Given the fact that the fair value of the investment properties represents a significant judgment area and the valuations are highly dependent on estimates we determined this to be a key audit matter. Refer to Note 5.11, 6.1, 6.2, 18 and

35.4 for more information on the valuation of the Investment Properties.

Our audit procedures included, among others, assessing the appropriateness of management's process for reviewing and assessing the work of the external valuers and their valuations including management's consideration of competence and independence of the external valuers. We reviewed the valuation reports from the external valuers and agreed them to the carrying value of the properties. We assessed the appropriateness of the valuation methodologies used in assessing the fair value of the investment properties including discussions with the management on the estimates, assumptions and valuation methodology used in assessing the fair value of investment properties. We furthermore assessed that the property related data (i.e rental income and occupancy) used as input for the external valuations is consistent with information obtained during our audit.

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

Key Audit Matters (continued)

Other information included in the Group's 2016 annual report Management is responsible for the other information. Other information consists of the information included in the Annual Report of the Group for the year ended 31 December 2016 other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditors' report and we expect to obtain the remaining sections of the Group's Annual Report for the year ended 31 December 2016 after the date of our auditors' report.

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- 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 period 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.

Report on Other Legal and Regulatory Requirements

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

Anwar Y. Al-Qatami, F.C.C.A.
(Licence No. 50-A)
of Grant Thornton – Al-Qatami, Al-Aiban & Partners

Abdullatif A.H. Al-Majid
(Licence No. 70-A)
of Parker Randall (Allied Accountants)

Kuwait

30 March 2017

Consolidated statement of profit or loss

	Note	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015
		KD '000	KD '000
Continuing operations			
Sales		**110,259**	139,877
Cost of sales		**(89,153)**	(107,269)
Gross profit		**21,106**	32,608
Income from investments	8	**13,769**	37,547
Share of results of associates	17	**21,177**	26,913
Gain on disposal of associates	17	**-**	417
Loss on disposal of investment properties		**(852)**	-
Changes in fair value of investment properties	18	**(3,246)**	1,283
Rental income		**2,301**	2,068
Interest and other income	9	**3,201**	5,690
Distribution costs		**(6,924)**	(7,187)
General, administrative and other expenses		**(22,447)**	(23,592)
Provision for cost of gas usage for previous years	29a	**(2,700)**	-
Loss on foreign currency exchange		**(1,537)**	(3,671)
		23,848	72,076
Finance costs	11	**(28,188)**	(28,740)
Impairment in value of available for sale investments	19	**(18,696)**	(9,851)
Impairment in value of investment in associates	17	**-**	(617)
Impairment in value of intangible assets	15	**-**	(2,010)
Impairment in value of receivables and other assets	21	**(1,056)**	(323)
(Loss)/profit before foreign taxation		**(24,092)**	30,535
Foreign taxation	12a	**292**	(801)
(Loss)/profit before KFAS, NLST, Zakat and directors' remuneration		**(23,800)**	29,734
KFAS, NLST and Zakat	12b	**(95)**	(394)
Directors' remuneration		**-**	(430)
(Loss)/profit for the year	13	**(23,895)**	28,910
Attributable to :			
Owners of the Parent		**(24,192)**	25,427
Non-controlling interests	7	**297**	3,483
		(23,895)	28,910
Basic and diluted (losses)/earnings per share attributable to the owners of the Parent	14	**(18.3) Fils**	19.2 Fils

The notes set out on pages 44 to 115 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015
	KD '000	KD '000
(Loss)/profit for the year	**(23,895)**	28,910
Other comprehensive income:		
Items to be reclassified to profit or loss in subsequent periods:		
Exchange differences arising on translation of foreign operations	**2,496**	(1,011)
Available for sale investments:		
- Net changes in fair value arising during the year	**3,438**	(72,787)
- Transferred to consolidated statement of profit or loss on disposal	**(2,704)**	(12,561)
- Transferred to consolidated statement of profit or loss on impairment	**18,696**	9,851
Share of other comprehensive income of associates		
- Changes in fair value	**1,143**	(9,119)
Total other comprehensive income to be reclassified to profit or loss in subsequent periods	**23,069**	(85,627)
Items not to be reclassified to profit or loss in subsequent periods		
Defined benefit plan actuarial gain/(losses)	**21**	(167)
Total other comprehensive income not being reclassified to profit or loss in subsequent periods	**21**	(167)
Total other comprehensive income/(loss) for the year	**23,090**	(85,794)
Total comprehensive loss for the year	**(805)**	(56,884)
Total comprehensive (loss)/income for the year attributable to:		
Owners of the parent	**(9,121)**	(40,112)
Non-controlling interests	**8,316**	(16,772)
	(805)	(56,884)

The notes set out on pages 44 to 115 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

	Note	31 Dec. 2016 KD '000	31 Dec. 2015 KD '000
Assets			
Non-current assets			
Goodwill and intangible assets	15	**14,025**	12,823
Property, plant and equipment	16	**70,837**	70,668
Investment in associates	17	**350,540**	337,187
Investment properties	18	**64,294**	69,482
Available for sale investments	19	**405,935**	493,909
Accounts receivable and other assets	21	**1,410**	1,550
Total non-current assets		**907,041**	985,619
Current assets			
Inventories	20	**32,434**	34,054
Available for sale investments	19	**133,118**	47,328
Accounts receivable and other assets	21	**60,159**	87,264
Murabaha, wakala and sukuk investments	22	**1,164**	1,000
Investments at fair value through profit or loss	23	**76,782**	84,033
Short-term deposits and investments	31	**9,224**	16,661
Bank balances and cash	31	**33,696**	43,383
Total current assets		**346,577**	313,723
Total assets		**1,253,618**	1,299,342
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital	24	**135,985**	135,985
Treasury shares	25	**(30,375)**	(30,375)
Share premium	24	**122,962**	122,962
Cumulative changes in fair value	26	**108,729**	96,378
Other components of equity	26	**31,526**	28,827
(Accumulated losses)/retained earnings		**(8,495)**	30,225
Equity attributable to owners of the parent		**360,332**	384,002
Non-controlling interests	26	**137,047**	128,909
Total equity		**497,379**	512,911
Non-current liabilities			
Long-term borrowings & bonds	27	**354,019**	437,845
Leasing creditors		**145**	424
Provisions	28	**14,645**	15,436
Other non-current liabilities	29	**1,052**	-
Total non-current liabilities		**369,861**	453,705
Current liabilities			
Accounts payable and other liabilities	29	**44,285**	49,621
Short-term borrowings	30	**320,907**	263,190
Due to banks	31	**21,186**	19,915
Total current liabilities		**386,378**	332,726
Total liabilities		**756,239**	786,431
Total equity and liabilities		**1,253,618**	1,299,342

Sa'ad Mohammed Al-Sa'ad
Chairman

Ahmad Mohammed Hassan
Chief Executive Officer

The notes set out on pages 44 to 115 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

	Equity attributable to owners of the parent								
	Share Capital	Treasury shares	Share premium	Cumulative changes in fair value	Other components of equity (Note 26b)	Retained earnings/ (accumulated losses)	Sub-Total	Non-controlling interests	Total
	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000
Balance as at 1 January 2016	**135,985**	**(30,375)**	**122,962**	**96,378**	**28,827**	**30,225**	**384,002**	**128,909**	**512,911**
Transactions with owners									
Increase in non-controlling interests of subsidiaries during the year (Note 26c)	-	-	-	-	-	**(1,298)**	**(1,298)**	**3,627**	**2,329**
Non-controlling interests arising on acquisition of new subsidiaries	-	-	-	-	-	-	-	**735**	**735**
Redemption of share capital by non-controlling interest of subsidiary	-	-	-	-	-	-	-	**(14)**	**(14)**
Dividend paid to non-controlling interests by subsidiaries	-	-	-	-	-	-	-	**(4,837)**	**(4,837)**
Dividend paid (Note 41)	-	-	-	-	-	**(13,251)**	**(13,251)**	-	**(13,251)**
Other net changes in non-controlling interests	-	-	-	-	-	-	-	**311**	**311**
Total transactions with owners	-	-	-	-	-	**(14,549)**	**(14,549)**	**(178)**	**(14,727)**
Comprehensive income									
(Loss)/profit for the year	-	-	-	-	-	**(24,192)**	**(24,192)**	**297**	**(23,895)**
Other comprehensive income for the year [Actuarial gain and others] (notes 26 & 32)	-	-	-	**12,351**	**2,699**	**21**	**15,071**	**8,019**	**23,090**
Total comprehensive income for the year	-	-	-	**12,351**	**2,699**	**(24,171)**	**(9,121)**	**8,316**	**(805)**
Balance at 31 December 2016	**135,985**	**(30,375)**	**122,962**	**108,729**	**31,526**	**(8,495)**	**360,332**	**137,047**	**497,379**

The notes set out on pages 44 to 115 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity (continued)

	Equity attributable to owners of the parent								
	Share Capital	Treasury shares	Share premium	Cumulative changes in fair value	Other components of equity	Retained earnings	Sub-Total	Non-controlling interests	Total
	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000
Balance as at 1 January 2015	135,985	(30,375)	122,962	160,785	27,167	23,849	440,373	146,729	587,102
Transactions with owners									
Increase in non-controlling interests of subsidiary during the year (Note 26c)	-	-	-	-	-	(358)	(358)	3,195	2,837
Increase in share capital of subsidiaries	-	-	-	-	-	-	-	2,052	2,052
Amount due to non-controlling interests on reduction of share capital of subsidiary	-	-	-	-	-	-	-	(1,732)	(1,732)
Redemption of share capital by non-controlling interests of subsidiary	-	-	-	-	-	-	-	(18)	(18)
Dividend paid to non-controlling interests by subsidiaries	-	-	-	-	-	-	-	(4,890)	(4,890)
Dividend paid (Note 41)	-	-	-	-	-	(15,901)	(15,901)	-	(15,901)
Other net changes in non-controlling interests	-	-	-	-	-	-	-	345	345
Total transactions with owners	-	-	-	-	-	(16,259)	(16,259)	(1,048)	(17,307)
Comprehensive income									
Profit for the year	-	-	-	-	-	25,427	25,427	3,483	28,910
Other comprehensive income for the year [Actuarial losses and others] (notes 26 & 32)	-	-	-	(64,407)	(965)	(167)	(65,539)	(20,255)	(85,794)
Total comprehensive income for the year	-	-	-	(64,407)	(965)	25,260	(40,112)	(16,772)	(56,884)
Reserve transfers	-	-	-	-	2,625	(2,625)	-	-	-
Balance at 31 December 2015	**135,985**	**(30,375)**	**122,962**	**96,378**	**28,827**	**30,225**	**384,002**	**128,909**	**512,911**

The notes set out on pages 44 to 115 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015
	KD '000	KD '000
OPERATING ACTIVITIES		
(Loss)/profit before foreign taxation	**(24,092)**	30,535
Adjustments:		
Depreciation and amortisation	**7,473**	6,528
Changes in fair value of investment properties	**3,246**	(1,283)
Gain on disposal of property, plant and equipment	**(1,001)**	-
Gain on disposal of associates	**-**	(417)
Loss on disposal of investment properties	**852**	-
Impairment in value of investment in associates	**-**	617
Share of results of associates	**(21,177)**	(26,913)
Dividend income from available for sale investments	**(6,259)**	(14,387)
Profit on sale of available for sale investments	**(3,689)**	(21,714)
Impairment in value of intangible assets	**-**	2,010
Impairment in value of receivable and other assets	**1,056**	323
Impairment in value of available for sale investments	**18,696**	9,851
Provision for cost of gas usage for previous years	**2,700**	-
Provision for slow moving inventories	**427**	-
Net provisions released	**(791)**	(373)
Finance costs	**28,188**	28,740
Interest/profit on bank balances, short-term deposits, wakala and murabaha investments	**(501)**	(633)
	5,128	12,884
Changes in operating assets and liabilities:		
Inventories	**2,065**	(2,031)
Accounts receivable and other assets	**27,347**	6,329
Investments at fair value through profit or loss	**7,251**	(24,327)
Accounts payable and other liabilities	**(8,034)**	(6,195)
Cash from/(used in) from operations	**33,757**	(13,340)
KFAS and Zakat contribution paid	**(240)**	(709)
NLST paid	**(58)**	(743)
Taxation paid	**(215)**	(437)
Net cash from/(used in) operating activities	**33,244**	(15,229)

The notes set out on pages 44 to 115 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows (continued)

	Note	Year ended 31 Dec. 2016 KD '000	Year ended 31 Dec. 2015 KD '000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(9,137)**	(8,594)
Proceeds from disposal of property, plant and equipment		**1,753**	95
Proceeds from disposal of investment properties		**10,825**	-
Additions to investment properties		**(8,973)**	(4,494)
Investment in associates		**(2,182)**	(3,922)
Dividend received from associate companies		**9,286**	10,676
Proceeds from capital reduction/disposal of associates		**3,108**	4,836
Acquisition of new subsidiary net of cash & bank balances	7.3	**(777)**	-
Increase in wakala investments maturing after three months		**(164)**	(402)
Decrease in blocked deposits		**-**	2,512
Purchase of available for sale investments		**(17,785)**	(11,279)
Proceeds from sale of available for sale investments		**24,392**	64,220
Dividend income received from available for sale investments		**6,259**	14,387
Interest/profit on bank balances, short-term deposits, wakala and murabaha investments		**533**	336
Net cash from investing activities		**17,138**	68,371
FINANCING ACTIVITIES			
Finance lease payments		**(269)**	(257)
Issue of bonds		**25,000**	-
Net decrease in long-term borrowings		**(49,210)**	(42,899)
Net (decrease)/increase in short-term borrowings		**(1,899)**	38,227
Dividend paid to the owners of the parent		**(13,834)**	(15,026)
Finance costs paid		**(28,200)**	(28,076)
Change in non-controlling interests		**(178)**	(1,048)
Net cash used in financing activities		**(68,590)**	(49,079)
Net (decrease)/increase in cash and cash equivalents		**(18,208)**	4,063
Translation difference		**(187)**	183
		(18,395)	4,246
Cash and cash equivalents at beginning of the year		**39,804**	35,558
Cash and cash equivalents at end of the year	31	**21,409**	39,804

The notes set out on pages 44 to 115 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1 Incorporation and activities

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

The main objectives of the Parent Company are as follows:

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

The address of the parent company's registered office is PO Box 417, Safat 13005, State of Kuwait.

The new Companies Law No. 1 of 2016 was issued on 24 January 2016 and published in the Official Gazette on 1 February 2016 which cancelled Law No. 25 of 2012 and its amendments thereto, as stipulated in article (5) thereto. The new Law will be effective retrospectively from 26 November 2012. The Executive Regulations of Law No. 1 of 2016 were issued on 12 July 2016.

The board of directors of the Parent Company approved these consolidated financial statements for issuance on 30 March 2017. The general assembly of the Parent Company's shareholders has the power to amend these consolidated financial statements after issuance.

2 Basis of preparation

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

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

3 Statement of compliance

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

4 Changes in accounting policies

4.1 New and amended standards adopted by the Group

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2016 which have been adopted by the Group but did not have any significant impact on the consolidated financial position or the results for the year. Information on these new standards is presented below:

Standard or Interpretation	*Effective for annual periods beginning*
IFRS 11 Accounting for Acquisitions of Interests in Joint Operations -Amendments	1 January 2016
IAS 1 Disclosure Initiative - Amendments	1 January 2016
IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments	1 January 2016
IAS 27 Equity Method in Separate Financial Statements - Amendments	1 January 2016
IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception - Amendments	1 January 2016
Annual Improvements to IFRSs 2012–2014 Cycle	1 January 2016

IFRS 11 Accounting for Acquisitions of Interests in Joint Operations - Amendments

Amendments to IFRS 11 Joint Arrangements require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3 Business Combinations) to apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11. It also requires disclosure of the information required by IFRS 3 and other IFRSs for business combinations.

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

IAS 1 Disclosure Initiative – Amendments

The Amendments to IAS 1 make the following changes:

- Materiality: The amendments clarify that (1) information should not be obscured by aggregating or by providing immaterial information, (2) materiality considerations apply to the all parts of the financial statements, and (3) even when a standard requires a specific disclosure, materiality considerations do apply.
- Statement of financial position and statement of profit or loss and other comprehensive income: The amendments (1) introduce a clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and (2) clarify that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.
- Notes: The amendments add additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1. The IASB also removed guidance and examples with regard to the identification of significant accounting policies that were perceived as being potentially unhelpful.

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

4.1 New and amended standards adopted by the Group (continued)

IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments

Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets address the following matters:

- a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment
- an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is generally inappropriate except for limited circumstances
- expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

IAS 27 Equity Method in Separate Financial Statements - Amendments

The Amendments to IAS 27 Separate Financial Statements permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception - Amendments

The Amendments are aimed at clarifying the following aspects:

- Exemption from preparing consolidated financial statements. The amendments confirm that the exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.
- A subsidiary providing services that relate to the parent's investment activities. A subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity.
- Application of the equity method by a non-investment entity investor to an investment entity investee. When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.
- Disclosures required. An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by IFRS 12.

Annual Improvements to IFRSs 2012–2014 Cycle

(i) Amendments to IFRS 5 - Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued

(ii) Amendments to IFRS 7 - Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements

(iii) Amendments to IAS 19 - Clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid

(iv) Amendments to IAS 34 - Clarify the meaning of 'elsewhere in the interim report' and require a cross-reference

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective

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

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

Standard or Interpretation	*Effective for annual periods beginning*
IAS 7 Statement of Cash Flows- Amendments	1 January 2017
IAS 12 Income Taxes - Amendments	1 January 2017
IFRS 10 and IAS 28 Sale or Contribution of Assets between and an Investor and its Associate or Joint Venture - Amendments	No stated date
IFRS 2 Share-based Payment- Amendments	1 January 2018
IFRS 9 Financial Instruments: Classification and Measurement	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 16 Leases	1 January 2019
IAS 40 Investment Property - Amendments	1 January 2018
Annual Improvements to IFRSs 2014 - 2016 Cycle	1 January 2017 and 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018

IAS 7 Statement of Cash Flows- Amendments

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

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

The Amendments:

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

The amendments are not expected to have any material impact on the Group's consolidated financial statements.

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

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

The Amendments to IAS 12 make the following changes:

Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.

The carrying amount of an asset does not limit the estimation of probable future taxable profits.

Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.

An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type

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

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

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

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

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

IASB has postponed the effective date indefinitely until other projects are completed. However, early implementation is allowed.

These amendments are not expected to have any material impact on the Group's consolidated financial statements.

IFRS 2 Share-Based Payment- Classification and Measurement

The amendments relate to clarification on the following:

IFRS does not specifically address the impact of vesting and non-vesting conditions on the measurement of the fair value of the liability incurred in a cash-settled share-based payment transaction. The Amendments address this lack of guidance by clarifying that accounting for these conditions should be accounted for consistently with equity-settled share-based payments in IFRS 2

The amendment adds guidance to IFRS 2 to the effect that a scheme with compulsory net-settlement feature would be classified as equity-settled in its entirety (assuming it would be so classified without the net settlement feature); and

The amendment addresses the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

These amendments are not expected to have any material impact on the Group's consolidated financial statements.

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments

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

Management has started to assess the impact of IFRS 9 but is not yet in a position to provide quantified information. At this stage the main areas of expected impact are as follows:

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

Although earlier application of this standard is permitted, the Technical Committee of the Ministry of Commerce and Industry of Kuwait decided on 30 December 2009, to postpone this early application till further notice.

IFRS 15 Revenue from Contracts with Customers

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

The five steps in the model are as follows:

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

The standard includes important guidance, such as

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

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

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

The Group's management has yet to assess the impact of IFRS 15 on these Group consolidated financial statements.

IFRS 16 Leases

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

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

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

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

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

IFRS 40 Investment Property - Amendments

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

These amendments are not expected to have any material impact on the Group's consolidated financial statements.

Annual Improvements to IFRSs 2014-2016 Cycle

(i) Amendments to IFRS 12 - Clarifies the scope of IFRS 12 by specifying that its disclosure requirements (except for those in IFRS 12. B17) apply to an entity's interests irrespective of whether they are classified (or included in a disposal group that is classified) as held for sale or as discontinued operations in accordance with IFRS 5. Amendment is effective for annual periods beginning on or after 1 January 2017.

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

These amendments are not expected to have any material impact on the Group's consolidated financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

These amendments are not expected to have any material impact on the Group's consolidated financial statements.

5 Summary of significant accounting policies

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

5.1Basis of consolidation

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

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

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

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

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

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

Notes to the consolidated financial statements (continued)

5.2Business combinations

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

5 Summary of significant accounting policies (continued)

5.2 Business combinations (continued)

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

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

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

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

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

5.3Goodwill and intangible assets

5.3.1 Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognised. See note 0 for information on how goodwill is initially determined. Goodwill is carried at cost less accumulated impairment losses. Refer to note 5.13 for a description of impairment testing procedures.

5.3.2 Intangible assets

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

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

Notes to the consolidated financial statements (continued)

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

5 Summary of significant accounting policies (continued)

5.4 Investment in associates

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

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

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

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

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

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

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

5.5 Segment reporting

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

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

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.6 Revenue

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

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

5.6.1 Sale of goods

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

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

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

5.6.2. Rendering of services

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

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

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

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

- Fee income earned from services that are provided over a certain period of time
- Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management fees.
- Fee income from providing transaction services

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

5.6.3 Interest and similar income

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

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

5.6.4 Dividend income

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

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.6 Revenue (continued)

5.6.5 Revenue from sale of investment properties

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

5.7 Operating expenses

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

5.8 Borrowing costs

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

5.9 Property, plant and equipment and depreciation

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

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

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

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

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

5 Summary of significant accounting policies (continued)

5.10. Leased assets

5.10.1. Finance lease

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

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

5.10.2. Operating lease

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

5.11. Investment properties

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

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

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

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

5.12. Impairment testing of goodwill and non financial assets

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

5 Summary of significant accounting policies (continued)

5.12 Impairment testing of goodwill and non financial assets (continued)

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

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

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

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

5.13 Financial instruments

5.13.1 Recognition, initial measurement and derecognition

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

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

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

- rights to receive cash flows from the assets have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement; and either

(a) the Group has transferred substantially all the risks and rewards of the asset or

(a) the Group has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred control of the asset.

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

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.13. Financial instruments (continued)

5.13.1. Recognition, initial measurement and derecognition

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

5.13.2. Classification and subsequent measurement of financial assets

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

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

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

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

- **Loans and receivables**

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

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

The Group categorises loans and receivables into following categories:

- **Murabaha investments/receivables**

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

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

5 Summary of significant accounting policies (continued)

5.13. Financial instruments (continued)

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

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

- **Wakala investments**

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

- **Loans and advances**

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

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

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

- **Receivables and other financial assets**

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

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

- **Financial assets at FVTPL**

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

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

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

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

- **HTM investments**

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

5 Summary of significant accounting policies (continued)

5.13. Financial instruments (continued)

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

- **HTM investments (continued)**

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

- **AFS financial assets**

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

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

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

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

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

5.13.3. Classification and subsequent measurement of financial liabilities

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

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

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

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

- **Borrowings**

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

5 Summary of significant accounting policies (continued)

5.13. Financial instruments (continued)

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

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

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

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

- **Wakala payables**

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

- **Murabaha finance payables**

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

- **Ijara financing**

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

- **Leasing and hire purchase payables**

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

- **Accounts payables and other financial liabilities**

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

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

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

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

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

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

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.13. Financial instruments (continued)

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

- **Derivative financial instruments**

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

5.13.4. Amortised cost of financial instruments

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

5.13.5. Offsetting of financial instruments

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

5.13.6. Fair value of financial instruments

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

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 35.

5.14. Inventories

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

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

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.15. Equity, reserves and dividend payments

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

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

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

Other components of equity include the following:

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

Retained earnings include all current and prior period retained profits. All transactions with owners of the Parent Company are recorded separately within equity.

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

5.16. Treasury shares

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

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

5.17 Provisions, contingent assets and contingent liabilities

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

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

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

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

5 Summary of significant accounting policies (continued)

5.18 Foreign currency translation

5.18.1 Functional and presentation currency

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

5.18.2 Foreign currency transactions and balances

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

5.18.3 Foreign operations

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

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

5.19. End of service indemnity

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

With respect to its Kuwaiti national employees, the Group makes contributions to the Public Institution for Social Security calculated as a percentage of the employees’ salaries. The Group’s obligations are limited to these contributions, which are expensed when due.

5.20. Pensions (Related to the foreign subsidiaries)

Contributions are paid to both defined benefit and defined contribution pension schemes in accordance with the recommendations of independent actuaries and advisors.

Contributions to defined contribution schemes are charged to the consolidated statement of profit or loss on an accrual basis.

5 Summary of significant accounting policies (continued)

5.20. Pensions (Related to the foreign subsidiaries) (continued)

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

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

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

5.21. Share-based Payment

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

Equity-settled transactions

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

5.22. Taxation

5.22.1. National Labour Support Tax (NLST)

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

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

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

5.22.3. Zakat

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

For the year ended 31 December 2015 and 2016, the Parent Company has no liability towards NLST, KFAS and Zakat due to tax losses incurred.

5.22.4. Withholding taxes

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

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.22. Taxation (continued)

5.22.5. Taxation on overseas subsidiaries

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

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

5.23. Cash and cash equivalents

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

5.24. Fiduciary assets

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

6 Significant management judgements and estimation uncertainty

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

6.1. Significant management judgments

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

6.1.1. Classification of financial instruments

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

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

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

Notes to the consolidated financial statements (continued)

6 Significant management judgements and estimation uncertainty (continued)

6.1. Significant management judgments (continued)

6.1.1. Classification of financial instruments (contiued)

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

All other financial assets are classified as available for sale.

6.1.2. Classification of real estate

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

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

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

6.1.3 Control assessment

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

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

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

6.2. Estimates uncertainty

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

6.2.1 Impairment of goodwill and other intangible assets

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

During the 2016 the Group recognised an impairment loss of KD Nil thousand (2015: KD2,010 thousand) against certain intangible assets.

Notes to the consolidated financial statements (continued)

6 Significant management judgements and estimation uncertainty (Continued)

6.2. Estimates uncertainty (continued)

6.2.2. Impairment of associates

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

During the 2016 the Group recognised an impairment loss of KD Nil thousand (2015: KD617 thousand) against investments in associates.

6.2.3. Impairment of available for sale investments

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

During the 2016 the Group recognised an impairment loss of KD18,696 thousand (2015:KD9,851 thousand) against available for sale investments.

6.2.4. Impairment of loans and receivables

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

During the 2016 the Group has recognised impairment losses of KD1,056 thousand (2015: KD323 thousand) against loans and receivables.

6.2.5. Impairment of inventories

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

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

At the financial position date, gross inventories were KD33,751 thousand (2015: KD35,414 thousand), with provision for old and obsolete inventories of KD1,317 thousand (2015: KD1,360 thousand). Any difference between the amounts actually realised in future periods and the amount expected will be recognised in the consolidated statement of profit or loss.

Notes to the consolidated financial statements (continued)

6 Significant management judgements and estimation uncertainty (Continued)

6.2. Estimates uncertainty (continued)

6.2.6. Useful lives of depreciable/amortisable assets

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

6.2.7. Fair value of financial instruments

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

6.2.8. Revaluation of investment properties

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

6.2.9. Defined benefits obligation

Management's estimate of the defined benefit obligation is based on number of critical underlying assumption such as standard rates of inflation, mortality, discount rate and anticipation of future pension increases. Variation in these assumptions may significantly impact the defined benefit obligations and amount and the annual defined benefits expenses (as analysed in note 32).

6.2.10. Provision for foreign taxation

The Group has made provision for potential tax liabilities which may arise on foreign income. These provisions have been assessed based on information available to management as of the reporting date. The actual liability which may or may not arise if and when the relevant tax authorities make an official assessment may substantially differ from the actual provision made (refer note 12 a).

Notes to the consolidated financial statements (continued)

7 Subsidiary companies

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

	Country of registration and place of business	Nature of business	Proportion of ownership interest	
			31 Dec. 2016	31 Dec. 2015
			%	%
Al Durra National Real Estate – KSC (Closed)	Kuwait	Real Estate	**97***	97*
National Combined Industries Holding Company for Energy – KSC (Closed)	Kuwait	Investments	**96***	96*
Pearl National Holding – KSC (Closed)	Kuwait	Investments	**99***	99*
Economic Holding Company – KSC (Closed)	Kuwait	Investments	**97***	97*
NIG (Guernsey) Limited	Guernsey	Specialist Engineering	**100**	100
BI Group Plc	United Kingdom	Specialist Engineering	**100**	100
Proclad Group Limited	UAE	Specialist Engineering	**100**	100
NI Group (Bahrain) EC	Bahrain	Investments	**100**	100
Eagle Proprietary Investments Limited	UAE	Investments	**100**	100
Pearl Offshore Enterprises Limited	BVI	Investments Holdings	**100**	100
Denham Investment Limited	Cayman Islands	Investments	**85**	85
Ikarus Petroleum Industries Company – KPSC	Kuwait	Petroleum	**72**	72
National Industries Company - KPSC	Kuwait	Industrial	**51**	51
Noor Financial Investment Company – KPSC	Kuwait	Investments	**51**	51

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

7.2 Subsidiaries with material non-controlling interests

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

Name	Proportion of ownership interests and voting rights held by the NCI		Profit allocated to NCI		Accumulated NCI	
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
			KD '000	KD '000	**KD '000**	KD '000
Noor Financial Investment Company - KPSC (NFI)	**49%**	49%	**(21)**	(1,935)	**51,281**	47,507
National Industries Company - KPSC (NIC)	**49%**	49%	**122**	3,921	**52,909**	55,802
Ikarus Petroleum Industries Company – KPSC (IPI)	**28%**	28%	**(245)**	1,896	**28,758**	20,171
Individual immaterial subsidiaries with non-controlling interests			**441**	(399)	**4,099**	5,429
			297	3,483	**137,047**	128,909

Notes to the consolidated financial statements (continued)

7 Subsidiary companies (continued)

7.2 Subsidiaries with material non-controlling interests (continued)

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

	31 December 2016			31 December 2015		
	NFI	NIC	IPI	NFI	NIC	IPI
	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000
Non-current assets	**116,075**	**70,069**	**98,304**	140,558	69,206	66,635
Current assets	**67,396**	**42,844**	**18,989**	45,632	44,556	37,444
Total assets	**183,471**	**112,913**	**117,293**	186,190	113,762	104,079
Non-current liabilities	**52,794**	**5,938**	**14,845**	100,536	5,642	25,449
Current liabilities	**61,848**	**16,411**	**1,901**	21,715	12,680	8,567
Total liabilities	**114,642**	**22,349**	**16,746**	122,251	18,322	34,016
Equity attributable to the shareholders of the Parent Company	**23,315**	**43,144**	**72,088**	22,047	45,535	50,233
Non-controlling interest (including non controlling interests in the subsidiary's statement of financial position)	**45,514**	**47,420**	**28,459**	41,892	49,905	19,830

	For the year ended 31 December 2016			For the year ended 31 December 2015		
	NFI	NIC	IPI	NFI	NIC	IPI
	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000
Revenue	**24,754**	**42,894**	**850**	32,288	49,884	9,476
Profit/ (loss) for the year attributable to the shareholders of the Parent Company	**561**	**344**	**(518)**	640	3,889	(5,619)
(Loss)/ profit for the year attributable to NCI	**(77)**	**140**	**(205)**	(2,236)	4,020	(2,218)
Profit/(loss) for the year	**484**	**484**	**(723)**	(1,596)	7,909	(7,837)
Other comprehensive income for the year attributable to the shareholders of the Parent Company	**1,103**	**716**	**22,374**	(1,232)	(969)	(41,838)
Other comprehensive income for the year attributable to NCI	**(674)**	**730**	**8,833**	492	(874)	(16,517)
Total other comprehensive income for the year	**429**	**1,446**	**31,207**	(740)	(1,843)	(58,355)
Total comprehensive income for the year attributable to the shareholders of the Parent Company	**1,664**	**1,060**	**21,856**	(592)	2,920	(47,457)
Total comprehensive income for the year attributable to NCI	**(751)**	**870**	**8,628**	(1,744)	3,146	(18,735)
Total comprehensive income for the year	**913**	**1,930`**	**30,484**	(2,336)	6,066	(66,192)
Dividends paid to non controlling interests	**-**	**(3,477)**	**-**	(115)	(2,597)	(2,178)

Notes to the consolidated financial statements (continued)

7 Subsidiary companies (continued)

7.2 Subsidiaries with material non-controlling interests (continued)

	For the year ended 31 December 2016			For the year ended 31 December 2015		
	NFI	NIC	IPI	NFI	NIC	IPI
	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000
Net cash flow from operating activities	**(525)**	**5,174**	**(981)**	6,975	6,663	(1,464)
Net cash flow from investing activities	**14,477**	**2,249**	**23,143**	10,179	(7,996)	14,146
Net cash flow from financing activities	**(6,264)**	**(7,101)**	**(18,049)**	(13,935)	(3,293)	(12,500)
Net cash inflow/ (outflow)	**7,688**	**322**	**4,113**	3,219	(4,626)	182

7.3. Acquisition of subsidiaries

During the year, one of the Group's foreign subsidiaries acquired 66.67% equity stake in Wilhelm Schulenburg Nachf. Gmbh & Co KG and Fiedler & Co., the acquisition was made through UCB German Gmbh, a subsidiary of Proclad Group Limited and the acquisition was accounted as follows:

	KD '000
Total consideration*	**3,400**
Value of non-controlling interests	**421**
	3,821
Less : Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and Bank balances	**424**
Trade and other receivable	**246**
Inventories	**872**
Property, plant & equipment	**93**
Trade and other payable	**(334)**
Total identifiable net assets (fair value)	**1,301**
Goodwill	**2,520**

*The above total consideration was settled in cash amounting to KD1,201 thousand and further deferred consideration KD2,199 thousand payable in 2 equal instalments on June 2017 and 2018. The fair value of deferred consideration is included within current and non-current liabilities (refer note 29).

7.4 Pearl Offshore Enterprises Limited is a special purpose vehicle (SPV) which was incorporated during the year 2011 and total assets with a carrying value of KD117,966 thousand (2015: KD119,358 thousand) and total liabilities of KD74,418 thousand (2015: KD69,371 thousand) of the Parent Company are held by the SPV.

8 Income from investments

	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015
	Year ended 31 Dec. 2015	Year ended 31 Dec. 2014
Dividend income:		
- From investments at fair value through profit or loss	**609**	685
- From available for sale investments	**6,259**	14,387
Profit on sale of available for sale investments	**3,689**	21,714
Realised gain on investments at fair value through profit or loss	**166**	466
Unrealised gain on investments at fair value through profit or loss	**3,046**	295
	13,769	37,547

Notes to the consolidated financial statements (continued)

9 Interest and other income

	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015
	KD '000	KD '000
Interest/profit on bank balances, short term deposits, murabaha and wakala investments	**501**	633
Income from financing of future trade by customers	**265**	281
Service income	**23**	225
Management and placement fees	**279**	1,810
Gain on disposal of property, plant and equipment	**1,001**	-
Net gain relating to liquidated/disposed foreign subsidiaries	**-**	1,802
Others	**1,132**	939
	3,201	5,690

10 Net gain or (loss) on financial assets

Net gain or (loss) on financial assets, analysed by category, is as follows:

	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015
	KD '000	KD '000
Loans and receivables		
- bank balances and short term deposits	**262**	390
- murabaha and wakala investments	**239**	243
- accounts receivable and other assets (income from future trade)	**265**	281
- impairment in value of receivable and other assets	**(1,056)**	(323)
At fair value through profit or loss		
- held for trading	**1,189**	(911)
- designated as such on initial recognition	**2,632**	2,357
Available for sale investments		
- recognised in other comprehensive income (including non-controlling interests share)	**19,430**	(75,497)
- recycled from other comprehensive income to consolidated statement of profit or loss		
• On impairment	**(18,696)**	(9,851)
• On disposal	**2,704**	12,561
- recognised directly in consolidated statement of profit or loss	**7,244**	23,540
	14,213	(47,210)
Net (loss) /gain recognised in the consolidated statement of profit or loss	**(5,217)**	28,287
Net gain/(loss) recognised in the other comprehensive income	**19,430**	(75,497)
	14,213	(47,210)

11 Finance costs

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

Notes to the consolidated financial statements (continued)

12 Taxation and other statutory contributions

(a) Foreign taxation

Taxation of subsidiaries*

	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015
	KD '000	KD '000
Current tax expense		
Current year charge	**(256)**	(677)
Deferred tax income/(expense)		
Current year income/(charge)	**548**	(124)
	292	(801)

(b) KFAS, NLST and Zakat of local subsidiaries **

	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015
	KD '000	KD '000
Contributions to Kuwait Foundation for Advancement of Science (KFAS)	**(17)**	(84)
Provision for National Labour Support Tax (NLST)	**(58)**	(222)
Provision for Zakat	**(20)**	(88)
	(95)	(394)

* Foreign taxation includes an amount of KD292 thousand (2015: KD512 thousand) charged by one of the foreign subsidiaries which is calculated based on the tax law adopted in United Kingdom.

** The contributions and provisions are on profit of local subsidiaries, whereas no contribution and provision for the Parent Company was recognised in the current year (2015: Nil) as the net taxable results attributable to the Parent Company was a loss.

13 (Loss)/profit for the year

(Loss)/profit for the year is stated after charging:

	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015
	KD '000	KD '000
Staff costs	**26,154**	30,678
Depreciation and amortisation	**7,473**	6,528
Provision for slow moving inventories	**427**	-

The number of staff employed by the Parent Company at 31 December 2016 was 64 (2015: 67).

Notes to the consolidated financial statements (continued)

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

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

	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015
	KD '000	KD '000
(Loss)/profit for the year attributable to the owners of the Parent Company (KD <000)	**(24,192)**	25,427
Weighted average number of shares outstanding during the year (excluding treasury shares) – shares	**1,325,056,996**	1,325,056,996
Basic and diluted (losses) / earnings per share	**(18.3) Fils**	19.2 Fils

15 Goodwill and intangible assets

15.1 Goodwill

	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015
	KD '000	KD '000
Balance at 1 January	**9,255**	9,245
Additions (refer note 7.3)	**2,520**	-
Foreign exchange adjustment	**(1,067)**	10
	10,708	9,255

Goodwill represents the excess of cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the acquired subsidiaries. Goodwill of KD2,029 thousand (2015: KD2,029 thousand) and KD8,679 thousand (2015: KD7,226 thousand) has been allocated to the IT service business and specialist engineering unit of the Group, respectively as these are the cash generating unit (CGU) which is expected to benefit from the synergies of the business combination. It is also the lowest level at which goodwill is monitored for impairment purposes.

Impairment testing

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

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

Key assumption	*Basis used to determine value to be assigned to key assumption*
Growth rates	Anticipated average growth rate of 0% to 3% (2015: 0% to 5%) per annum. Value assigned reflects .past experience and changes in economic environment Cash flows beyond the five-year period have been extrapolated using a growth rate of 0% to 3% (2015: 0% to 3%). This growth rate does not exceed the long term average growth rate of the market .in which the CGU operates
Discount rates	Discount rates of 3.5% to 17.2% (2015: 3.5% to 16.9%). Discount rates used are pre-tax and reflect .specific risks relating to the relevant CGU

15 Goodwill and intangible assets (continued)

Impairment testing (continued)

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

15.2 Intangible assets – Indefeasible right of use (IRU)

	31 Dec. 2016 KD '000	31 Dec. 2015 KD '000
Cost		
At the beginning of the year	**3,631**	8,326
Reduction in the cost due to re-negotiation of the terms	**-**	(2,685)
Impairment in value during the year	**-**	(2,010)
Balance at the end of the year	**3,631**	3,631
Accumulated amortization		
At the beginning of the year	**(63)**	(41)
Charge for the year	**(251)**	(22)
At the end of the year	**(314)**	(63)
Net book value at the end of the year	**3,317**	3,568
Total goodwill and intangible assets	**14,025**	12,823

This represents an intangible asset in the form of an indefeasible right of use (IRU) to a telecommunication asset carried at KD3,317 thousand (31 December 2015: KD3,568 thousand) arising from a subsidiary acquired during 2014. During the previous year, the subsidiary re-negotiated the financial and other terms of its use and accordingly, as per the new contractual terms its carrying value and that of the related liability was reduced by KD2,685 thousand and KD2,605 thousand respectively. Consequently, based on the information available, the Group's management has recognised an impairment of KD2,010 thousand during the previous year which includes net cancellation charges of KD456 thousand related to the previous contract.

16 Property, plant and equipment

Year ended 31 December 2016

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

Properties on lease hold land are on lands which have been leased from the government of Kuwait through renewable lease contracts.

Property under construction mainly represents the cost incurred, on the expansion of one of the subsidiaries existing factories and the construction of a manufacturing lines by a subsidiary. During the prior years, portions of the manufacturing lines which were completed and ready for intended use were capitalised in the appropriate categories. The costs relating to the remaining manufacturing lines and facilities will be transferred to the appropriate asset categories when the assets are ready for their intended use.

Notes to the consolidated financial statements (continued)

16 Property, plant and equipment (continued)

Year ended 31 December 2015

	Land	Freehold property	Leasehold property	Property on leasehold land	Plant and machinery	Motor vehicles	Furniture and equipment	Leased plant, machinery & vehicles	Property under construction	Total
	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000
Cost or valuation										
At 1 January 2015	1,415	16,427	547	37,738	82,967	11,160	14,020	2,766	3,384	170,424
Foreign exchange adjustments	53	220	2	86	(52)	(3)	(1)	(51)	-	254
Additions/transfer/ consolidation of new subsidiaries	-	107	50	264	6,321	558	490	325	479	8,594
Transfer to Investment properties	-	-	-	(2,280)	-	-	-	-	-	(2,280)
Disposals	-	-	-	(916)	(688)	(33)	(138)	-	-	(1,775)
At 31 December 2015	1,468	16,754	599	34,892	88,548	11,682	14,371	3,040	3,863	175,217
Accumulated depreciation and impairment losses										
At 1 January 2015	-	3,406	44	24,229	51,046	9,779	9,665	1,608	-	99,777
Foreign exchange adjustments	-	133	3	19	(189)	2	(2)	(20)	-	(54)
Charge for the year	-	593	6	764	3,918	669	374	182	-	6,506
Relating to disposals	-	-	-	(916)	(596)	(33)	(135)	-	-	(1,680)
At 31 December 2015	-	4,132	53	24,096	54,179	10,417	9,902	1,770	-	104,549
Net book value										
At 31 December 2015	1,468	12,622	546	10,796	34,369	1,265	4,469	1,270	3,863	70,668

Notes to the consolidated financial statements (continued)

17 Investment in associates

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

	Country of registration and principal place of business	Nature of business	Percentage ownership	
			31 Dec. 2016	31 Dec. 2015
Meezan Bank Ltd – (Quoted)	Pakistan	Islamic banking	**49**	49
Privatization Holding Company – KPSC (Quoted)	Kuwait	Financial services	**36**	33
Kuwait Cement Company – KPSC (Quoted)	Kuwait	Industrial	**26**	26
Airport International Group - P.S.C (Unquoted)	Jordan	Airport operations	**24**	24
Mabanee Company - KPSC - (Quoted) (17.3)	Kuwait	Real estate	**18**	18

	31 Dec. 2016	31 Dec. 2015
	KD '000	KD '000
Movement during the year is as follows:		
Balance at 1 January	**337,187**	330,968
Additions during the year	**2,182**	3,922
Capital reduction	**(3,108)**	-
Share of results	**21,177**	26,913
Share of other comprehensive income	**1,143**	(9,119)
Dividend received	**(9,286)**	(10,676)
Disposal of associates	**-**	(4,419)
Impairment in value	**-**	(617)
Foreign currency translation adjustment	**1,082**	296
Other adjustments	**163**	(81)
Balance at the end of the year	**350,540**	337,187

17.1 All of the above named associates are accounted for using the equity method in these consolidated financial .statements

17.2 A major portion of an associate with a carrying value of KD143,673 thousand (2015: KD123,959 thousand) .(is kept in a custody portfolio account with specialised institution (note 27c

17.3 Although the Group owns 18% of the investee, the Group exercises significant influence over the associate by way of board representation.

17.4 Investment in associates includes foreign quoted associates with a carrying value of KD57,445 thousand (2015: KD50,075 thousand) having quoted market value of KD98,085 thousand at 31 December 2016 (2015: KD65,290 thousand) based on published quotes. Further investment in associates also includes local quoted associates with a carrying value of KD252,943 thousand (2015: KD247,821 thousand) having quoted market value of KD219,650 thousand at 31 December 2016 (2015: KD226,682 thousand.) based on published quotes. In accordance with IAS 36 "impairment of assets" the Group's recoverable amount of these associates (which represent the higher of fair value less costs to sell, and value in use) was in excess of their carrying values and accordingly no impairment was recognized against these investments during the year ended 31 December 2016.

Notes to the consolidated financial statements (continued)

17 Investment in associates (continued)

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

17.4.1 Mabanee Company - KPSC

	Year ended 31 Dec. 2016 KD '000	Year ended 31 Dec. 2015 KD '000
Non-current assets	**1,100,614**	1,024,568
Current assets	**76,459**	38,061
Non-current liabilities	**(280,088)**	(269,614)
Current liabilities	**(38,980)**	(44,178)
Non controlling interest	**(69,027)**	(374)
Equity attributable to the shareholders of the associate	**788,978**	748,463

	Year ended 31 Dec. 2016 KD '000	Year ended 31 Dec. 2015 KD '000
Revenue	**54,242**	84,993
Profit for the year attributable to shareholders	**48,547**	77,464
Other comprehensive income for the year	**376**	2,995
Total comprehensive income for the year	**48,923**	80,459
Dividends received from the associate during the year	**1,492**	1,999

A reconciliation of the above summarised financial information to the carrying amount of the investment in Mabanee Company - KPSC is set out below:

	Year ended 31 Dec. 2016 KD '000	Year ended 31 Dec. 2015 KD '000
Net assets of the associate attributable to the shareholders of the associate	**788,978**	748,463
Proportion of the Group's ownership interest	**17.57%**	17.51%
Interest in the associate	**138,623**	131,056
Goodwill	**10,819**	10,819
Other adjustments	**125**	303
Carrying value of the investment	**149,567**	142,178

As at 31 December 2016 the fair value of the Group's interest in Mabanee Company - KPSC, which is listed on the Kuwait Stock Exchange was KD131,643 thousand (2015: KD136,892 thousand), based on the quoted market price available on the exchange, which is a level 1 Input in terms of IFRS 13.

Notes to the consolidated financial statements (continued)

17 Investment in associates (continued)

17.4.2 Kuwait Cement Company – KPSC

	31 Dec. 2016 KD '000	31 Dec. 2015 KD '000
Non-current assets	**225,748**	233,711
Current assets	**67,359**	66,056
Non-current liabilities	**(61,490)**	(68,464)
Current liabilities	**(47,701)**	(44,634)
Equity	**183,916**	186,669

	31 Dec. 2016 KD '000	31 Dec. 2015 KD '000
Revenue	**72,381**	69,534
Profit for the year	**15,207**	16,301
Other comprehensive loss for the year	**(3,157)**	(10,611)
Total comprehensive income for the year	**12,050**	5,690
Dividends received from the associate during the year	**3,757**	3,381

A reconciliation of the above summarised financial information to the carrying amount of the investment in Kuwait Cement Company – KPSC is set out below:

	31 Dec. 2016 KD '000	31 Dec. 2015 KD '000
Net assets of the associate attributable to the shareholders of the associate	**183,916**	186,669
Proportion of the Group's ownership interest in the associate	**25.89%**	25.617%
Interest in the associate	**47,616**	47,819
Goodwill	**14,893**	14,893
Other adjustments	**4,634**	4,421
Carrying value of the investment	**67,143**	67,133

As at 31 December 2016 the fair value of the Group's interest in Kuwait Cement Company – KPSC, which is listed on the Kuwait Stock Exchange was KD74,990 thousand (2015: KD71,382 thousand), based on the quoted market price available on the exchange, which is a level 1 Input in terms of IFRS 13.

17.4.3 Meezan Bank Ltd.

	31 Dec. 2015 KD '000	31 Dec. 2014 KD '000
Non-current assets	**773,266**	426,873
Current assets	**1,166,235**	1,126,181
Non-current liabilities	**(153,814)**	(118,006)
Current liabilities	**(1,687,580)**	(1,351,779)
Equity	**98,107**	83,269

Notes to the consolidated financial statements (continued)

17 Investment in associates (continued)

17.5.3 Meezan Bank Ltd.(continued)

	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015
	KD '000	KD '000
Revenue	**91,905**	95,955
Profit for the year attributable to the shareholders	**18,077**	14,887
Other comprehensive income for the year	**4,698**	511
Total comprehensive income for the year	**22,775**	15,398
Dividends received from the associate during the year	**3,833**	3,883

A reconciliation of the above summarised financial information to the carrying amount of the investment in Meezan Bank Ltd is set out below:

	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015
	KD '000	KD '000
Net assets of the associate attributable to the shareholders of the associate	**98,107**	83,269
Proportion of the Group's ownership interest in the associate	**49.11%**	49.11%
Interest in the associate	**48,180**	40,893
Goodwill	**9,265**	9,182
Carrying value of the investment	**57,445**	50,075

As at 31 December 2016 the fair value of the Group's interest in Meezan Bank Ltd, which is listed on the Pakistan Stock Exchange was KD98,085 thousand (2015: KD65,290 thousand), based on the quoted market price available on that exchange, which is a level 1 input in terms of IFRS 13.

17.5.4 Privatization Holding Company – KPSC

	31 Dec. 2016	31 Dec. 2015
	KD '000	KD '000
Non-current assets	**121,479**	114,902
Current assets	**40,977**	43,262
Non-current liabilities	**(33,894)**	(11,542)
Current liabilities	**(34,705)**	(44,628)
Non controlling interests	**(4,218)**	(2,016)
Equity	**89,639**	99,978

	31 Dec. 2016	31 Dec. 2015
	KD '000	KD '000
Revenue	**32,864**	18,316
(Loss)/profit for the year	**(1,091)**	110
Other comprehensive loss for the year	**(1,633)**	(119)
Total comprehensive loss for the year	**(2,724)**	(9)
Dividends received from the associate during the year	**-**	1,102

17 Investment in associates (continued)

17.5.4 Privatization Holding Company – KPSC (continued)

A reconciliation of the above summarised financial information to the carrying amount of the investment in Privatization Holding Company – KPSC is set out below:

	31 Dec. 2016	31 Dec. 2015
	KD '000	KD '000
Net assets of the associate attributable to the shareholders of the associate	**89,639**	99,978
Proportion of the Group's ownership interest in the associate	**35.82%**	33.30%
Interest in the associate	**32,109**	33,293
Other adjustments	**(5,587)**	(4,571)
Carrying value of the investment	**26,522**	28,722

As at 31 December 2016 the fair value of the Group's interest in Privatization Holding Company – KPSC, which is listed on the Kuwait Stock Exchange was KD9,395 thousand (2015: KD12,280 thousand), based on the quoted market price available on the exchange, which is a level 1 Input in terms of IFRS 13.

17.5.5 Airport International Group P.S.C

	31 Dec. 2016	31 Dec. 2015
	KD '000	KD '000
Non-current assets	**264,332**	274,263
Current assets	**42,347**	62,644
Non-current liabilities	**(121,336)**	(126,406)
Current liabilities	**(62,783)**	(85,878)
Equity	**122,560**	124,623

	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015
	KD '000	KD '000
Revenue	**72,917**	63,525
Loss for the year	**(5,709)**	(10,051)
Other comprehensive income for the year	**4,100**	2,384
Total comprehensive income for the year	**(1,609)**	(7,667)

A reconciliation of the above summarised financial information to the carrying amount of the investment in Airport International Group P.S.C is set out below:

	31 Dec. 2016	31 Dec. 2015
	KD '000	KD '000
Net assets of the associate attributable to the shareholders of the Group	**122,560**	124,623
Proportion of the Group's ownership interest	**24%**	24%
Interest in the associate	**29,414**	29,910
Other adjustments	**632**	757
Carrying value of the investment	**30,046**	30,667

Airport International Group P.S.C, is an unquoted investment.

Notes to the consolidated financial statements (continued)

17 Investment in associates (continued)

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

	31 Dec. 2016	31 Dec. 2015
	KD '000	KD '000
The Group's share of result for the year	**1,593**	4,237
The Group's share of other comprehensive loss for the year	**(812)**	(7,708)
The Group's share of total comprehensive income/(loss) for the year	**781**	(3,471)
Aggregate carrying amount of the Group's interest in these associates as of the reporting date	**19,817**	18,412
Aggregate dividends received from the associates during the year	**204**	311

17.7 Group's share of associates' contingent liabilities:

a) The Group's share of associates' contingent liabilities amounted to KD149,083 thousand (2015: KD109,461 thousand). This includes the Group's share of contingent liabilities related to a foreign bank (Meezan Bank Ltd.) which amounted to KD102,509 thousand (2015: KD65,495 thousand).

b) The local income tax authority in Pakistan has raised a demand requesting Mezzan Bank Limited, an associate of the Group, to pay additional tax amounting to KD5.3 million (Group's share KD2.6 million) for tax year 2015. The associate has obtained a stay order against this demand and has also filed appeals with the relevant Appellate Authorities. Group's management, in consultation with tax advisors, is confident that the decision is respect of this matter would be in Group's favour and, accordingly, no provision is made in these consolidated financial statements with respect thereto.

18 Investment properties

The movement in investment properties is as follows:

	31 Dec. 2016	31 Dec. 2015
	KD '000	KD '000
Fair value as at 1 January	**69,482**	61,425
Additions	**8,973**	4,494
Disposal	**(11,677)**	-
Transfers in settlement of receivable (refer 21 b)	**881**	-
Reclassification from property, plant and equipment	**-**	2,280
Change in fair value	**(3,246)**	1,283
Foreign currency translation	**(119)**	-
	64,294	69,482

Notes to the consolidated financial statements (continued)

18 Investment properties (continued)

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

	31 Dec. 2016	31 Dec. 2015
	KD '000	KD '000
Kuwait	**54,780**	62,530
Saudi	**5,694**	6,205
Jordan	**494**	431
UAE	**2,513**	316
London	**813**	-
Total	**64,294**	69,482

a) Investment properties are stated at fair value, which has been determined based on valuations performed by independent valuers. (refer note 35 for details).

b) Investments properties amounting to KD44,014 thousand (2015: KD47,907 thousand) are secured against bank loans and other Islamic financing arrangements (refer note 27).

c) Properties under development includes two lands located in Kuwait with a carrying value of KD22,696 thousand are under development and during the year borrowing cost of KD256 thousand (2015: KD526 thousand) has been capitalised to investment properties under development.

19 Available for sale investments

	31 Dec. 2016	31 Dec. 2015
	KD '000	KD '000
Non Current		
Managed funds		
– Local	**465**	483
– Foreign	**111,543**	115,303
	112,008	115,786
Unquoted equity participations		
– Local	**24,851**	23,779
– Foreign	**77,686**	165,479
	102,537	189,258
Quoted shares		
– Local	**62,241**	78,736
– Foreign	**129,149**	110,129
	191,390	188,865
	405,935	493,909
Current		
Quoted shares (a)		
– Local	**43,899**	46,851
– Foreign	**1,171**	477
	45,070	47,328
Unquoted equity participations		
– Local	**6,200**	-
– Foreign	**81,848**	-
	88,048	-
	133,118	47,328
	539,053	541,237

Notes to the consolidated financial statements (continued)

19 Available for sale investments (continued)

a) The quoted shares classified as current at 31 December includes an amount of KD43,562 thousand (2015: KD47,328 thousand) which is the remaining investments from those shares which were transferred from investments at fair value through profit or loss as of 1 July 2008 (refer note 23 a).

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

c) Managed funds include investments in private equity funds with a carrying value of KD30,657 thousand (2015: KD26,647 thousand). Information for these investments is limited to periodic financial reports provided by the investment managers. These investments are carried at net asset values reported by the investment managers. Due to the nature of these investments, the net asset values reported by the investment managers represent the best estimate of fair values available for these investments.

d) At the end of the year, the Group recognised an impairment loss of KD10,140 thousand (2015: KD4,016 thousand) for certain local and foreign quoted shares, as the market value of these shares at reporting dates declined significantly below their costs. Further the Group also recognised an impairment loss of KD8,556 thousand (2015: KD5,835 thousand) against certain unquoted shares, local and foreign funds based on estimates made by management as per information available to them and the net assets values reported by the investment managers.

e) Unquoted investments and managed funds of KD22,037 thousand (2015: KD20,895 thousand) are carried at cost less impairment in value if any, since their fair value cannot be reliably determined. The Group's management is not aware of any circumstance that would indicate impairment/further impairment in value of these investments.

f) Investments with a fair value of KD166,700 thousand (2015: KD181,450 thousand) are secured against short term borrowings (refer note 30) and long term borrowings (refer note 27).

During the year, the Group signed a conditional agreement with a foreign party to sell 10.45% share holding in K-Electric Company, one of the Pakistani listed companies involved in distribution of electricity. The above shares are held through certain subsidiaries of the Group and have been recorded under available for sale investments. However, the completion of the sale contemplated in the conditional agreement is subject to the receipt of applicable regulatory approvals and satisfaction of other conditions precedent specified therein and therefore profit or loss expected from the above sale has not yet been determined.

20 Inventories

	31 Dec. 2016	31 Dec. 2015
	KD '000	KD '000
Finished goods and work-in-progress	**15,957**	15,578
Raw materials and consumables	**13,059**	15,178
Spare parts and others	**3,601**	3,626
Goods in transit	**1,134**	1,032
	33,751	35,414
Provision for obsolete and slow moving inventories	**(1,317)**	(1,360)
	32,434	34,054

Notes to the consolidated financial statements (continued)

21 Accounts receivable and other assets

	31 Dec. 2016	31 Dec. 2015
	KD '000	KD '000
Financial assets		
Net trade receivables	**26,347**	28,689
Net amount due on disposal of foreign investment properties (b)	**-**	972
Amounts due on sale of investments	**9,711**	32,056
Due from associates	**2,029**	2,441
Due from other related parties	**2,938**	1,905
Due from key management personnel	**70**	231
Due from Kuwait Clearing Company (future trade)	**2,909**	4,846
Due from investment brokerage companies	**1,759**	1,698
Interest and other accrued income	**1,745**	1,519
Other financial assets	**8,950**	9,339
	56,458	83,696
Less: amount due after one year	**(1,410)**	(1,550)
	55,048	82,146
Non-financial assets		
Other assets	**5,111**	5,118
	5,111	5,118
	60,159	87,264

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

	31 Dec. 2015	31 Dec. 2014
	KD '000	KD '000
Neither past due nor impaired	**20,947**	24,135
Past due but not impaired		
- less than 3 months	**1,083**	992
- 3 – 6 months	**4,317**	3,562
Total trade receivables	**26,347**	28,689

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

b) The consideration due on sale of the Group's investment property in the Kingdom of Saudi Arabia amounting to KD12,405 thousand (sold during 2011) was due in instalments. In settlement of the consideration due as of 31 December 2015, one of the subsidiaries of the Group received an investment property located in London valued at GBP 2Mn (equivalent to KD881 thousand) during the year ended 31 December 2016. The difference between the consideration received in the form of property and the due balance as at 31 December 2015 amounting to KD92 thousand has been treated as impairment in value of receivable and has been recognised during the year ended 31 December 2016.

c) During the year, the Group recognised an impairment loss of KD1,056 thousand (2015: KD323 thousand) against trade and other receivables.

Notes to the consolidated financial statements (continued)

22 Murabaha, wakala and sukuk investments

	Effective profit rate % (per annum)			
	2016	2015	31 Dec.2016 KD ‘000	31 Dec.2015 KD <000
Due from a local Islamic investment company/ due from related parties	**-**	-	**14,324**	14,324
Provision for impairment in value	**-**	-	**(14,324)**	(14,324)
			-	-
Placed with local Islamic banks	**1.37%**	1.13%	**1,164**	1,000
			1,164	1,000

No profit was recognised on impaired wakala investments during the current year (2015: Nil).

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

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

23 Investments at fair value through profit or loss

	31 Dec. 2016	31 Dec. 2015
	KD ‘000	KD ‘000
Held for trading :		
Quoted shares		
– Local	**16,919**	16,992
– Foreign	**6,779**	7,261
	23,698	24,253
Designated on initial recognition :		
Local funds	**6,600**	7,709
International managed portfolios and funds	**46,484**	52,071
	53,084	59,780
	76,782	84,033

Notes to the consolidated financial statements (continued)

23 Investments at fair value through profit or loss (continued)

a). In 2008, as a result of significant developments in the global financial markets, the Group had reclassified investments with a fair value of KD380,755 thousand as at 1 July 2008 from “investment at fair value through profit or loss” category to “available for sale” category. The fair value of remaining reclassified investments as of 31 December 2016 is KD43,562 thousand (2015: KD47,328 thousand) and it is included in current portion of quoted shares of available for sale investments (refer note 19).

b). Quoted shares, held by local subsidiaries, with a fair value of KD3,093 thousand (2015: KD3,586 thousand) are secured against short term borrowings (refer note 30) and long term borrowings (refer note 27).

24 Share capital and share premium

a) As of 31 December 2016, authorized issued and fully paid share capital in cash of the Parent Company comprised of 1,359,853,075 shares of 100 Fils each (31 December 2015: 1,359,853,075 shares).

b) Share premium is not available for distribution.

25 Treasury shares

	31 Dec. 2016	31 Dec. 2015
	KD ‘000	KD ‘000
Number of shares	**34,796,079**	34,796,079
Percentage of issued shares	**2.56%**	2.56%
Market value (KD ‘000)	**4,245**	4,245
Cost (KD’000)	**30,375**	30,375

Reserves of the Parent Company equivalent to the cost of the treasury shares have been earmarked as non-distributable.
As at 31 December 2016, an associate company of the Group held 135,692,090 (2015: 131,599,475) shares equivalent to 10% (2015: 9.7%) of the Parent Company’s shares issued.

Notes to the consolidated financial statements (continued)

26 Cumulative changes in fair value, other components of equity and Non-controlling interests

a) Cumulative change in fair value

	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015
	KD '000	KD '000
Balance at 1 January	**96,378**	160,785
Other comprehensive income:		
Net change in fair value of available for sale investments	**(1,718)**	(49,252)
Transferred to consolidated statement of profit or loss on disposal of available for sale of investments	**(2,822)**	(11,246)
Transferred to consolidated statement of profit or loss on impairment in value of available for sale investments	**16,909**	5,335
Share of fair value adjustment in associates	**(18)**	(9,244)
Other comprehensive income for the year	**12,351**	(64,407)
Balance at 31 December	**108,729**	96,378

b) Other components of equity

	Statutory reserve	General reserve	Gain on Sale of treasury shares reserve	Foreign currency translation reserve	Total
	KD '000	KD '000	KD '000	KD '000	KD '000
Balances at 31 December 2015	**11,167**	**1,694**	**18,452**	**(2,486)**	**28,827**
Other comprehensive income:					
Currency translation differences	**-**	**-**	**-**	**2,699**	**2,699**
Comprehensive income	**-**	**-**	**-**	**2,699**	**2,699**
Reserve transfers	**-**	**-**	**-**	**-**	**-**
Balances at 31 December 2016	**11,167**	**1,694**	**18,452**	**213**	**31,526**
Balances at 31 December 2014	8,542	1,694	18,452	(1,521)	27,167
Other comprehensive income:					
Currency translation differences	-	-	-	(965)	(965)
Comprehensive income	-	-	-	(965)	(965)
Reserve transfers	2,625	-	-	-	2,625
Balances at 31 December 2015	11,167	1,694	18,452	(2,486)	28,827

Statutory reserve

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

26 Cumulative changes in fair value, other components of equity and Non-controlling interests (continued)

General reserve

In accordance with the Parent Company's articles of association, a certain percentage of the profit for the year before KFAS, NLST, Zakat and directors remuneration but after Non-controlling interest is to be transferred to the general reserve at the discretion of the Board of Directors which is to be approved at the General Assembly. No transfer is required in a year in which the Group has incurred a loss or where accumulated losses exist.

c) Non-controlling interests

	Year ended 31 Dec. 2015	Year ended 31 Dec. 2014
	KD '000	KD '000
Balance at 1 January	**128,909**	146,729
Increase in non-controlling interests of subsidiaries during the year*	**3,627**	3,195
Non-controlling interests arising on acquisition of new subsidiaries**	**735**	-
Increase in share capital of subsidiaries	**-**	2,052
Amount due to non-controlling interests on reduction of share capital of subsidiary	**-**	(1,732)
Redemption of share capital by non-controlling interests of subsidiary	**(14)**	(18)
Dividend paid to non-controlling interests by the subsidiaries	**(4,837)**	(4,890)
Other net changes in non-controlling interests	**311**	345
Transactions with non-controlling interests	**(178)**	(1,048)
Profit for the year	**297**	3,483
Other comprehensive income :		
Exchange differences arising on translation of foreign operations	**(203)**	(46)
Net change in fair value of available for sale investments	**5,156**	(23,535)
Transferred to consolidated statement of profit or loss on disposal of available for sale investments	**118**	(1,315)
Transferred to consolidated statement of profit or loss on impairment in value of available for sale investments	**1,787**	4,516
Share of other comprehensive income of associates	**1,161**	125
Total other comprehensive income for the year	**8,019**	(20,255)
Total comprehensive income for the year	**8,316**	(16,772)
Balance at 31 December	**137,047**	128,909

* During the year, one of the local subsidiaries of the Group increased its share capital from KD15,000 thousand to KD20,000 thousand (50,000,000 shares with a par value of 100 fils per each share) (2015: from KD11,000 thousand to KD15,000 thousand). The Group subscribed partially for this increase through another subsidiary of the Group and consequently the Group's shareholding in this subsidiary diluted from 82.85% to 77.94% (2015: from 100% to 82.85%). The proportionate carrying value of net assets on the date of dilution amounting to KD2,049 thousand (2015: KD3,195 thousand) has been transferred to non-controlling interests in the consolidated statement of changes in equity. Consequently the difference between cash proceeds received and non- controlling interests share of net assets on the date of dilution amounting to KD209 thousand (2015: KD358 thousand) has been recognized as a dilution loss in the consolidated statement of changes in equity as of 31 December 2016.

** During the year, the Group acquired controlling interests of certain foreign subsidiaries and as a result of these acquisitions non-controlling interests increased by KD735 thousand (refer note 7.3).

Notes to the consolidated financial statements (continued)

27 Long-term borrowings and bonds

Currency	Effective Interest rate	31 Dec. 2016 KD '000	31 Dec. 2015 KD '000
Conventional loans			
Kuwaiti Dinars (note 27c)	3.5% - 5%	**295,194**	325,925
US Dollars	2.39% - 4.25%	**42,188**	56,878
Euro	1.4% - 4.7%	**2,476**	1,450
		339,858	384,253
Less : Due within one year		**(123,535)**	(83,348)
		216,323	300,905
Islamic financing arrangements			
Murabaha payables (note 27c)	3.06%-4%	**80,094**	80,153
Other Islamic financing arrangements	3.8% - 6%	**58,099**	62,855
		138,193	143,008
Less: Due within one year		**(25,497)**	(6,068)
Total long-term borrowings		**112,696**	136,940
Bonds (note 27 d)		**25,000**	-
Total long-term borrowings & bonds		**354,019**	437,845

a During the years 2011 and 2012, one of the local subsidiaries of the Group restructured its financing arrangements with some local banks and accordingly loans amounting to KD154,710 thousand (out of which KD58,016 thousand has been paid till reporting date) were converted into secured long term facilities. As per loan restructuring agreements, these loans are required to be 100% secured. As of 31 December 2016, these are partly secured (refer notes 18, 19 and 23) and the identification and securitization of the required balance is still in process.

The third instalment of the loan of KD38,677 thousand fell due in the years 2014 and 2015 and the lenders agreed for payment of 50% of that amount within four months from the original due date. KD15,024 thousand .was paid in the year 2015 and the balance KD4,314 thousand has been settled in the year 2016

The process of rescheduling the loans amounting to KD96,694 thousand as of the reporting date comprising of the remaining 50% (KD19,339 thousand of the third instalment and KD77,355 thousand for the final instalment) is ongoing. However based on the previous agreements, the final instalment of one loan (along with the 50% of the third instalment) totalling to KD6,876 thousand fell due during December 2016. The final instalments of the other loans (along with the 50% of the third instalment) totalling KD39,059 thousand and KD50,759 thousand .are falling due in the year 2017 and during the year 2018 respectively

Notes to the consolidated financial statements (continued)

27 Long-term borrowings and bonds (continued)

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

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

b The Euro loans are secured against property, plant and equipment with a book value of KD803 thousand (2015: KD804 thousand). Also, other Islamic financing arrangement amounting to KD7,977 thousand (2015: KD8,869 thousand) are secured against property, plant and equipment with a book value of KD6,715 thousand (2015: .(KD11,130 thousand

c During August 2015, the Parent Company settled an Islamic syndicated loan amounting to KD101,563 thousand at maturity, from the proceeds obtained through two new facilities entered into, one of which is a Murabaha facility comprising of local and regional banks for an amount of KD80,153 thousand due in 3 years and the other is a conventional loan facility with a new foreign bank for an amount of KD20,000 thousand due in one year. [Under the terms of the new facilities agreements, shares of one of the listed associates having a carrying value [.(of KD143,673 thousand are kept in a custody portfolio account with specialised institutions (refer note 17.2

Bonds

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

28 Provisions

	31 Dec. 2015	31 Dec. 2014
	KD '000	KD '000
Pension liability (refer note 32)	**2,743**	3,784
Provision for staff indemnity	**11,135**	10,890
Provision for land-fill expenses	**767**	742
Provision for rental property	**72**	224
	14,717	15,640
Less: Provision for rental property – amount due in less than one year	**(72)**	(204)
	14,645	15,436

Notes to the consolidated financial statements (continued)

29 Accounts payable and other liabilities

	31 Dec. 2015	31 Dec. 2014
	KD '000	KD '000
Financial liabilities		
Trade payables	**15,140**	14,717
Accrued interest	**3,381**	3,393
Dividend payable	**1,653**	2,236
Leasing creditors - amount due in less than one year	**207**	265
Provision for rental property – amount due in less than one year	**72**	204
Payable on acquisition of subsidiary	**1,505**	1,505
Payable on acquisition of intangible assets	**355**	899
National labour support tax	**4,161**	4,161
Provision for cost of gas usage for previous years (a)	**2,700**	-
Deferred consideration on acquisition of new subsidiaries (refer note 7.3)	**2,126**	-
Provision for foreign taxation	**1,578**	1,716
Kuwait Foundation for the Advancement of Sciences and Zakat	**354**	557
Other accruals	**3,103**	6,578
Due to associates (refer note 34)	**20**	238
Due to other related parties (refer note 34)	**522**	514
Amounts payable to non controlling interest due to capital reduction of one of the local subsidiaries	**905**	1,194
Other liabilities	**5,616**	7,080
	43,398	45,257
Less: non-current portion of deferred consideration	**(1,052)**	-
	42,346	45,257
Non-financial liabilities		
Other creditors	**1,753**	4,157
Accruals	**186**	207
	1,939	4,364
	44,285	49,621

a) This represents provision for cost of gas usage by one of the local subsidiaries of the Group for previous years amounting to KD2,700 thousand. During 2015, above subsidiary received a letter from a government owned entity which supplies gas to one of the factories of the subsidiary demanding payment for usage of gas for 2004 till 2011. The subsidiary rejected this claim on several grounds and the supplier filed a legal case against the subsidiary claiming its right to recover the amount. The court in its first hearing transferred the case to the Expert's department. Subsequent to the reporting date, the court issued a ruling ordering the subsidiary to pay an amount of USD9,300 thousand to the plaintiff. The subsidiary is considering legal options of the appealing this decision.

Notes to the consolidated financial statements (continued)

30 Short-term borrowings

Currency	Effective Interest rate	31 Dec. 2016 KD '000	31 Dec. 2015 KD '000
Conventional loans			
Kuwaiti Dinars	4% - 4.75%	**80,546**	89,108
US Dollars	1.33% - 5.88%	**74,255**	70,770
		154,801	159,878
Long term borrowings due within one year		**123,535**	83,348
		278,336	243,226
Islamic financing arrangements			
Murabaha/wakala/Ijara payables	4.5%	**17,074**	13,896
Long term Islamic financing arrangements due within one year (refer note 27 c)		**25,497**	6,068
		42,571	19,964
Total		**320,907**	263,190

a. Islamic financing arrangements include Ijara payables of KD17,461 thousand (2015: KD17,825 thousand) which is secured against investment properties of local subsidiaries (refer note 18).
b. As of 31 December 2016, one of the local subsidiaries had utilised KD Nil (net) (2015: KD1,050 thousand) from the KD5,570 thousand loan facility from a local bank which is secured against local quoted investments with a fair value of KD7,394 thousand (2015 : KD7,676 thousand).
c. US Dollar loan equivalent to KD74,255 thousand (2015: KD69,230 thousand) and Kuwait Dinar borrowings of KD86,063 thousand (2015: KD44,854 thousand) are secured by certain available for sale investments (refer note 19).

31 Cash and cash equivalents

	Effective Interest rate	31 Dec. 2016 KD '000	31 Dec. 2015 KD '000
Short term deposits and investments	0.41% - 1.35%	**9,224**	16,661
Bank balance and cash	0.62% - 1.35%	**33,696**	43,383
Due to banks (a)	5.5% - 6.0%	**(21,186)**	(19,915)
		21,734	40,129
Less: Blocked balances		**(325)**	(325)
Cash and cash equivalents for the purpose of consolidated statement of cash flows		**21,409**	39,804

a) Due to banks includes bank overdraft facilities of KD1,198 thousand (2015: KD2,016 thousand) utilised by one of the subsidiaries of the Group and are secured against short term deposits of KD994 thousand (2015: KD971 thousand) as at 31 December 2016.

32 Defined benefit pensions schemes

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

Notes to the consolidated financial statements (continued)

32 Defined benefit pensions schemes (continued)

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

The Schemes expose the Group to a number of risks:

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

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

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

The Group expects to contribute KD817 thousand to its defined benefit plan in 2017 which has been agreed with the pension trustee in line with actuarial advice and aims to eliminate the deficit within an acceptable period of time.

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

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

	31 Dec. 2016	31 Dec. 2015
	KD '000	KD '000
Discount rate at 31 December	**3.20%**	3.45%
Inflation assumption (RPI)	**3.45%**	3.20%
Revaluation in deferment (CPI)	**2.45%**	2.20%
Expected return on plan assets	**3.20%**	3.45%
Future salary increases	**N/A**	N/A
Future pension increases	**3.45%**	3.20%
Mortality after retirement	2016: SAPS (S2NA) (2015: SAPS (S1NA)) tables with medium cohort year of birth projections and minimum of 1.25% (2015: 1.25%) per annum improvement.	

Notes to the consolidated financial statements (continued)

32 Defined benefit pensions schemes (continued)

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

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

	31 Dec. 2016	31 Dec. 2015
	KD '000	KD '000
Male currently aged 45	**89.5**	89.1
Female currently aged 45	**91.8**	91.7
Male currently aged 65	**87.7**	87.3
Female currently aged 65	**89.9**	89.7

The average of the weighted average duration of the liabilities of each of the schemes is 16 years (2015: 16 years).

Consolidated statement of profit or loss

	31 Dec. 2016	31 Dec. 2015
	KD '000	KD '000
Interest cost	**(721)**	(836)
Expected return on assets	**615**	700
Accrued income/(expenses)	**(57)**	12
Settlement cost	**(39)**	-
Net annual charge included in general and administrative expenses	**(202)**	(124)

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

Consolidated statement of financial position

	31 Dec. 2016	31 Dec. 2015
	KD '000	KD '000
Brought forward liability	**3,784**	4,359
Consolidated statement of profit or loss (net)	**202**	124
Contributions	**(645)**	(837)
Actuarial (gain)/losses	**(21)**	167
Foreign Exchange adjustments	**(577)**	(29)
Carried forward liability	**2,743**	3,784

Notes to the consolidated financial statements (continued)

32 Defined benefit pensions schemes (continued)

Reconciliation of consolidated statement of financial position liability

	31 Dec. 2016 KD '000	31 Dec. 2015 KD '000
Present value of obligations	**20,551**	23,396
Fair value of plan assets	**(17,816)**	(19,745)
Net plan deficit	**2,735**	3,651
Unrecognised actuarial losses	**8**	133
Net liability recognised in the consolidated statement of financial position	**2,743**	3,784

Changes in the present value of the defined benefit obligation

	31 Dec. 2016 KD '000	31 Dec. 2015 KD '000
Opening defined benefit obligation	**23,396**	24,330
Interest cost	**721**	836
Actuarial losses/(gains)	**1,361**	(112)
Accrued (income)/ expenses	**57**	(12)
Benefits and expenses paid	**(1,083)**	(1,567)
Foreign exchange adjustment	**(3,901)**	(79)
Closing defined benefit obligation	**20,551**	23,396

Changes in the fair value of the plan assets

	31 Dec. 2016 KD '000	31 Dec. 2015 KD '000
Opening fair value of plan assets	**19,745**	20,082
Expected return on assets	**615**	700
Actuarial (losses)/ gains	**1,267**	(233)
Contributions by employer	**645**	837
Benefits and expenses paid	**(1,083)**	(1,567)
Foreign exchange adjustment	**(3,373)**	(74)
Closing fair value of plan assets	**17,816**	19,745

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

	31 Dec. 2016 KD '000	31 Dec. 2015 KD '000
Plan assets:		
Equities	**4,632**	5,554
Bonds	**12,471**	13,915
Other assets	**713**	276
	17,816	19,745

The actual return on the Schemes' assets net of expenses over the period was10.4% (2015: 2.3%).

Notes to the consolidated financial statements (continued)

32 Defined benefit pensions schemes (continued)

Sensitivity of the value placed on liabilities

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

Adjustment to assumptions	Approximate effect on liabilities KD '000
Discount rate	
Plus 0.5%	**(1,514)**
Minus 0.5%	**1,718**
Inflation	
Plus 0.25%	**360**
Minus 0.25%	**(360)**
Life expectancy	
Plus 1 year	**757**
Minus 1 year	**(753)**

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

33 Segmental analysis

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

Notes to the consolidated financial statements (continued)

33 Segmental analysis (Continued)

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

	Investment		Building materials		Specialist engineering		Hotel & IT services		Total	
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
	KD <000	KD <000	KD <000	KD <000	KD <000	KD <000	KD <000	KD <000	KD <000	KD <000
Segment revenue	**36,350**	73,918	**40,998**	48,216	**54,353**	75,960	**14,908**	15,701	**146,609**	213,795
Less:										
Income from investments									**(13,769)**	(37,547)
Share of result of associates									**(21,177)**	(26,913)
Loss on disposal of investment properties									**852**	-
Gain on disposal of associates									**-**	(417)
Change in fair value of investment properties									**3,246**	(1,283)
Rent income									**(2,301)**	(2,068)
Interest and other income									**(3,201)**	(5,690)
Sales, per consolidated statement of profit or loss									**110,259**	139,877
Segment profit/(loss)	**4,849**	48,647	**786**	7,781	**(140)**	7,019	**138**	(501)	**5,633**	62,946
Less:										
Finance costs									**(28,188)**	(28,740)
Other unallocated loss									**(1,537)**	(3,671)
(Loss)/profit before foreign taxation									**(24,092)**	30,535
Segment assets	**1,095,467**	1,142,545	**61,262**	57,962	**77,723**	81,398	**19,166**	17,437	**1,253,618**	1,299,342
Segment liabilities	**(13,129)**	(17,882)	**(22,255)**	(18,322)	**(17,205)**	(20,056)	**(7,538)**	(9,221)	**(60,127)**	(65,481)
Segment net assets	**1,082,338**	1,124,663	**39,007**	39,640	**60,518**	61,342	**11,628**	8,216	**1,193,491**	1,233,861
Borrowings, bonds and due to banks									**(696,112)**	(720,950)
Total equity, per consolidated statement of financial position									**497,379**	512,911

33 Segmental analysis (Continued)

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

	Investment	Building materials	Specialist engineering	Hotel & IT services	Total
	KD <000	KD <000	KD <000	KD <000	KD <000
At 31 December 2016					
Additions to property, plant and equipment	**61**	**4,538**	**4,413**	**125**	**9,137**
Depreciation	**230**	**3,662**	**2,924**	**406**	**7,222**
Impairment in value of available for sale investments	**18,696**	**-**	**-**	**-**	**18,696**
At 31 December 2015					
Additions to property, plant and equipment	75	2,146	6,179	194	8,594
Depreciation	281	3,243	2,903	79	6,506
Impairment in value of available for sale investments	9,851	-	-	-	9,851

Geographical segments

The geographical analysis is as follows;

	Assets		Sales	
	31 Dec. 2016	31 Dec. 2015	**Year ended 31 Dec. 2016**	Year ended 31 Dec. 2015
	KD <000	KD <000	**KD <000**	KD <000
Kuwait	**599,904**	638,173	**53,400**	61,812
Outside Kuwait	**653,714**	661,169	**56,859**	78,065
	1,253,618	1,299,342	**110,259**	139,877

34 Related party transactions

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

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

	31 Dec. 2016	31 Dec. 2015
	KD '000	KD <000
Transactions and balances included in the consolidated statement of financial position		
Due from related parties (included in accounts receivable and other assets)		
– Due from associate companies	**2,029**	2,441
– Due from other related parties	**2,938**	1,905
– Due from key managements personal	**70**	231
Due to related parties (included accounts payable and other liabilities)		
– Due to associates	**20**	238
– Due to other related parties	**522**	514
Transactions included in the consolidated statement of profit or loss		
Realised gain on sale of available for sale investments – to associate	**-**	26
Management and placement fees earned from related parties	**1**	4
Finance cost – charged by an associate	**-**	466

Notes to the consolidated financial statements (continued)

34 Related party transactions (continued)

	31 Dec. 2016 KD '000	31 Dec. 2015 KD '000
Transactions with related parties		
Development and construction costs	**4,679**	1,725
Purchase of raw materials – from associates	**3,260**	3,932
Compensation of key management personnel of the Group		
Short term employee benefits and directors' remuneration	**3,924**	3,454
End of service benefits	**288**	421
	4,212	3,875

35 Summary of assets and liabilities by category and fair value measurement

35.1 Categories of financial assets and liabilities

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

	31 Dec. 2016 KD '000	31 Dec. 2015 KD '000
Financial assets:		
Loans and receivables (at amortised cost):		
• Accounts receivable and other financial assets (refer note 21)	**56,458**	83,696
• Murabaha, wakala and sukuk investments	**1,164**	1,000
• Short term deposits and investments	**9,224**	16,661
• Bank balance and cash	**33,696**	43,383
	100,542	144,740
Assets at fair value through profit or loss:		
• Investments at fair value through profit or loss (refer note 23)		
- Held for trading	**23,698**	24,253
- Designated on initial recognition	**53,084**	59,780
	76,782	84,033
Available for sale investments (refer note 19)		
– At fair value	**517,016**	520,342
– At cost / cost less impairment	**22,037**	20,895
	539,053	541,237
Total financial assets	**716,377**	770,010
Financial liabilities:		
At amortised cost		
• Long term borrowings & bonds	**354,019**	437,845
• Leasing creditors	**145**	424
• Accounts payable and other financial liabilities (refer note 29)	**43,398**	45,257
• Short term borrowings	**320,907**	263,190
• Due to banks	**21,186**	19,915
	739,655	766,631

Notes to the consolidated financial statements (continued)

35 Summary of assets and liabilities by category (continued)

35.2 Fair value measurement

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments at fair value though profit or loss and available for sale investments (excluding certain available for sale investments which are carried at cost/cost less impairment for reasons specified in Note 19 to the consolidated financial statements) are carried at fair value and measurement details are disclosed in note 35.3 to the consolidated financial statements. In the opinion of the Group's management, the carrying amounts of all other financial assets and liabilities which are at amortised costs is considered a reasonable approximation of their fair values.

The Group also measures non-financial asset such as investment properties at fair value at each annual reporting date (refer 35.4).

35.3 Fair value hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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

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

At 31 December 2016

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

Notes to the consolidated financial statements (continued)

35 Summary of financial assets and liabilities by category (continued)

35.3 Fair value hierarchy (continued)

At 31 December 2015

	Note	Level 1 KD'000	Level 2 KD'000	Level 3 KD'000	Total Balance KD'000
Assets at fair value					
Available for sale investments					
-Managed funds					
Private equity funds	c	-	-	26,647	26,647
Other managed funds	c	-	7,174	78,105	85,279
-Unquoted equity participations	d	-	14,268	157,955	172,223
-Quoted shares	a	222,282	862	13,049	236,193
Investment at fair value through profit or loss					
-Quoted shares	a	24,253	-	-	24,253
-Local funds	b	-	7,709	-	7,709
-International managed portfolios and funds	e	5,490	35,750	10,831	52,071
Total assets		252,025	65,763	286,587	604,375

Measurement at fair value

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

The methods and valuation techniques used for the purpose of measuring fair values, are unchanged compared to the previous reporting year, except for certain foreign unquoted shares that have been fair valued based on certain valuation techniques as the Group's management believes that such valuations are more representative of the fair values of such investments based on the information available to the management. Accordingly these investments with a carrying value of KD30,127 thousand and KD9,555 thousand have been transferred from level 1 & 2 to level 3 respectively. Further an amount of KD10,464 thousand have been transferred from level 3 to 2 as of 31 December 2016.

a) Quoted shares & debt instruments (level 1, 2 & 3)

Quoted shares represent all listed equity securities which are publicly traded in stock exchanges. Where quoted prices in an active market are available, the fair value of such investments have been determined by reference to their quoted bid prices at the reporting date (Level 1) and if the market for an investment is not active, the Group has established fair value by using valuation techniques (level 2 or 3)

b) Local funds (level 2)

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

c) Foreign funds (level 2)

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

Notes to the consolidated financial statements (continued)

35 Summary of assets and liabilities by category (continued)

35.3 Fair value hierarchy (continued)

Other managed portfolios (level 3)

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

d) Unquoted equity participations (level 2 & 3)

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

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

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

Level 3 Fair value measurements

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

	31 Dec. 2015 KD '000	31 Dec. 2014 KD '000
Opening balance	**286,587**	274,244
Net change in fair value recognised in other comprehensive income	**(2,880)**	7,393
Impairment recognised in profit or loss	**(13,214)**	(2,164)
Net change in fair value recognised in profit or loss	**752**	1,156
Net disposals during the year	**(3,328)**	(8,431)
Reclassification	**29,218**	14,389
Closing balance	**297,135**	286,587

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

31 December 2016

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

Notes to the consolidated financial statements (continued)

36 Summary of assets and liabilities by category (continued)
35 Summary of assets and liabilities by category (continued)
35.3 Fair value hierarchy (continued)

31 December 2015

Financial asset	Valuation technique	Significant unobservable input	Range	Sensitivity of the fair value measurement to the input
Unquoted Equity participations & certain quoted shares	DCF Method	Long term growth rate for cash flows for subsequent years	3% - 5.8%	Higher the growth rate, higher the value
		WACC	12.5% - 15.4%	Higher the WACC, lower the value
		Discount for lack of marketability	10% - 25%	Higher the discount rate, lower the value
Private equity and direct equity funds	NAV reported by investment manager	Fair market value of the underlying assets	N/A	Higher the FMV of the assets, higher the value
Other managed portfolios	NAV reported by investment manager	Fair market value of the underlying assets	N/A	Higher the FMV of the assets, higher the value

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

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

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

35.4 Fair value measurement of non-financial assets

The following table shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis at 31 December 2015 and 2016.

	Level 1 KD'000	Level 2 KD'000	Level 3 KD'000	Total KD'000
31 December 2016				
Investment property				
- Lands and buildings in Kuwait	-	-	**29,234**	**29,234**
- Lands and buildings in Saudi Arabia	-	-	**4,854**	**4,854**
- Lands and buildings in UAE	-	-	**298**	**298**
- Lands in Jordan	-	-	**494**	**494**
- Lands in UAE	-	-	**170**	**170**
- Properties under development	-	-	**25,581**	**25,581**
- Lands in Kuwait	-	-	**2,850**	**2,850**
- Building in London	-	-	**813**	**813**
	-	-	**64,294**	**64,294**
31 December 2015				
Investment property				
- Lands and buildings in Kuwait	-	-	39,827	39,827
- Lands and buildings in Saudi Arabia	-	-	5,305	5,305
- Lands and buildings in UAE	-	-	316	316
- Land in Jordan	-	-	431	431
- Properties under development	-	-	20,353	20,353
- Lands in Kuwait	-	-	3,250	3,250
	-	-	69,482	69,482

Notes to the consolidated financial statements (continued)

35 Summary of assets and liabilities by category (continued)

35.4 Fair value measurement of non-financial assets (continued)

The above buildings represent rental properties on freehold land categorized as "Investment Lands" (i.e land which can be used to construct multiple residential unit buildings, apartments, villas, Duplex and Studios), in Kuwait, Jordan, UAE, London and Saudi Arabia. The freehold land above also represents land categorized as investment lands. The fair value of the investment property has been determined based on valuations obtained from two independent valuers, who are specialised in valuing these types of investment properties. The significant inputs and assumptions are developed in close consultation with management. One of these valuers is a local bank (for local investment properties) who has valued the investment properties using primarily two methods, one of which is the Yield Method and other being a combination of the market comparison approach for the land and cost minus depreciation approach for the buildings. The other valuer who is a local reputable valuer has also valued the investment properties primarily by using a combination of the methods noted above. When the market comparison approach is used adjustments have been incorporated for factors specific to the land in question, including plot size, location and current use. For the valuation purpose, the Company has selected the lower value of the two valuations (2015: lower of two valuations). Further information regarding the level 3 fair value measurements is set out in the table below:

31 December 2016

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

Notes to the consolidated financial statements (continued)

35 Summary of assets and liabilities by category (continued)

35.4 Fair value measurement of non-financial assets (continued)

31 December 2015

Description	Valuation technique	Significant unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Land and buildings in Kuwait and Saudi Arabia (rental properties)	Yield method and Market comparison approach for land & cost less depreciation for buildings	Estimated marker price for land (per sqm)	KD1,202– KD8,857	The higher the price per square meter, the higher the fair value
		Construction cost (per sqm)	KD59-KD264	The higher the construction cost per square meter, the higher the fair value
		Average monthly rent (per sqm)	KD2.46 – KD9	The higher the rent per square meter, the higher the fair value
		Yield rate	3.75% to 7.85%	The higher the yield rate, the higher the value
		Vacancy rate	10%	The higher the vacancy rate the lower the fair value
Freehold land Kuwait and Jordan	Market comparison approach	Estimated market price for land (per sqm)	KD1,574 to KD8,350	The higher the price per square meter, the higher the fair value

Level 3 Fair value measurements

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

36 Risk management objectives and policies

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

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

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

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

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

36.1 Market risk

a) Foreign currency risk

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

Notes to the consolidated financial statements (continued)

36 Risk management objectives and policies (continued)

36.1 Market risk (continued)

a) Foreign currency risk (continued)

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

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

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

	31 Dec. 2016 Equivalent KD '000	31 Dec. 2015 Equivalent KD '000
US Dollars	**(102,496)**	(103,734)
Saudi Riyals	**14,964**	15,240
GBP	**3,740**	7,079

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

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

	Profit increase/ (decrease)	
	31 Dec. 2016	31 Dec. 2015
	KD '000	KD '000
US Dollars	**5,125**	5,187
Saudi Riyals	**(748)**	(762)
GBP	**(187)**	(354)
	4,190	4,071

If the Kuwaiti Dinar had weakened against the foreign currencies assuming the above sensitivity (5%), then there would be an equal and opposite impact on the (loss)/profit for the year, and the balances shown above would be negative for US Dollars and positive for Saudi Riyals and GBP (2015: negative for US Dollars and positive for GBP and Saudi Riyals).

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

36 Risk management objectives and policies (continued)

36.1 Market risk (continued)

b) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Group is exposed to interest rate risk on its short term deposits (refer note 31), short and long term borrowings (refer note 30 and 27) and due to banks which are both at fixed and floating interest rates. The risk is managed by the Group by managing an appropriate mix between fixed and floating rate, short term deposits and borrowings.

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

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

	Increase in interest rates		Decrease in interest rates	
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
	KD '000	KD '000	KD '000	KD '000
Effect on (loss)/profit for the year	**(1,630)**	(1,650)	**4,890**	4,949

c) Equity price risk

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

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

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

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

	Profit for the year		Other comprehensive income	
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
	KD '000	KD '000	KD '000	KD '000
Investments at fair value through profit or loss	**3,030**	3,196	**-**	-
Available for sale investments*	**366**	450	**23,646**	23,619
	3,396	3,646	**23,646**	23,619

Notes to the consolidated financial statements (continued)

36 Risk management objectives and policies (continued)

36.1 Market risk (continued)

c) Equity price risk (continued)

* Had equity prices been higher by 10% the impairment loss which was recognised in the consolidated statement of profit or loss would be reduced and consequently the profit for the year 2016 and 2015 would be higher.

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

36.2 Credit risk

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

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

	31 Dec. 2016 KD '000	31 Dec. 2015 KD '000
Available for sale investments	**539,053**	541,237
Accounts receivable and other assets (refer note 21)	**56,458**	83,696
Murabaha, wakala and sukuk investments	**1,164**	1,000
Investments at fair value through profit or loss	**76,782**	84,033
Short term deposits and investments	**9,224**	16,661
Bank balances	**33,696**	43,383
	716,377	770,010

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

In respect of receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty. The credit risk for bank balances and short term deposits is considered negligible, since the counterparties are reputable financial institution with high credit quality. Information on other significant concentrations of credit risk is set out in note 36.3.

Notes to the consolidated financial statements (continued)

36 Risk management objectives and policies (continued)

36.3 Concentration of assets

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

	Kuwait	Other Middle Eastern Countries	Asia & Africa	UK & Europe	USA	Total
	KD '000	KD '000	KD '000	KD '000	KD '000	KD '000
At 31 December 2016						
Geographic region:						
Available for sale investments	**150,158**	**196,792**	**84,424**	**15,924**	**91,755**	**539,053**
Accounts receivable and other assets	**25,563**	**20,162**	**1,925**	**8,581**	**227**	**56,458**
Investments at fair value through profit or loss	**20,033**	**10,363**	**1,671**	**40,462**	**4,253**	**76,782**
Murabaha, wakala and sukuk investments	**1,164**	**-**	**-**	**-**	**-**	**1,164**
Short-term deposits and investments	**9,065**	**159**	**-**	**-**	**-**	**9,224**
Bank balances and cash	**21,762**	**4,212**	**103**	**2,054**	**5,565**	**33,696**
	227,745	**231,688**	**88,123**	**67,021**	**101,800**	**716,377**
At 31 December 2015						
Geographic region:						
Available for sale investments	168,196	163,144	106,351	15,248	88,298	541,237
Accounts receivable and other assets	29,416	42,394	1,294	10,290	302	83,696
Investments at fair value through profit or loss	20,224	10,399	3,874	40,690	8,846	84,033
Murabaha and wakala investment	1,000	-	-	-	-	1,000
Short-term deposits	10,672	213	-	-	5,776	16,661
Bank balances and cash	36,785	2,081	604	3,761	152	43,383
	266,293	218,231	112,123	69,989	103,374	770,010

36.4 Liquidity risk

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

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

	Up to 1 month	1-3 months	3-12 months	1-5 Years	Total
	KD '000	KD '000	KD '000	KD '000	KD '000
31 December 2016					
Financial liabilities (undiscounted)					
Long-term borrowings and bonds	**-**	**2,025**	**6,024**	**381,002**	**389,051**
Leasing creditors	**17**	**35**	**155**	**145**	**352**
Accounts payable and other liabilities	**16,262**	**6,691**	**19,393**	**1,052**	**43,398**
Short-term borrowings	**681**	**161,974**	**166,534**	**-**	**329,189**
Due to banks	**21,186**	**-**	**-**	**-**	**21,186**
	38,146	**170,725**	**192,106**	**382,199**	**783,176**

36 Risk management objectives and policies (continued)

36.4 Liquidity risk (continued)

	Up to 1 month	1-3 months	3-12 months	1-5 Years	Total
	KD <000	KD <000	KD <000	KD <000	KD <000
31 December 2015					
Financial liabilities (undiscounted)					
Long-term borrowings	-	2,602	7,584	473,122	483,308
Leasing creditors	22	44	199	424	689
Accounts payable and other liabilities	13,329	9,563	22,365	-	45,257
Short-term borrowings	83,609	72,339	114,055	-	270,003
Due to banks	19,915	-	-	-	19,915
	116,875	84,548	144,203	473,546	819,172

The Group's short term borrowings principally represent revolving facilities with local and foreign banks and financial institutions. During the year 2016, the Group's management has successfully renewed all short term facilities which were classified as falling due within one month and one to three months.

37 Capital risk management

The Group's capital management objectives are to ensure that the Group maintains a strong credit rating and healthy ratios in order to support its business and maximise shareholder value.

The Group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, buy back shares, issue new shares or sell assets to reduce debt.

The capital structure for the Group consists of the following:

	31 Dec. 2016	31 Dec. 2015
	KD '000	KD '000
Long term borrowings and bonds (refer note 27)	**354,019**	437,845
Short term borrowings (refer note 30)	**320,907**	263,190
Due to banks	**21,186**	19,915
	696,112	720,950
Less :		
Murabaha, wakala and sukuk investments	**(1,164)**	(1,000)
Short - term deposits & investments	**(9,224)**	(16,661)
Bank balances and cash	**(33,696)**	(43,383)
Net debt	**652,028**	659,906
Total equity	**497,379**	512,911

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio.

This ratio is calculated as net debt divided by the total equity as follows:

	31 Dec. 2016	31 Dec. 2015
	%	%
Net debt to equity ratio	**131**	129

Notes to the consolidated financial statements (continued)

38 Contingent liabilities

At 31 December 2016, the Group had contingent liabilities in respect of outstanding bank guarantees amounting to KD19,550 thousand (2015: KD20,773 thousand) and other contingencies with regard to pending litigations and tax claims amounting to KD251 thousand (2015: Nil)

39 Fiduciary assets

One of the subsidiaries of the Group manages mutual funds, portfolios on behalf of related and third parties, and maintains securities in fiduciary accounts which are not reflected in the consolidated statement of financial position. Assets under management at 31 December 2016 amounted to KD5,465 thousand (2015: KD4,712 thousand) of which assets managed on behalf of related parties amounted to KD3,175 thousand (2015: KD2,713 thousand).

40 Capital commitments

At the reporting date the Group had commitments for the purchase of investments and the acquisition of property, plant and equipment and investment properties totalling KD53,467 thousand (2015: KD36,481 thousand).

At the reporting date, the Group had commitment to pay lease rentals amounting to KD5,173 thousand (2015: KD5,329 thousand).

41 Dividend distribution

Subject to the requisite consent of the relevant authorities and approval from the general assembly, the Parent Company's Board of Directors propose a cash dividend of Nil (2015: 10%) equivalent to Nil (2015: 10 Fils) per share.

At the Annual General Meeting held on 01 May 2016, the shareholders approved a cash dividend of 10% (2014: 12%) equivalent to 10 Fils (2014: 12 Fils) per share amounting to KD13,251 thousand (2014: KD15,901 thousand) for the year ended 31 December 2015.

42 Comparative information

Certain other comparative figures has been reclassified to conform to the presentation in the current year, and such reclassification does not affect previously reported net assets, net equity and net results for the year or net decrease in cash and cash equivalents.