

# ANNUAL REPORT

Agility Public Warehousing Company K.S.C.P. And Subsidiaries

# 2016









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# Board of Directors

**Henadi Anwar Al-Saleh**  
Chairman

**Tarek Abdulaziz Sultan Al-Essa**  
Vice Chairman

**Ayman Bader Sultan Al-Essa**  
Board Member

**Jameel Sultan Al-Essa**  
Board Member

**Adel Mohammed Al-Bader**  
Board Member

**Faisal Jameel Al-Sultan**  
Board Member

**Naser Mohammed Al-Rashed**  
Board Member

# Vice Chairman and CEO's Message



First, I would like to welcome and thank our valued shareholders on behalf of the board members for your continuous support and the trust you have given us. We would like to go with you through the main achievements of the Company during the financial year of 2016 where Agility reported a net profit of KD 59.1 million, or 51.3 fils per share, an increase of 10.6% over the same period in 2015. Revenue for the year stood at KD 1,234.0 million and EBITDA at KD 115.2 million.

For the fourth quarter 2016, Agility reported a net profit of KD 15.7 million with an earnings-per-share of 13.6 fils, an increase of 9.7% over the same period in 2015. EBITDA for the quarter stood at KD 31.4million an increase of 18.4% over last year.

In view of growing optimism and ongoing progress to date with respect to Agility's 2020 EBIDTA target of USD 800 Million, the Board of Directors is proposing a three pronged distribution recommendation to the Annual General Assembly of the shareholders as follows:

- A cash dividends distribution of 15% (15 fils per share) and,
- A bonus shares distribution of 10% (10 shares for every 100 shares) for the fiscal year 2016, and,
- A share buyback program to increase Agility's treasury share inventory up to 10% of its total share capital, subject to and in compliance with the rules and the regulations set forth by the CMA and other relevant regulatory authorities.

Agility continues to steadily improve its financial performance, with Agility GIL closing the year with an EBITDA improvement of 17.0% and Agility's Infrastructure group showing an EBITDA improvement of 30.1%. Agility generates healthy cash flows, and remains on track to reach its goal of \$800 million in EBITDA by 2020. To reach our target, we are focused on both continuously improving our underlying performance in GIL, while also investing for the future in our Infrastructure companies. Agility is growing its Infrastructure businesses: undertaking a number of major industrial real estate projects in the Middle East and Africa over the course of the next few years, expanding the shipping fleet of its Tristar business, and investing in the Reem mega-mall in Abu Dhabi; having said that, Agility's balance sheet will move towards a net debt position as our Infrastructure companies fund their expansion plan.

Agility Global Integrated Logistics (GIL), the group's revenues decreased by 7.0% to KD 928.4 million over the same period of last year. However, GIL's net revenues grew by 1% on a constant currency basis.

GIL continues to make progress. Profitability is increasing, with EBITDA margins improving from 2.7% in 2015 to 3.5% over the course of 2016. Volumes are growing: air freight tonnage grew by 9.8% and TEUs grew by 9.3%, with better margins in both air and ocean. Our contract logistics business, with more than 20 million square feet of warehousing space across the globe, also grew by 7.4% this year. That said, ongoing pressure on rates, and a Project Logistics business that is impacted by low oil prices and subsequent delays in capital spending, have challenged the top line.

GIL continues to focus on improving operational performance through technology-driven transformation; strengthening commercial performance through its tradelanes program, sales excellence and suite of online solutions, and maintaining cost discipline. GIL is also building its leadership pipeline through talent development programs for executives, regional managers and branch managers.

Moving into Agility's infrastructure group of companies, revenues grew by 1.1% on a reported basis (14.8% on a constant currency basis). On the EBITDA level, this was translated into a 30.1% increase driven mainly by Agility Real Estate and Tristar.

Agility Real Estate continues to be the strongest contributor to Agility's performance. In 2016, Agility Real Estate opened new distribution centres for Dammam,

Saudi Arabia; and opened the first Agility Distribution Park in Ghana, which is fully leased.

Tristar is a fully integrated liquid logistics company serving the downstream oil and gas industry with solutions like surface transport, ocean shipping, dangerous goods warehousing and fuel farm management. The company has a presence in 17 countries spread across the GCC, Africa, Asia Pacific and Central America. Key accomplishments in 2016 included the acquisition of Abu Dhabi based Eshipsand expanding its fleet of ships; commissioning its first polyethylene silo and bagging facility in the Jebel Ali free Zone and expansion of the company's warehousing and logistics infrastructure in Dubai, Abu Dhabi and Oman.

National Aviation Services (NAS) is now present in 12 countries and in more than 30 airports across the Middle East, Africa and South Asia. In 2016, NAS celebrated its one-year anniversary in Cote d'Ivoire, and was awarded an internationally coveted concession for all of Morocco's international airports.

UPAC is one of the leading real estate and facility management companies in Kuwait, with key operations within the Kuwait International Airport, Sheikh Saad Terminal and Discovery Mall. In 2015, UPAC signed a partnership agreement with the National Real Estate Company (NREC) to develop Reem Mall, a planned two-million square foot mega-mall in Abu Dhabi with 450 shops.

#### **Corporate Social Responsibility**

Agility continues to invest in managing its business responsibly and sustainably. Our latest CSR report offers an in-depth insight into our ethics and compliance strategy, community initiatives, sustainability efforts, health and safety program, and fair labor practices. Highlights from the year include:

- Recognition: The independent supplier assessment organization Ecovadis rated Agility within the top 9% for the logistics industry, and top 13% of all industries, when it comes to sustainability. Agility also received four sustainability leadership awards in 2016.
- Environment: Agility continues to provide regular carbon footprint reports of shipments to many of the world's largest corporations, and works closely with customers on reducing cost and emissions in the supply chain. For example, Agility signed a pact line with Maersk Lines to reduce CO<sub>2</sub> emissions in Maersk shipments by 15% by 2020. Agility's ISO certification efforts also proceed, with more than 50% of all employees working in an ISO 14001 certified site.
- Community investments: More than 160 community investments and volunteer activities were carried out in nearly 40 countries this year. Agility also responded

to three natural disasters in Ecuador, Japan and Haiti; donating pro bono logistics services to our humanitarian partners.

- Fair labor: Agility rolled out its fair labor program in Asia, training almost 2500 employees on our human rights commitment. To date, we have trained more than 7,500 employees in the Middle East and Africa.

#### **Dear Value Shareholders,**

Agility starts 2017 with a strong position and confidence in our direction. We have our challenges, however, we also see many opportunities on the horizon, and are investing accordingly. We are making bets on the importance of using technology to better serve customers in GIL, as well as investing to grow our Infrastructure companies exponentially. We are making good progress towards our 2020 target, and want to thank our customers, employees, partners and shareholders for their ongoing support.



**Tarek Abdulaziz Sultan Al-Essa**  
Vice Chairman



1540

530kg  
FCM  
P&G



# Financial Highlights

## Revenues (KD Mln)

2015: 1,303	2016   1,234
2014: 1,357	

## EBITDA (KD Mln)

2015: 100	2016   115
2014: 100	

## Net Income (KD Mln)

2015: 53	2016   59
2014: 51	

## EPS (Fils)

2015: 46.41	2016   51.34
2014: 46.40	

## Total Assets (KD Mln)

2015: 1,462	2016   1,544
2014: 1,452	

## Share holder's Equity (KD Mln)

2015: 907	2016   921
2014: 889	

## Net Cash (KD Mln)

2015: 33	2016   (45)
2014: 60	

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# Social Responsibility and Sustainability

## Sustainability Priorities

### Environment

We measure our impact to keep our business healthy and comply with changing regulations. Our customers want to understand their environmental footprint so we can help them build “greener” supply chains. We offer customers green solutions and engage with all our stakeholders on important environmental issues.



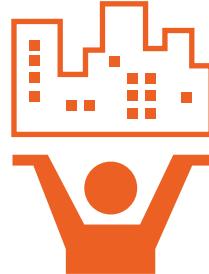
### Community

We can contribute to sustainable development that builds stronger communities, future markets and talent for our business. We focus on youth & education, community health and environment.



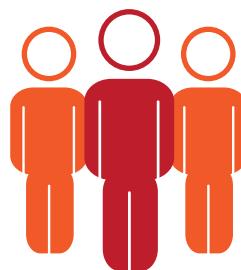
### Humanitarian Assistance

We have the skills, experience, and resources to support humanitarian partners in rapid response emergency logistics after natural disasters. We partner with the World Food Program and UN Global Logistics Cluster to help deliver aid following humanitarian emergencies, and to help communities prepare for disasters.



### Our People

Being responsible starts at home. We employ more than 22,700 people around the world and our stakeholders expect Agility to treat its employees with dignity and fairness. We focus on preventing human rights issues, creating safe work environments, providing training to our team members and offering means for employees to be heard.



## Social Responsibility Projects

### Kuwait

Agility coordinated an educational workshop in partnership with Agility subsidiary LABCO for elementary and middle school students at a local private school. Thirty-five students were taught the importance of making healthy food choices and safely preparing and handling food.



Agility and Fawzia Sultan Rehabilitation Institute (FSRI) organized RunQ8, an annual 10 km charity race, for the sixth year in a row to raise public awareness on health issues affecting communities in Kuwait. Since 2013, RunQ8 proceeds have helped support the Children's Evaluation and Rehabilitation Center (CERC), which serves children with disabilities who need special support and who do not have access to appropriate healthcare. Over the years, these funds have helped provide essential healthcare for 20% of young patients completely free of charge. In addition, Agility's subsidiary, the Metal & Recycling Company (MRC), ensured that RunQ8 was an environment environmentally friendly event by providing recycling bins and collecting all the plastic waste generated from the water consumed by the participants during the race.

Since its inception in 2005, Agility has partnered with INJAZ-Kuwait. INJAZ is a nonprofit, non-governmental organization (NGO) driven by Kuwait's private sector. Through strategic partnerships with Kuwait's business and education sectors, and with the help of qualified and dedicated volunteers, INJAZ delivers educational programs on entrepreneurial and leadership skills aimed at inspiring and educating future generations. Through Agility's partnership, INJAZ has helped mentor close to 200 students through various education programs. Some of the conducted programs include innovation camps, job shadow workshops, personal finance workshops, steer your career seminars, and entrepreneurship master classes.



Agility launched a "Warm Winter" collection drive in partnership with the Kuwait Red Crescent Society to raise funds to purchase blankets for Syrian refugees in Jordan, Lebanon, Egypt, Iraq and Turkey. The Agility Kuwait employees generously supported the warm winter campaign with their contributions while encouraging their family members and friends to also contribute to this important cause. Total donations collected were matched by the company.

Agility volunteers partnered with LoYAC, a local youth development organization, in its Homes program to support underprivileged families in Kuwait. The program helps completely renovate the homes of lower income families living in Kuwait. Over the course of two weeks, Agility volunteers renewed the house's structure, repainted the interior and exterior of the home, replaced the flooring and tiles, and refurnished the house to more comfortably accommodate the 19 individuals living there. Agility is a sponsor of LoYAC, a local non-profit organization that promotes youth development and education in Kuwait.



In support of Agility's eighth annual Global Education Drive, Agility Kuwait employees organized several activities to raise funds and supplies for underprivileged students. Agility, along with its subsidiary UPAC, collected funds and school supplies that benefitted over 100 students. Each student received a backpack, school notebooks, and stationary. In addition, Agility also raised funds to support the tuition fees for Syrian refugee students. The activities were organized with two local charity partners, Yameenik Q8, a charity that works towards helping lower income families in Kuwait, and the Al-Najat charity organization.

Agility hosted over 150 students from a local school for an educational workshop about the importance of chemicals safety both at home and at school. Agility chemicals safety experts introduced and identified the different classes of chemicals to the students and educated them on the various safety measures that should be taken to avoid any hazardous effects. The workshop also highlighted the importance of preserving the environment through careful handling and storage of harmful materials.



Agility Kuwait and Kuwait Healthy Living, a non-profit organization that aims to enhance the quality of life in Kuwait, conducted a two-month campaign that promoted sustainable community gardening and healthy eating among primary school students at the Fatima Al Misbah Public School in Shaab. Twenty primary students were taught the benefits of community gardening, including cooperation and collaboration, and the importance of health and wellness. Following the first session, each student received a tomato seedling that they planted in their school garden with help from Henadi Al Saleh, Agility's Chairperson. The students were also taught the importance of a well-rounded diet through activities like healthy eating pledges and information about the food pyramid and different food groups. The final session included the children using the tomatoes grown by them to make healthy sauce with help from a Kuwait Healthy Living chef at the Dasman Diabetes Institute.

Agility was a platinum sponsor of the "Teswa Nahmiha" campaign to raise public awareness about Kuwait's new environmental laws. Through its sponsorship, Agility supported the EPA in several events throughout 2016, which included beach cleanups, plastics recycling, and awareness raising workshops about water conservation, waste and general environmental preservation.



## Non-Kuwait Projects



As part of the Logistics Emergency Teams (LETs), Agility donated 2,000 sqm of warehouse for two months to store emergency food assistance for 750,000 people displaced by Hurricane Mathew in Haiti. In addition, a team of 11 experienced Agility logisticians flew into Haiti to support the relief efforts on the ground. The LETs initiative was launched in Davos in 2008 under the auspices of the World Economic Forum. It is designed to allow the humanitarian community to make a single phone call to obtain access to the combined and coordinated services of four major logistics corporations. As a part of the LETs, Agility has also supported humanitarian relief efforts following natural disasters in Japan, Pakistan, Haiti, Philippines, Myanmar, and the Philippines. They have also been deployed to Indonesia, Nigeria, Kuwait, and Turkey to assist humanitarians in preparing staging areas for regional disaster operations.

in Japan, Pakistan, Haiti, Philippines, Myanmar, and the Philippines. They have also been deployed to Indonesia, Nigeria, Kuwait, and Turkey to assist humanitarians in preparing staging areas for regional disaster operations.



Agility launched a global fundraising campaign to raise funds to support the United Nations High Commissioner for Refugees (UNHCR). The proceeds from this project went towards a cash transfer program for Syrian refugees living in Jordan. Almost 300 Syrian refugee families in Jordan were supported through this campaign.



The Agility India team spent some time with a local school and distributed notebooks and school supplies to over 900 underprivileged students. In addition, Agility has also helped fund a night school that has helped educate over 300 students. Local Agility team members also volunteer as tutors to help teach these students important IT skills.

Over the last decade, Agility USA has raised over USD\$3.3 million for disabled veterans. Since 2008, Agility USA has organized the Paralyzed Veterans Golf Open to benefit Paralyzed Veterans of America (PVA). Donations are used to help disabled veterans pursue meaningful careers. PVA uses the funds to provide free, one-on-one counseling and support to any veteran, family member or caregiver. It also offers assistance to employers committed to hiring veterans.



Agility Turkey employees initiated a campaign to help raise awareness on environmental preservation amongst local primary school students. In addition, new water taps were installed to upgrade school facilities in order to improve resource consumption. The Agility volunteers also delivered lectures to over 700 students to highlight different ways to improve resource consumption and save water.

**Earth Day:** Our Earth Day program saw more than 2,000 employees volunteer around the world to protect our environment. Employees completed 48 green projects in 18 countries. These projects ranged from tree plantings, chemical safety workshops, recycling, community clean-up events, and fundraising for ecological causes.



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# Corporate Governance Report

## Introduction

Agility complies with all the rules and regulations of corporate governance outlined in Module 15 (Corporate Governance) of resolution No. (72) for the year 2015 on the issuance of law No. (7) for the year 2010 on the establishment of the Capital Markets Authority and the regulation of securities activities. The compliance also supports the aspirations of the company's business and ensures professionalism, responsibility, and control over their performance as those rules are an important part of the company's identity. The company adopts all the institutional and discipline standards outlined in the Corporate Governance Module, which includes the functions and the roles of the Board of Directors, the chairman and the Chief Executive Officer, the competent committees, as well as the disclosure frameworks and proper standards of proper and sound risk management.

The company implements policies on many levels and functions. For example, the separation of the Chairman position from the Chief Executive Officer as outlined in the corporate governance standards. Moreover, the company has also outlined the responsibilities of the Board of Directors and their ability to oversee the company's internal control system and ensure its efficiency. The company also adopted a clear policy for disclosures and its communication with shareholders.

The Board of Directors play a key role in ensuring the company follows a sound Corporate Governance framework, and they are also responsible for the performance of the company with compliance to its articles of association.

The Board of Directors has formed three committees, the Risk Committee, Audit Committee and Nominations and Remunerations Committee to support it in performing its duties and responsibilities, in addition to the internal and external auditors and the executive management of the company.

## Corporate Governance Rules and Regulations

### Rule I: Construct a Balanced Board

#### Board Composition

The Board of Directors aims to represent the interests of all stakeholders and monitor the performance of the executive management. The Board of Directors also seeks to achieve the company's strategic goals by ensuring that the executive management is meeting its responsibilities. Moreover, the Board of Directors works to enhance the competitiveness of the company to achieve high growth rates.

The company has constructed a balanced board that takes into account its business structure and size. The members of the board are of diverse backgrounds and expertise to ensure and enhance company's performance, financial position, and market share.

The Board of Directors consists of seven members, including one independent member and a majority non-executive directors. The company makes sure that the Board of Directors has sufficient time to do all that is required of them, such as preparation and active participation in the meetings, the formation of committees, and attendance of committee meetings all in accordance to the regulations of Corporate Governance.

The company was also keen to construct a board of members with diverse backgrounds and experience in their respective fields.

Name	Position	Type	Background	Date of appointment
Henadi Al Saleh	Chairman	Executive	Bachelor in Economics	25 May 2016
Tarek Al Sultan	Vice Chairman	Executive	Masters in Business Administration	25 May 2016
Jameel Al Sultan	Member	Non-Executive	Bachelor in Electrical Engineering	25 May 2016
Adel Al Bader	Member	Non-Executive	Bachelor in Economics and Finance	25 May 2016
Ayman Al Sultan	Member	Non-Executive	Masters in Business Administration	25 May 2016
Naser Al Rashed	Member	Independent	Bachelor in Engineering	25 May 2016
Faisal Al Sultan	Member	Non-Executive	Bachelor in Management	25 May 2016
Sonia Al Sharafi	Board Secretary	Board Secretary	15 years' experience	25 May 2016

### Summary of registering, coordinating, and archiving the board's minutes of meetings:

The Board of Directors appointed a board secretary to assist the chairman on all matters related to the Board and Committees. The board secretary also helps board members get the required information and documents they might seek about the company.

The secretary shall also be responsible for organizing the meetings of the board and committees, including preparing of the agenda, issuing of invitations, taking minutes of discussions and tallying results of the votes. The secretary shall also ensure that board members are notified of the meetings at least three days prior. The secretary archives the minutes of meetings and numbers the minutes accordingly, noting the date, place, and the time of the meeting. The secretary also ensures proper communication between the board members and company's stakeholders.

Name	Meeting record							Attendance	Absence
	2016/3/24	2016/5/8	2016/5/22	2016/6/24	2016/8/7	2016/11/10	2016/12/14		
<b>Henadi Al Saleh</b> Chairman	√	√	√	√	√	√	√	7/7	0
<b>Tarek Sultan</b> Vice chairman	√	√	√	√	√	√	√	7/7	0
<b>Adel Al Bader</b>	√	√	√	√	√	√	√	7/7	0
<b>Jamil Sultan</b>	X	X	√	√	√	X	X	3/7	4/7
<b>Naser Al Rashed</b>	√	√	√	√	√	√	√	7/7	0
<b>Ayman Sultan</b>	√	X	√	√	√	√	√	6/7	1/7
<b>Issam Refaei</b>	√	√	New board was elected					2/2	0
<b>Faisal Al-Sultan</b>	Appointed as NREC representative					√	√	2/2	0

### Rule II: Establish Appropriate Roles and Responsibilities

In 2016, Agility's Board of Directors exercised its oversight to ensure that the company complied and enforced all Corporate Governance requirements as set by the Capital Market Authority. The Board of Directors also approved a Board Charter that outlines the roles and responsibilities of the board members, the chairman and executive management in line with the rules and regulations of Corporate Governance. This includes:

#### Roles and responsibilities of the Board of Directors:

- Approving the company's major goals, strategies, plans and policies.
- Acknowledging annual estimated budgets and approving period and annual financial information.
- Supervising company main capital charges, assets ownership and disposal of the same.
- Safeguarding accuracy and validity of data and information to be disclosed in accordance with applicable disclosure regulation.
- Ensuring the company's commitment with policies and procedures that procure the company's compliance with internal applicable rules and regulations.
- Ensuring validity of financial and accounting systems, including those related to financial reporting preparation.
- Preparing annual Corporate Governance report to be cited in the Annual General Assembly for the company.
- Forming special committees with clear roles and responsibilities. The company has established an Audit Committee, Risk Committee and Nominations and Remunerations Committee.
- Preparing and approving job descriptions that portray the roles and responsibilities of each member of the Board of Directors.
- Defining the authority and scope of work of the executive management.
- Holding periodic meetings with executive management to discuss work issues and challenges.
- Evaluating the performance of each member of the Board of Directors and Executive Management based on preapproved Key Performance Indicators (KPIs).
- Supervising and monitoring the performance of the executive management, and ensuring the application of approved policies and regulations.
- Setting a policy for regulating the relationship with stakeholders and related parties.
- Pursuing the application of sound audit rules for risk measurement and management.

### **Roles and responsibilities of the Board Chairman:**

- Ensuring effective board discussion of all major matters in timely manner.
- Encouraging all members of the Board of Directors contribution fully and effectively to board affairs management.
- Representing the company before third parties in accordance with the company's articles of association.
- Procuring practical communication with shareholders and refer their views to the board.
- Encouraging constructive relations and effective cooperation between the Board of Directors and executive management.
- Encouraging a culture of constructive criticism.

### **Roles and responsibilities of the Executive Management:**

The company has a team of qualified executive management members able to carry out the Corporate Governance policy and meet obligations under that policy. Responsibilities of executive management include:

- Executing of company strategic plans and their related policies in accordance with internal rules, as well as ensuring efficiency and sufficiency of the same.
- Preparing periodic reports (financial and non-financial) concerning the company's activity.
- Establishing a complete and integrated accounting system and preparing financial statements in accordance with international accounting standards approved by the Authority.
- Managing daily work and activity, in addition to managing company resources optimally.
- Participating effectively in creation of an ethical-values culture in the company.
- Establishing internal audit and risk management systems and ensuring efficiency and sufficiency.

### **Board Committees**

Formation of different committees is part of the Board's responsibilities. The committees enable the Board to fulfill its roles, in accordance with the company's needs and work conditions. The Board of Directors has formed committees in accordance to the rules and regulations of the Corporate Governance policy as laid out by the Capital Markets Authority. The Board Committees include:

- Audit Committee
- Risk Committee
- Nominations and Remunerations Committee

#### **Audit Committee:**

<b>Formed:24 June 2016</b>	<b>Period: 3 years</b>	<b>Members: 3</b>
<b>Members</b>	<b>Role</b>	<b>Classification</b>
Naser Al Rashed	Chairman	Independent
Adel Al Bader	Member	Non-executive
Faisal Al Sultan	Member	Non-executive

### **Roles and responsibilities**

- Review periodical financial statements prior to their submission to the Board of Directors and provide the Board with opinions and recommendations concerning them in order to ensure fairness and transparency of financial statements.
- Study accounting issues and their impact on financial statements.
- Evaluate the sufficiency of internal audit systems, and prepare a report including opinions and recommendations of the committee in this regard.
- Review the results of the internal audit and regulatory bodies' reports.
- Review the work of the external auditor.

### **The committee has met 2 times during 2016, and attendance was as follows:**

Naser Al Rashed: 2 / 2

Adel Al Bader: 2 / 2

Faisal Sultan: 1 / 2

**Committee main achievements in 2016:**

- 1- Established an internal audit department and monitored its performance.
- 2- Reviewed internal audit department reports.
- 3- Reviewed quarterly financials before submitting them to the board.
- 4- Reviewed accounting policies.

**Risk Committee:**

<b>Formed:24 June 2016</b>	<b>Period: 3 years</b>	<b>Members: 3</b>
<b>Members</b>	<b>Role</b>	<b>Classification</b>
Naser Al Rashed	Chairman	Independent
Adel Al Bader	Member	Non-executive
Tarek Al Sultan	Member	Executive

**Roles and responsibilities:**

- Prepare and review risk management strategies and policies prior to getting them approved by the Board of Directors and verifying application of such strategies and policies in a manner appropriate to the company's nature and level of activities.
- Ensure provision of resources and systems sufficient for risk management.
- Verify that the risk management employees fully understand the risks confronting the company and raising awareness of employees concerning risk.

**The committee has met 2 times during 2016, and attendance was as follows:**

Naser Al Rashed: 2 / 2

Adel Al Bader: 2 / 2

Faisal Sultan: 2 / 2

**Committee main achievements in 2016:**

- 1- Assigned the risk-management function to an external advisor.
- 2- Approved the policy, strategy and action plan of the risk-management function.

**Nominations and Remunerations Committee:**

<b>Formed:14 December 2016</b>	<b>Period: 3 years</b>	<b>Members: 3</b>
<b>Members</b>	<b>Role</b>	<b>Classification</b>
Faisal Al Sultan	Chairman	Non-executive
Naser Al Rashed	Member	Independent
Tarek Al Sultan	Member	Executive

**Roles and responsibilities:**

- Recommending nominations and re-nomination acceptance for members of the Board of Directors and executive management members.
- Setting policy for members of the Board of Directors and executive management members' remuneration.
- Conducting annual review of the required proper skills needed for Board membership.

**The committee met once during 2016, and attendance was as follows:**

Naser Al Rashed: 1 / 1

Adel Al Bader: 1 / 1

Faisal Sultan: 1 / 1

**Committee main achievements in 2016:**

The committee was appointed towards the end of 2016. It began carrying out its responsibilities in January 2017.

**Summary of how to apply the requirements that allow board members to obtain information and data accurately and in a timely manner**

The board secretary ensures effective communication of information to and between members of the Board of Directors. The company has an advanced information infrastructure that ensures proper communication between the members of the Board in accordance with relevant laws. During board meetings, the Board of Directors has the right to access any information related to the company.

To facilitate the supervisory role of the board, the executive management provides the board with reports on company performance and certain KPIs set by the board to measure that performance.

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

Board members' biographies:

#### **Henadi Al Saleh**

Henadi Anwar Al-Saleh is Chair of the Board in Agility. As part of her role, Al-Saleh oversees the company's Corporate Governance program, while safeguarding the interests of investors and stakeholders.

Al-Saleh joined Agility in 2007 and has a strong track record of global executive experience, including leadership roles in financial planning and investor relations. Before joining Agility, Al-Saleh was the head of debt/equity capital markets at NBK Capital in Kuwait. She also sits on the board of the Gulf Warehousing Company in Qatar.

Al-Saleh earned a Bachelor's in Economics from Tufts University.

#### **Tarek Sultan**

Tarek Sultan is the Chief Executive Officer and Vice Chairman of Agility, one of the world's leading providers of integrated logistics. It is a publicly traded company with more than \$4 billion in annual revenue, 22,000 employees, and offices in more than 100 countries.

Mr. Sultan assumed leadership of Agility in 1997, spearheading the company's expansion from a local Kuwaiti company into a business that has been described as a "global challenger" by the Boston Consulting Group and designated a 3PL industry leader by Gartner. Agility today has a market-leading position in the Middle East and Asia, and a strong and growing presence in Latin America and Africa.

Mr. Sultan holds an MBA from the Wharton School at the University of Pennsylvania and Bachelors in Economics from Williams College. Before joining Agility, he served as the Managing Director of New York Associates, a Middle East investment banking firm, and an associate with Southport Partners, a U.S.-based corporate finance advisory firm specializing in the technology sector.

#### **Adel Al-Bader**

Adel Mohamed Al-Bader is the Manager of the Real Estate Department at PIFSS, responsible for international and local real estate investments. He is a member of the Investment Committee of PIFSS.

He joined PIFSS in 1985. During the past 30 years, he has held responsible positions and previously managed International Equities and Commodities for PIFSS.

Other positions currently held by Adel in Kuwait are Chairman, Wafra Real Estate Company, and Vice Chairman, Kuwait Medical City Company.

Adel, a Kuwait citizen, is an honors graduate from Kuwait University, majoring in economics and finance.

#### **Jamil Al-Essa**

Jamil Sultan Al-Essa is Vice Chairman of National Real Estate Company (NREC), a pioneer in real estate investment and development with a presence in the Middle East and Africa.

Under his leadership, NREC became the leading real estate developer in Kuwait. The company focuses on diverse projects and solutions in real estate development, property investment and free zone management, and has considerable international project development experience.

Al-Essa was the Founder and Managing Director of The Sultan Center (TSC), Kuwait's largest independent retailer and leading supplier of supermarket items, perishables, and general merchandise in the Middle East. He was instrumental in turning TSC into a highly reputable retail company that redefined and set the standard for customer service in the industry.

Al-Essa's illustrious career included chairmanship roles in the Packaging and Plastics Industries Company, Al-Ahlia Investment Company, and the Kuwait Free Trade Zone.

Al-Essa holds a bachelor's degree in electrical engineering from New Mexico University, USA.

### **Ayman Sultan**

Ayman Sultan is the Managing Director of Security and Technical Services Group (STSG) and Sultan Telecom, subsidiaries of The Sultan Center (TSC). Prior to that he was the Chairman of the Board of TSC, a leading retailer in the Gulf and Middle East.

Under his leadership, Ayman transformed TSC from a local Kuwaiti supermarket chain of five stores and US\$70 million in sales to a regional player with 84 stores in five countries with US\$1 billion in sales and more than 10,000 employees. He was also responsible for turning TSC into a conglomerate with companies in the telecommunication, real estate, restaurant, investment, technical services, and distribution industries.

Prior to his current role in TSC, Ayman was the General Manager of Kuwait Free Trade Zone where he oversaw the establishment of the first privately-run free trade zone in the region.

Ayman holds a Masters in Business Administration from Babson College and a Bachelor of Arts in Economics from The Northeastern University in Boston, USA.

### **Faisal Sultan**

Mr. Sultan is the Chairman of Kuwait-based National Real Estate Company K.S.C.P. , one of the leading publicly traded real estate companies in the Middle East with more than \$2 billion in assets under management and projects and offices in more than 10 countries.

Before becoming Chairman, Mr. Sultan served NREC by leading its business development function and as a board member, chairman and MD of various subsidiary organizations.

He is also Vice Chairman and CEO of Kuwait Agro Holding, one of the leading fruits and vegetable, poultry and dairy companies in the Middle East.

A graduate of US-based Barry University with a degree in management, Mr. Sultan is an active member of the Young President Organization in Kuwait and the UAE.

### **Nasser Al-Rashed**

Nasser Mohammed Al-Rashed is Chairman of Aswaq Trading Company, a leading privately held retailer in Kuwait that carries successful in-house brands. Under his leadership, Al-Rashed established the company as a reputable retailer that offers high quality fashion brands to the Kuwait and Middle East markets.

Al-Rashed has strong management experience in both public and private sectors, with previous senior roles in the Civil Aviation Authority and the Kuwait Fund for Arab Economic Development. He also served as a director in several boards of publicly listed companies in Kuwait.

Prior to his current role in Aswaq Trading Company, he was with the Public Warehousing Company where he held positions of increasing responsibility, serving as its Deputy General Manager, Managing Director, and Chairman.

Al-Rashed holds a Bachelor of Science in Engineering from Purdue University, USA, and an MBA from the University of Santa Clara, USA.

### **Nominations and Remunerations Committee**

The Board of Directors has formed the Nomination and Remuneration Committee according to what was outlined in article 41- of the Corporate Governance module, which includes the initiation of an independent committee member and the adoption of a business charter for the committee with certain roles and responsibilities.

**The committee has the following responsibilities:**

- Recommending nomination and accepting re-nomination for members of the Board of Directors and executive management.
- Setting policy for members of the Board of Directors and executive management members' remuneration, along with annual review of the required skills needed for Board membership.
- Preparing detailed annual report of all remuneration given to members of the Board of Directors and executive management members.
- Designing job descriptions for executive members and non-executive members of the Board of Directors, including independent members.

The Company is committed to high level of transparency and inline with advanced common practices and corporate governance regulation, the company has prepared a report presenting all the benefits awarded to the members of the board and the executive management as follows:

**Board of Directors Remuneration**

Board remuneration is approved by the shareholders during the General Assembly Meeting and as recommended by the Board Nominations and Remunerations Committee. As stipulated by the Articles of Associations of the company, board remuneration should not exceed 10% of the company's net profits after deducting depreciation and reserves. Total board remuneration for the year 2016 was 140 thousand Kuwaiti dinars, equally distributed between all members. The board also received other benefits equal to 350 thousand Kuwaiti dinars, based on the recommendation of the Nominations and Remunerations Committee and linked to certain assignments and tasks.

**Executive Management Remuneration**

Executive management remuneration consists of two components. The first component is fixed compensation based on the level of responsibilities. The second component is variable remuneration linked to the achievement of previously established targets. Both types of compensation are reviewed by the relative departments and the Nominations and Remunerations Committee on an annual basis. The total remuneration given to executive management for the year 2016 is as follows:

Category	Fixed remuneration KD 000	Variable Remuneration KD 000	Total KD 000
Executive management	1,611	1,950	3,561

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

**Financial statements and external auditors**

The Board of Directors and executive management provide a written undertaking affirming the soundness of financial statements and affirming that they have been prepared in line with international standards approved by the Authority. Moreover, those financials represent all financial and operational aspects of the company.

**Financial Reports:**

The company issues a set of financial reports on a regular basis, and they include:

- Periodic and annual financial information
- Earnings reports
- Annual reports

**Audit Committee**

The Audit Committee is considered one of the main features in applying of sound corporate governance because the committee works to incorporate the culture of accountability inside the company by ensuring the soundness and integrity of financial reporting of the company.

The Board of Directors appointed an Audit Committee in 2016 according to the regulations in Article 56- of the Corporate Governance Module 15. The Audit Committee consists of three non-executive members including an independent member, who have diverse backgrounds consistent with the nature of the company's activity. Moreover, among the members of the committee there is a member of educational qualification and practical experience in accounting and financial fields. The Board of Directors set out the powers, responsibilities, and membership of the committee in its charter, which was approved

by the board. No contradictory views were noticed between the committee's recommendations and Board of Directors' resolutions. The committee meets four times during the year on a quarterly basis.

#### **Audit Committee responsibilities:**

The Audit Committee has many regulatory functions in the company such as:

- Review periodic financial statements prior to their submission to the Board of Directors.
- Provide the Board of Directors with recommendations concerning the appointment, re-appointment, or replacement of the external auditors, and specify their remuneration.
- Follow up the work of the external auditors.
- Evaluate the sufficiency of internal audit systems, and prepare reports and recommendations.
- Review the results of the internal audit reports.
- Review the outcome of regulatory bodies' reports.
- Verify company compliance with related rules, policies and regulations.

#### **With regard to the external auditor, the Audit Committee works to:**

- Provide the Board of Directors with its recommendations concerning the appointment and re-appointment of the external auditor, as well as, specify the appropriate remuneration. Moreover, the Audit Committee should ensure that the auditor is registered and listed in the Authority's external auditors register i.e., fulfilling all the required provisions stated in the Authority's resolution concerning the registration of external auditors.
- To verify the independence of the external auditor periodically before his appointment or reappointment. To verify that the external auditor is not tasked to work any additional tasks that aren't required and that might affect his or her independence, as required by the auditing profession.

Based on the above the Audit Committee has recommended to the board the reappointment of the company's external auditors, Ernst & Young-Al Usaimi and Partners and RSM-Al Bazei and Partners to be presented to the AGM for approval in line with the CMA requirements.

## **Rule V**

#### **Apply Sound Systems of Risk Management and Internal Audit**

The company has appointed an external consultant to carry out its risk management responsibilities by identifying and measuring the risks facing the company and gauging its risk appetite. The consultant has identified adequate internal control systems for the activity of the company and the nature of its work and core functions. The consultant has worked to develop and improve the periodic report systems in order to help the company perform its core functions. Officials of the risk department/ office unit shall be independent, answering directly to the Board of Directors. The risk department/ office / unit is staffed with qualified professionals who possess the required technical capabilities.

#### **Risk Management Committee**

The Board of Directors has formed a Risk Management Committee according to the corporate governance regulations as outlined in Article 64- of Module 15. The committee consists of three members from the Board of Directors including one executive member, an independent member and is chaired by non-executive member.

#### **The Risk Management Committee has a number of responsibilities:**

- Prepare and review risk management strategies and policies prior to getting them approved by the Board of Directors; verifying application of such strategies and policies; and ensuring that they are appropriate to the company's nature and level of activities.
- Verify independence of the risk management employees from activities that subject the company to risks.
- Review the organizational structure of risk management and provide recommendations in this regard prior to the approval by the Board of Directors.
- Prepare periodic reports concerning the nature of risks facing the company and submit such reports to the Board of Directors.
- Assist the Board of Directors in identifying and evaluating the company's acceptable risk level, and ensuring that the company does not exceed the set level after its approval by the Board of Directors.

### **Summary of the sufficiency of company Systems of Control and Internal Audit:**

The company has systems of control and internal audit that cover all of its activities. The systems of internal audit maintain the company's financial soundness, data accuracy, and operations effectiveness in various aspects, provided that internal principles of the internal control of the dual audit (Four Eyes Principles) is considered in the organizational structure, which are:

- 1- Sound identification of authorities and powers.
- 2- Entire separation of roles and elimination of conflicts of interest.
- 3- Inspection and dual audit.
- 4- Dual signature.
- 5- The existence of policies and procedures.
- 6- IT systems (e-forms approval process) for separation of duty.
- 7- IT systems for security (next generation firewalls, network intrusion detection systems, Unified Threat Management (UTM) Appliances, Trend Micro Antivirus.)

The company has hired an independent company (Deloitte) to evaluate and review the internal audit systems and prepare a report in this regard (Internal Control Report) to be presented to the Capital Markets Authority.

The company will hire another auditing firm to revise and evaluate the internal audit department/office/ unit periodically every three years.

### **Internal Audit**

Internal Audit Department is an established department that enjoys full technical independence by reporting directly to the Board of Directors. The department has a business plan that incorporates an audit of all the departments and sectors of the company to make sure the policies and procedures are followed. The department also creates internal audit reports that incorporate its recommendations and are to be presented to the internal audit committee. Moreover, the department also examines risk factors and the current systems to evaluate the efficiency of the company's daily operations and ability to encounter the unforeseen market changes. Furthermore, the department evaluates performance of the executive management in applying internal audit systems.

## **Rule VI**

### **Promote Code of Conduct and Ethical Standards**

The company, represented by the Board of Directors and executive management and its employees, believes that the professional and ethical standards are of the most important aspect in the company's success. Upon this belief, the company complies with the approved policies of the Board of Directors in regards to professional and ethical standards in the company. The policies stipulate that in the case of violation, the responsibility of reporting is on every employee without exception. The policies touch upon other important aspects, such as the relationship with related parties and the integrity of financial data, as well as the safety of information and the environment. The Board of Directors, executive management, and employees are required to follow these policies in all of their job functions and duties.

### **Summary of the policies and mechanisms to reduce the conflicts of interest:**

During 2016, the Board of Directors approved a policy for conflicts of interest. The policy stipulates appropriate procedures to follow in the case of a material conflict of interest. It also verifies that the Board of Directors is appropriately dealing with expected and potential conflicts of interest. Moreover, it outlines that all decisions are to be taken in the interest of the company. The policy is an integral part of the full compliance of the company to the principles of integrity and fairness in dealing with stakeholders. The policy defines conflicts of interest, outlines the principles for dealing with and managing conflicts of interest and establishes parties that could have conflicts of interest. The policy also articulates the roles of the Board of Directors, executive management, the internal audit department, and the company's general assembly in the case of a conflict of interest. The policy sets out the disclosure mechanisms and procedures for dealing with conflicts of interest.

## **Rule VII**

### **Ensure Timely and High-Quality Disclosures and Transparency**

#### **Summary of applying disclosure mechanisms that are accurate and transparent:**

Disclosures are meant to outline material information (financial and non-financial) that concern investors and stakeholders. Disclosures are released regularly (specific financial periods) or immediately when a significant event happens to ensure that all related parties receive the news of the events and so that no party is able to exploit the information.

The company is committed to a work environment that is transparent and in accordance with the best corporate governance rules, and in compliance with the instructions of regulatory authorities. The company has approved a detailed policy related to disclosures and transparency that outlines material information that requires disclosures. Detailed disclosures are considered essential to following a company's business and for evaluating its performance. Disclosures contribute to the understanding of the shareholders and investors towards the structures, activities, and processes applied by the company in regards to ethical standards.

The policy outlines all kinds of disclosures related to the company. The purpose of the policy is to outline the recommendations to the disclosure department in the company in order to carry out its operations effectively and efficiently. The company has prepared a special document that illustrates all the periodic reports and records that are related to regulatory bodies.

#### **Brief on the application of the disclosures record and its requirements:**

The company has created a record of disclosures of the members of Board of Directors and executive management that is available to all shareholders. The company updates the record on a regular basis. The disclosures report includes ownership percentages and the trades of the company in addition to all decisions and commitments according to the executive bylaws outlined by the Capital Markets Authority. All shareholders are entitled to access this record without any fee or charge.

#### **A brief summary on the requirements to form the investor relations department:**

The company has an Investor Relations department that is responsible for providing all the necessary data, information, and reports that are necessary for its investors. The department is appropriately independent, being able to provide whatever information or data necessary in detail and at the right time, through its disclosures and company website. The website includes the department's contact information.

#### **Brief on the development of a basic structure of IT systems that are required the disclosures**

The company has developed an advanced IT system that is used for its financial and nonfinancial activities. The company's financial, human resource, and legal departments have a unique IT system between them, in addition to a program that was created by the IT department to identify and segregate duties.

The company has also developed a frequently updated website that efficiently displays all appropriate data, information, and disclosures of its activities that help shareholders and investors exercise their rights and evaluate the company's performance.

## **Rule VIII**

### **Respect the Rights of Shareholders**

#### **Summary on applying the requirements of identifying and protecting the general rights of shareholders to ensure the fairness and equality:**

A sound governance system ensures that all shareholder are treated with fairness and equality. The company strives to treat all shareholders equally and discloses all information necessary according to the regulations of the Capital Markets Authority executive bylaws. The company seeks to achieve the highest level of transparency, accountability, and effective management through the application of efficient strategies, objectives, and policies in compliance with the regulatory and ethical responsibilities.

The company's Articles of Association and internal policies include the required procedures to deal with shareholders in a manner that achieves fairness and equality inline with the applicable laws, regulations, resolutions and instructions issued in this regard.

#### **In adopting general rights for shareholders, the company will:**

- List the ownership value in company's records.
- Dispose of shares, including registration and transfer of ownership.
- Entitled for the decided share in dividends.
- Entitled to a share in company assets in case of liquidation.
- Grant access to data and information about company activity, including operational and investment strategies.
- Allow participation in meetings of the shareholders' General Assembly and votes on the resolutions thereof.
- Participate in elections of members of the Board of Directors.
- Watch the performance of the company, in general, and the Board of Directors, in particular.
- Take steps to enable shareholders to hold the members of the Board of Directors and executive management accountable if they fail to meet roles entrusted thereto.

Moreover, the company strives to strengthen its communication with its investors and financial analysts. The company is committed to transparency in providing its financial information through various communication channels in accordance to the best professional practices of disclosures and transparency.

**Summary on creating and retaining a special record from the Clearing Agency to include the requirements of monitoring shareholder data:**

For purposes of ongoing monitoring of all matters related to shareholders' data, the company created and maintained a special record at the Kuwait Clearing Company (KCC), containing all the necessary information related to shareholders. The KCC updates this record on a regular basis. The data is maintained with the highest degree of protection and confidentiality.

**Brief on how to encourage the shareholders to participate and vote in the company's general assembly meetings:**

The articles of association include all shareholder rights with regard to the general meetings and attendance of the general assembly meeting. The articles also include the work agenda, voting rights, and voting procedures of the general shareholder meetings as well as participation. The company has developed a policy for the protection of shareholders' rights.

## Rule IX

### Recognize the Roles of Stakeholders

**Brief on the conditions and policies that ensure the protection of the rights of stakeholders:**

The company works to respect and protect the rights of stakeholders in all their dealings, whether internally or externally, as contributions of stakeholders are important in establishing company competitiveness and in supporting the levels of its profitability. In order to prevent conflicts of interest between dealings of stakeholders, whether they are agreements, or transactions with the company, and the interest of shareholders, the following is considered:

- Stakeholders shall have equal treatment when dealing with agreements and transactions that one part of company's usual activities.
- The company shall develop policies and procedures including a clear mechanism of awarding agreements and transactions of various types.

**The company has also approved the following policies:**

- Stakeholder Rights Protection policy
- Conflict of Interest policy

**Brief on how to encourage Stakeholders to keep track of the company' various activities:**

The company has developed a policy to ensure the acknowledgement and protection of the rights of stakeholders through various rules and measures. Furthermore, in the case of any breach of the rights, it allows them to have access to appropriate compensation, as set forth by the laws issued in this regard. The policy is available for stakeholders in order to help them understand their rights and obligations. The policy also sheds some light on how to provide stakeholders access to all necessary information and data related to their activities.

**The company policy includes:**

- Mechanisms of compensating stakeholders if the rights are breached.
- Mechanisms that show how the company establishes good relationships with the clients and suppliers and keeps confidentiality of the related information.
- Mechanisms of settlement of complaints or disputes, which may arise between a company and stakeholders.

The company also maintains a complaints mechanism section on its website. It is reviewed by the Compliance Department in order to take appropriate action.

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

**Summary on the development of mechanisms that allow the board members and executive management to attend training programs and courses regularly:**

Continuous training of the board members and executive management is a cornerstone of good governance rules and enhances the company's performance.

The company has a clear policy that allows executive management members access to training programs, internally and externally, on a regular basis. As for the board members, they are encouraged to regularly attend events and conferences to help them be up to date with the company's business and standing. These programs are meant to inform the board members and executive management and keep them up to date with all regulations and their impact on the company's business.

**Brief on the evaluating the performance of the Board of Directors as a whole as well as the performance of each board member and executive management:**

The Board of Directors business charter identified the way to evaluate every board member and the board as a whole through a set of performance measurement indicators tied to the achievement of strategic goals of the company.

As for the executive management members, their performance is evaluated by the Executive Compensation Committee on a regular basis through indicators set by the committee that are consistent with the company's goals.

**Brief on the Board of Directors' effort to assert the importance of corporate value creation at the company through continuous endeavor to achieve the company strategic goals, and key performance indicators:**

The Board of Directors works continuously to assert and encourage corporate value creation in the short, medium, and long term through developing processes and procedures to achieve company's strategic goals and improve levels of employees' performance and stimulating them to work continually to contribute to Company's performance.

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

**Summary on the application of a policy intended to accomplish a balance between the company's business goals and corporate social responsibility goals:**

Social responsibility is the commitment by the company to act ethically and to contribute to achieving sustainable development. It is achieved by laws, norms, particularly through the following steps:

- Attract national labor.
- Improve the quality of living conditions of the workforce, families, and society.
- Undertake dedicated social services and projects.

**Brief on the programs and mechanisms that help to highlight company efforts in the field of social work:**

The company strives to achieve balance between the company goals and those of society. It undertakes efforts to improve the living, social, and economic conditions of the society (for more details, please see the CSR report on the company's website and the company's annual report.)



# Independent Auditors' Report

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AGILITY PUBLIC WAREHOUSING COMPANY K.S.C.P.

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

#### Qualified Opinion

We have audited the consolidated financial statements of Agility Public Warehousing Company K.S.C.P (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the related consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the "Basis for Qualified Opinion" section of our report, 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 Qualified Opinion

As stated in Note 11 to the consolidated financial statements, the Group's investment in Korek Telecom and loan to Korek ("Korek") is carried at KD 109,881 thousand (2015: KD 108,921 thousand) and KD 35,569 thousand (2015: KD 35,258 thousand), respectively, in the consolidated statement of financial position as at 31 December 2016. Further, subsequent to the reporting date, the Group filed a request for arbitration related to its investment in Korek. We were unable to obtain sufficient appropriate audit evidence about the investment in Korek and the recoverability of the loan as at 31 December 2016 and 31 December 2015 due to the nature and significant uncertainty around the investment and outcome of the request for arbitration. Consequently, we were unable to determine whether any adjustments to the investment and loan to Korek was necessary.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 'Auditors' 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 qualified audit opinion.

#### Emphasis of Matter

##### We draw attention to:

- (i) Note 2 to the consolidated financial statements which describes that the Parent Company was indicted by a federal grand jury in the United States of America ("US") on multiple counts of False Claims Act Violations. Furthermore, the United States Department of Justice also joined the qui tam lawsuit against the Parent Company under the False Claims Act (the "Qui Tam Proceedings"). The Department of Justice is claiming substantial damages for alleged violations. The Group Companies (including the Parent Company) are suspended from bidding for new contracts with the US Government pending the outcome of the cases. The ultimate outcome of these matters cannot presently be determined, and therefore no provision has been made in the consolidated financial statements; and
- (ii) Note 26 (b) to the consolidated financial statements which describes the contingencies relating to the litigations with the General Administration of Customs for Kuwait.

Our opinion is not modified in respect of the matters set out above.



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## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AGILITY PUBLIC WAREHOUSING COMPANY K.S.C.P. (continued)

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

#### 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 year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report. For each matter below, our description of how our audit addressed the matter is provided in that context.

#### a) Impairment of goodwill

Impairment testing of goodwill performed by the management is significant to our audit because the assessment of the recoverable amount of goodwill under the value-in-use basis is complex and requires considerable judgment on the part of the management. Estimates of future cash flows are based on management's views of variables such as the growth in the logistics sector, economic conditions such as the economic growth, expected inflation rates, impact of the competition on expected revenue and margin development and discount rates. Therefore, we identified the impairment testing of goodwill as key audit matter.

As part of our audit procedures, we assessed the knowledge and expertise of the management of the Group to perform such valuations and obtained management's impairment calculations and key assumptions, including profit forecasts and basis of selection of growth rates and discount rates. We also involved our valuation team to assist us in assessing the appropriateness of the valuation model and reviewing the reasonableness of key assumptions used in the impairment analysis, such as the discount rate and terminal growth rate. We reviewed the sensitivity analyses performed by management around key assumptions noted above and the outcomes of the assessment. Future cash flow assumptions were also reviewed through comparison to current trading performance against budget and forecasts, considering the historical consistency of budgeting and forecasting and the understanding of the reasons for growth profiles used.

We also reviewed the adequacy of the Group's disclosures included in note 9 to the consolidated financial statements about those assumptions to which the outcome of the impairment test is more sensitive.

#### b) Group audit

The Group has large number of subsidiaries that are part of two reportable operating segments. These subsidiaries are significant to the Group's consolidated financial statements. The geographical structure and the relatively small size of some of these entities to the Group as a whole, increase the complexity of the Group's control environment and our ability as a Group auditor to obtain an appropriate level of understanding of these entities. Therefore, we identified group audit and subsidiaries as a key audit matter. Details of Group's subsidiaries and the basis of the consolidation is presented in the accounting policies and Note 4 of the consolidated financial statements.

As part of our audit, we determined the nature and extent of the audit procedures to be carried out by the component auditors of the subsidiaries based on the size and/or the risk profile of these subsidiaries. Accordingly, we identified certain significant subsidiaries and issued detailed group audit instructions to the component teams to perform full scope audit covering the significant areas and risks. For certain other subsidiaries, we have requested the component auditors to perform specific audit procedures on significant account balances. We have also set out the financial and other information required to be reported back to us as primary audit team.

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AGILITY PUBLIC WAREHOUSING COMPANY K.S.C.P. (continued)

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

#### Key Audit Matters (continued)

##### c) Contingent liabilities and provisions from claims and proceedings

The Parent Company and certain of its group companies are involved as a party in legal proceedings with third parties as well as investigations with certain governmental entities. As the ultimate disposition of asserted investigations, claims and proceedings cannot be determined with certainty, an adverse outcome could have a material effect on the Group's financial position, results from operations and cash flows.

The determination of (contingent) liabilities from investigations, claims and proceedings is judgmental and the amounts involved are, or can be material to the Group's consolidated financial statements as a whole. Details of Group's investigations and legal claims are presented in the Note 2, Note 11 and Note 26 of the consolidated financial statements. Due to the significant judgment and estimation uncertainty with respect to the ongoing investigations and legal claims, we identified this as key audit matter.

In response to this matter, our audit procedures included, amongst others, understanding of the Group's processes around the identification and evaluation of investigations, claims and proceedings at different levels in the organization, the recording and continuous re-assessment of the related (contingent) liabilities, provisions and disclosures in accordance with IFRS. We also inquired with management in respect of ongoing investigations or claims, proceedings and read relevant correspondence and minutes of the meetings of the Board of Directors, requested internal and external legal confirmation letters of the Group. We also assessed the appropriateness of disclosure regarding (contingent) liabilities from investigations, claims and proceedings and as shown in Note 2, Note 11 and Note 26 to the consolidated financial statements.

#### 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 Group's 2016 Annual Report, other than the consolidated financial statements and our auditor's report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Group's 2016 Annual Report after the date of our auditor's report.

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

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

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

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



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## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AGILITY PUBLIC WAREHOUSING COMPANY K.S.C.P. (continued)

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

#### Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements (continued)

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.
- 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 auditors' 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 auditors' 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.



## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AGILITY PUBLIC WAREHOUSING COMPANY K.S.C.P. (continued)

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

#### Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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 the Those Charged with Governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' 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, except for the possible effect of the matter described in "Basis for Qualified Opinion" section above. 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 and by the Parent Company's Memorandum of Incorporation and Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No.1 of 2016 and its Executive Regulations nor of the Parent Company's Memorandum of Incorporation and Articles of Association have occurred during the year ended 31 December 2016 that might have had a material effect on the business of the Parent Company or on its financial position.

A handwritten signature in black ink, appearing to read "WALEED A. AL OSAIMI".

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**WALEED A. AL OSAIMI**

LICENCE NO. 68 A

EY

AL-AIBAN, AL-OSAIMI & PARTNERS

A handwritten signature in black ink, appearing to read "NAYEF M. AL-BAZIE".

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**NAYEF M. AL-BAZIE**

LICENCE NO. 91 A

RSMAlbazie& Co.

15 March 2017

Kuwait

# Consolidated Financial Statements

**Consolidated Statement of Financial Position**

As at 31 December 2016

	Notes	<b>31 December 2016</b> <b>KD 000's</b>	<b>31 December 2015</b> <b>KD 000's</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	<b>251,997</b>	183,749
Projects in progress	6	<b>16,501</b>	34,267
Investment properties	7	<b>268,686</b>	261,474
Intangible assets	8	<b>29,978</b>	33,995
Goodwill	9	<b>245,989</b>	244,643
Investment in associates	10	<b>51,167</b>	47,622
Financial assets at fair value through profit or loss	11	<b>109,917</b>	108,957
Financial assets available for sale	12	<b>35,497</b>	36,091
Other non-current assets		<b>34,831</b>	29,004
Loan to a related party	27	<b>20,339</b>	9,486
Loan to an associate	11,27	<b>35,569</b>	35,258
<b>Total non-current assets</b>		<b>1,100,471</b>	1,024,546
<b>Current assets</b>			
Inventories	13	<b>14,390</b>	13,458
Trade receivables	14	<b>241,146</b>	239,738
Other current assets	15	<b>93,725</b>	70,609
Bank balances, cash and deposits	16	<b>94,305</b>	114,054
<b>Total current assets</b>		<b>443,566</b>	437,859
<b>TOTAL ASSETS</b>		<b>1,544,037</b>	<b>1,462,405</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	17	<b>121,185</b>	121,185
Share premium	17	<b>152,650</b>	152,650
Statutory reserve	17	<b>60,593</b>	60,593
Treasury shares	17	<b>(45,288)</b>	(45,288)
Treasury shares reserve		<b>44,366</b>	44,366
Foreign currency translation reserve	17	<b>(22,918)</b>	(15,133)
Hedging reserve	17	<b>(17,801)</b>	(18,225)
Investment revaluation reserve	17	<b>1,836</b>	1,294
Other reserves	17	<b>(35,397)</b>	(31,225)
Retained earnings		<b>661,356</b>	636,809
<b>Equity attributable to equity holders of the Parent Company</b>		<b>920,582</b>	907,026
Non-controlling interests	4	<b>28,660</b>	24,449
<b>Total equity</b>		<b>949,242</b>	931,475
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Provision for employees' end of service benefits	18	<b>46,301</b>	41,294
Interest bearing loans	19	<b>86,911</b>	40,238
Other non-current liabilities	20	<b>11,769</b>	17,105
<b>Total non-current liabilities</b>		<b>144,981</b>	98,637
<b>Current liabilities</b>			
Interest bearing loans	19	<b>52,492</b>	41,193
Trade and other payables	21	<b>388,821</b>	383,213
Dividends payable		<b>8,501</b>	7,887
<b>Total current liabilities</b>		<b>449,814</b>	432,293
<b>Total liabilities</b>		<b>594,795</b>	530,930
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,544,037</b>	<b>1,462,405</b>

**Tarek Abdul Aziz Sultan**

Vice Chairperson and CEO

The attached notes 1 to 32 from part of these consolidated financial statements

## Consolidated Statement of Income

For the year ended 31 December 2016

	Notes	2016 KD 000's	2015 KD 000's
<b>Revenues</b>			
Logistics and freight forwarding revenues		1,081,401	1,175,654
Rental revenues		54,691	49,604
Other services		97,955	78,201
		<b>1,234,047</b>	<b>1,303,459</b>
<b>Cost of revenues</b>		<b>(804,936)</b>	<b>(897,098)</b>
		<b>429,111</b>	<b>406,361</b>
<b>Net revenues</b>			
General and administrative expenses	22	(329,869)	(320,831)
Change in fair value of investment properties	7	5,143	2,369
Share of results of associates	10	4,446	3,592
Gain on bargain purchase on acquisition of subsidiary	31	1,045	-
Miscellaneous income		5,300	8,336
		<b>115,176</b>	<b>99,827</b>
<b>Profit before interest, taxation, depreciation, amortisation and Directors' remuneration (EBITDA)</b>			
Depreciation	5	(28,092)	(27,405)
Amortisation	8	(4,017)	(3,789)
		<b>83,067</b>	<b>68,633</b>
<b>Profit before interest, taxation and Directors' remuneration (EBIT)</b>			
Interest income		2,066	4,605
Finance costs		(7,922)	(5,704)
		<b>77,211</b>	<b>67,534</b>
<b>Profit before taxation and Directors' remuneration</b>	23		
Taxation		(9,453)	(8,404)
Directors' remuneration		(140)	(140)
		<b>67,618</b>	<b>58,990</b>
<b>PROFIT FOR THE YEAR</b>			
<b>Attributable to:</b>			
Equity holders of the Parent Company		59,053	53,387
Non-controlling interests		8,565	5,603
		<b>67,618</b>	<b>58,990</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE – ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (fils)</b>	24	<b>51.34</b>	<b>46.41</b>

The attached notes 1 to 32 from part of these consolidated financial statements

**Consolidated Statement of Comprehensive Income**

For the year ended 31 December 2016

	2016 KD 000's	2015 KD 000's
<b>Profit for the year</b>	<b>67,618</b>	<b>58,990</b>
<b>Other comprehensive income:</b>		
<i>Items that are or may be reclassified to consolidated statement of income in subsequent periods:</i>		
Net change in fair value of financial assets available for sale	542	1,097
Gain (loss)on hedge of net investments (Note 19)	104	(568)
Gain on cash flow hedges	320	2,806
Foreign currency translation adjustments	<u>(10,317)</u>	4,244
<b>Net other comprehensive (loss) / incomethat are or may be reclassified to consolidated statement of income in subsequent periods</b>	<b>(9,351)</b>	<b>7,579</b>
<i>Items that will not be reclassified to consolidated statement of income in subsequent periods:</i>		
Re-measurement losses on defined benefit plans (Note 18)	(4,218)	(2,766)
<b>Net other comprehensive loss that will not be reclassified to consolidated statement of income in subsequent periods</b>	<b>(4,218)</b>	<b>(2,766)</b>
<b>Other comprehensive (loss) / income</b>	<b>(13,569)</b>	<b>4,813</b>
<b>Total comprehensive income for the year</b>	<b>54,049</b>	<b>63,803</b>
<b>Attributable to:</b>		
Equity holders of the Parent Company	48,016	55,757
Non-controlling interests	<u>6,033</u>	8,046
<b>54,049</b>	<b>63,803</b>	

The attached notes 1 to 32 from part of these consolidated financial statements

## Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	2016 KD 000's	2015 KD 000's
<b>OPERATING ACTIVITIES</b>			
Profit before taxation and Directors' remuneration		<b>77,211</b>	67,534
Adjustments for:			
Depreciation	5	<b>28,092</b>	27,405
Amortisation	8	<b>4,017</b>	3,789
Change in fair value of investment properties	7	<b>(5,143)</b>	(2,369)
Share of results of associates	10	<b>(4,446)</b>	(3,592)
Gain on bargain purchase of investment in a subsidiary	31	<b>(1,045)</b>	-
Provision for impairment of trade receivables	14	<b>2,137</b>	5,184
Provision for employees' end of service benefits	18	<b>9,802</b>	9,597
Foreign currency exchange gain		<b>(1,074)</b>	(1,614)
Interest income		<b>(2,066)</b>	(4,605)
Finance costs		<b>7,922</b>	5,704
Miscellaneous income		<b>(5,300)</b>	(8,336)
Operating profit before changes in working capital		<b>110,107</b>	98,697
Inventories		<b>(2,383)</b>	6,455
Trade receivables		<b>(12,814)</b>	20,225
Other current assets		<b>(21,728)</b>	(13,440)
Trade and other payables		<b>24,360</b>	8,323
Cash from operations		<b>97,542</b>	120,260
Taxation paid		<b>(8,835)</b>	(8,242)
Directors' remuneration paid		<b>(140)</b>	(140)
Employees' end of service benefits paid	18	<b>(7,818)</b>	(7,324)
Net cash flows from operating activities		<b>80,749</b>	104,554
<b>INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment	5	<b>(58,871)</b>	(31,755)
Proceeds from disposal of property, plant and equipment		<b>809</b>	-
Additions to projects in progress	6	<b>(6,435)</b>	(14,343)
Additions to investment properties	7	<b>(2,061)</b>	(6,742)
Additions to intangible assets	8	<b>-</b>	(2,595)
Acquisition of investment in an associate	10	<b>(863)</b>	(8,075)
Acquisition of additional interest in subsidiaries		<b>-</b>	(1,763)
Acquisition of subsidiary net of cash acquired	31	<b>(5,115)</b>	-
Net movement in financial assets available for sale		<b>1,278</b>	(3,507)
Net movement in other non-current assets		<b>-</b>	2,042
Loan to a related party		<b>(9,526)</b>	(8,430)
Dividends received from an associate	10	<b>1,548</b>	1,242
Net movement in deposits with original maturities exceeding three months	16	<b>(218)</b>	29,762
Interest income received		<b>843</b>	1,184
Net cash flows used in investing activities		<b>(78,611)</b>	(42,980)
<b>FINANCING ACTIVITIES</b>			
Purchase of treasury shares		<b>-</b>	(250)
Net movement in interest bearing loans		<b>32,363</b>	(3,118)
Finance costs paid		<b>(8,524)</b>	(7,113)
Dividends paid to equity holders of Parent Company		<b>(34,353)</b>	(37,902)
Dividends paid to non-controlling interests		<b>(3,773)</b>	(3,488)
Net cash flows used in financing activities		<b>(14,287)</b>	(51,871)
Net foreign exchange translation differences		<b>(7,818)</b>	516
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at 1 January		<b>(19,967)</b>	10,219
Cash and cash equivalents at 31 December	16	<b>107,207</b>	96,988
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>		<b>87,240</b>	<b>107,207</b>

The attached notes 1 to 32 from part of these consolidated financial statements

<i>Attributable to equity holders of the Parent Company</i>												
	Share capital KD 000's	Share premium KD 000's	Statutory reserve KD 000's	Treasury shares KD 000's	Treasury shares KD 000's	Foreign currency translation reserve KD 000's	Hedging revaluation reserve KD 000's	Other reserves KD 000's	Retained earnings KD 000's	Sub total KD 000's	Non-controlling interests KD 000's	Total equity KD 000's
As at 31 December 2015	121,185	152,650	60,593	(45,288)	44,366	(15,133)	(18,225)	1,294	(31,225)	636,809	907,026	24,449
Profit for the year	-	-	-	-	-	-	-	-	59,053	59,053	8,565	67,618
Other comprehensive (loss) income	-	-	-	-	-	(7,785)	424	(4,218)	-	(11,037)	(2,532)	(13,569)
Total comprehensive (loss) income for the year	-	-	-	-	-	(7,785)	424	(4,218)	59,053	48,016	6,033	54,049
Dividends (Note 17)	-	-	-	-	-	-	-	-	(34,506)	(34,506)	-	(34,506)
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(4,316)	(4,316)
Transfer to statutory reserve	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition of investments in subsidiaries (Note 31)	-	-	-	-	-	-	-	-	-	-	1,990	1,990
Acquisition of additional interest in subsidiaries	-	-	-	-	-	-	-	46	-	46	504	550
<b>As at 31 December 2016</b>	<b>121,185</b>	<b>152,650</b>	<b>60,593</b>	<b>(45,288)</b>	<b>44,366</b>	<b>(22,918)</b>	<b>(17,801)</b>	<b>1,836</b>	<b>(35,397)</b>	<b>661,356</b>	<b>920,582</b>	<b>28,660</b>
												<b>949,242</b>

**Consolidated Statement of Changes In Equity**  
For the year ended 31 December 2016

*Attributable to equity holders of the Parent Company*

	Share capital KD 000's	Share premium KD 000's	Statutory reserve KD 000's	Treasury shares KD 000's	Treasury shares reserve KD 000's	Foreign currency translation reserve KD 000's	Hedging reserve KD 000's	Investment revaluation reserve KD 000's	Other reserves KD 000's	Retained earnings KD 000's	Sub total KD 000's	Non-controlling interests KD 000's	Total equity KD 000's
As at 31 December 2014	115,414	152,650	57,707	(45,038)	44,366	(16,934)	(20,463)	197	(29,248)	630,419	889,070	22,041	911,111
Profit for the year	-	-	-	-	-	-	-	-	-	53,387	53,387	5,603	58,990
Other comprehensive income (loss)	-	-	-	-	-	-	1,801	2,238	1,097	(2,766)	-	2,370	2,443
Total comprehensive income (loss) for the year	-	-	-	-	-	-	1,801	2,238	1,097	(2,766)	53,387	55,757	8,046
Dividends (Note 17)	-	-	-	-	-	-	-	-	-	-	(38,340)	-	(38,340)
Issue of bonus shares (Note 17)	5,771	-	-	-	-	-	-	-	-	-	(5,771)	-	-
Purchase of treasury shares	-	-	-	-	(250)	-	-	-	-	-	(250)	-	(250)
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(3,488)	(3,488)
Transfer to statutory reserve	-	-	-	2,886	-	-	-	-	-	(2,886)	-	-	-
Acquisition of additional interest in subsidiaries	-	-	-	-	-	-	-	-	789	-	789	(2,150)	(1,361)
<b>As at 31 December 2015</b>	<b>121,185</b>	<b>152,650</b>	<b>60,593</b>	<b>(45,288)</b>	<b>44,366</b>	<b>(15,133)</b>	<b>(18,225)</b>	<b>1,294</b>	<b>(31,225)</b>	<b>636,809</b>	<b>907,026</b>	<b>24,449</b>	<b>931,475</b>

The attached notes 1 to 32 from part of these consolidated financial statements

## 1- CORPORATE INFORMATION

Agility Public Warehousing Company K.S.C.P. (the "Parent Company") is a public shareholding company incorporated in 1979, and listed on Kuwait Stock Exchange and Dubai Stock Exchange. The Parent Company's Head office is located at Sulaibia, beside Land Customs Clearing Area, P.O. Box 25418, Safat 13115, Kuwait. The Group operates under the brand name of "Agility".

**The main objectives of the Parent Company are as follows:**

- Construction, management and renting of all types of warehouses.
- Warehousing goods under customs' supervision inside and outside customs areas.
- Investing the surplus funds in investment portfolios.
- Participating in, acquiring or taking over companies of similar activities or those that would facilitate in achieving the Parent Company's objectives inside or outside Kuwait.
- All types of transportation, distribution, handling and customs clearance for goods.
- Customs consulting, customs automation, modernisation and decision support.

The principal subsidiaries and their activities are explained in Note 4.

The consolidated financial statements of the Parent Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Board of Directors on 8 March 2017, and are issued subject to the approval of the Annual General Assembly of the shareholders of the Parent Company. The Annual General Assembly of the shareholders has the power to amend these consolidated financial statements after issuance.

The new Companies Law No. 1 of 2016 was issued on 24 January 2016 and it was published in the Official Gazette on 1 February 2016, which cancelled the Companies Law No 25 of 2012, and its amendments. According to article No. 5, the new Law will be effective retrospectively from 26 of November 2012. The new Executive Regulations of Law No. 1 of 2016 was issued on 12 July 2016 and was published in the Official Gazette on 17 July 2016 which cancelled the Executive Regulations of Law No. 25 of 2012.

## 2- SUBSISTENCE PRIME VENDOR AND OTHER CONTRACTS - US INVESTIGATION

In 2007, the Parent Company was served with an administrative subpoena and, subsequently, in March 2008, with a grand jury subpoena, by the US Government in connection with an investigation into certain aspects of the Subsistence Prime Vendor ("SPV") Contract which expired in December 2010. In addition, some employees of the Group were served with grand jury subpoenas. The Parent Company cooperated with this investigation and produced numerous records in response to this request.

In November 2009, the Parent Company was indicted by a federal grand jury in United States on multiple counts of fraud allegations. Furthermore, The United States Department of Justice also joined the qui tam lawsuit against the Parent Company under the US False Claims Act (the "Qui Tam Proceedings"). The Department of Justice is claiming substantial damages for alleged violations. The Parent Company pled not guilty to the indictment. Between February and November 2012, both parties filed various motions and opposition briefs which are pending before the court for ruling. The Parent Company's filings included motions to dismiss the indictment on various grounds and a motion to transfer venue to another judicial district.

As a result of this indictment, the Group companies (including the Parent Company) are suspended from bidding for new contracts with the US Government pending the outcome of the cases. However, the suspension did not affect continued performance of the existing contracts.

A judgment was issued by the higher Court of Appeal in the State of Kuwait on January 30, 2014 annulling the notices of service of process made upon the request of the competent American authorities at the Court of North Georgia in the United States, and determining such notices to be void ab initio. The judgment determined the Qui Tam Proceedings to be criminal in nature and further enjoined the Undersecretary in the Kuwait Ministry of Justice and others from serving the Parent Company, its employees and their dependents with any legal document related to the ongoing litigation at the Court of North Georgia in the United States. The above judgment is procedural in nature, and does not have any impact on the financial information of the Parent Company. As required by applicable law, the Parent Company has made disclosure of the foregoing judgment to the Kuwait Stock Exchange and the Kuwait Capital Markets Authority. The impact of this judgment leads to the same results that have been disclosed in the notes to previous consolidated financial statements of the Group.

## 2- SUBSISTENCE PRIME VENDOR AND OTHER CONTRACTS - US INVESTIGATION (continued)

With respect to the Qui Tam Proceedings, in an order dated February 5, 2016, the United States District Court granted the United States' motion for alternative service of the Parent Company. The Qui Tam Proceedings are pending in the Northern District of Georgia in the United States. The order is not a final judgment in the matter. While publication of notice of the proceedings was subsequently made in a Kuwaiti newspaper, the United States District Court has yet to rule on whether service of process has yet been effected.

On September 28, 2016, the U.S. magistrate issued a Report and Recommendation recommending that the U.S. District Court deny the Parent Company's motions to dismiss the indictment and to transfer venue. The recommendation is not a final judgment in the matter, and the U.S. District Court has yet to rule on the Parent Company's motions.

Furthermore, in 2009, in relation to a cost reimbursable contract, the U.S. Defense Contract Audit Agency (DCAA) determined that reimbursement requests for certain costs incurred by the Parent Company were not proper, and demanded repayment of approximately KD 23 million from the Parent Company. In 2011, the US Government collected KD 4.7 million from this amount by offsetting payments due on the Group's other US Government contracts.

In November 2010, the Parent Company filed a Notice of Appeal in respect of the matter to the U.S. Armed Services Board of Contract Appeals (ASBCA). On December 10, 2014, the ASBCA ruled that it did not have subject-matter jurisdiction to review the appeal by the Parent Company.

On April 8, 2015, the Parent Company appealed the ASBCA ruling to the U.S. Court of Appeals for the Federal Circuit. As part of the same contract, the Parent Company asserted a KD 13 million claim for non-reimbursed costs. This claim was denied by the ASBCA and consolidated with the above referenced Government claim for KD 23 million. Both claims are therefore on appeal to the U.S. Court of Appeals for the Federal Circuit. The Parent Company also filed a separate complaint at the U.S. Court of Federal Claims on 7 April 2015 on a different jurisdictional basis seeking the KD 13 million affirmative claim, the KD 4.7 million which was offset by the U.S. Government as aforementioned, and a determination that the KD 23 million demanded by the US Government is invalid. On 10 March 2016 the U.S. Court of Appeals for the Federal Circuit granted a "limited remand" back to the ASBCA for the purpose of determining the real party in interest. Notwithstanding this remand, the U.S. Court of Appeals for the Federal Circuit retained jurisdiction over the appeal.

In October 2016, U.S. Defense Logistics Agency (DLA) sent a demand that the Parent Company reimburse the U.S. Government an amount of approximately KD 8.4 million for alleged "bottled water overcharges." The U.S. Government paid the claimed amount to the Parent Company for supplying bottled water to the U.S. military in Afghanistan in 2005. DLA claims that the Parent Company misrepresented the price of bottled water because PWC's supplier, Supreme Foodservice, charged an artificially-high price for the water that Supreme sold to the Parent Company. To date, DLA has not presented any evidence that the Parent Company was complicit in, or had any actual or constructive knowledge of, Supreme's fraud at the time the Parent Company purchased bottled water from Supreme. The Parent Company intends to defend vigorously against these claims, and has appealed DLA's decision before the United States Court of Federal Claims. In addition, the Parent Company has notified Supreme that the Parent Company will hold Supreme liable for all costs, including legal fees, the Parent Company incurs in defending this matter.

Despite inherent uncertainty surrounding these cases, no provision is recorded by the management in the consolidated financial statements. The Parent Company (after consulting the external legal counsel) is not able to comment on the likely outcome of the cases.

## 3- SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

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

The consolidated financial statements are presented in Kuwaiti Dinars which is the Parent Company's functional currency and all values are rounded to the nearest thousand (KD '000) except when otherwise indicated.

### 3- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Statement of compliance

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

#### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries (investees which are controlled by the Group) including special purpose entities as at 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income attributed to the equity holders of the Parent Company of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other component of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

The results of the subsidiaries acquired or disposed off during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

#### Changes in accounting policies and disclosures

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year except for the adoption of the following amended IASB Standards during the year:

#### *Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the Group, given that it has not used a revenue-based method to depreciate its non-current assets.

### 3- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Changes in accounting policies and disclosures (continued)

##### *Annual Improvements 2012-2014 Cycle*

###### **IAS 19 Employee Benefits**

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively. This amendment did not have any impact on the consolidated financial statements of the Group.

##### *IFRS 7 Financial Instruments: Disclosures*

###### **Servicing contracts**

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments. This amendment did not have any impact on the consolidated financial statements of the Group.

##### *Amendments to IAS 1 Disclosure Initiative*

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of income and other comprehensive income and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to statement of income.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of income and other comprehensive income. These amendments do not have any impact on the consolidated financial statements of the Group.

##### **Standards issued but not yet effective**

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

##### *IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date. The Group is in the process of quantifying the impact of this standard on the Group's consolidated financial statements, when adopted.

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

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

### 3- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Changes in accounting policies and disclosures (continued)

##### *IFRS 16 Leases*

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

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Group does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

##### *Amendments to IAS 12 Income Taxes*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Group.

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

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017. The Group is currently evaluating the impact.

The Group intends to adopt those standards when they become effective. However, the Group expects no significant impact from the adoption of the amendments on its financial position or performance.

Additional disclosures will be made in the consolidated financial statements when these standards, revisions and amendments become effective.

### 3- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in general and administrative expenses.

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.

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 consolidated statement of income.

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 an asset or liability will be recognised in accordance with IAS 39 either in consolidated statement of income or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be re-measured until it is finally settled within equity. In instances where the contingent consideration does not fall within the scope of IAS 39 it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in consolidated statement of income.

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

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

#### **Current versus non-current classification**

The Group presents assets and liabilities in consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle; or
- Held primarily for the purpose of trading; or
- Expected to be realised within twelve months after the reporting period, or
- Bank balances, cash and deposits unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

### 3- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Current versus non-current classification (continued)

A liability is current when:

- It is expected to be settled in normal operating cycle; or
- It is held primarily for the purpose of trading; or
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

#### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. The initial cost of property, plant and equipment comprises their cost and any directly attributable costs of bringing an item of property, plant and equipment to its working condition and location. Expenditure incurred after the property, plant and equipment has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the consolidated statement of income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditure is capitalised as an additional cost of property, plant and equipment.

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

- |                                  |                |
|----------------------------------|----------------|
| • Buildings and improvements     | 15 to 30 years |
| • Tools, machinery and equipment | 2 to 10 years  |
| • Vehicles and ships             | 2 to 10 years  |
| • Furniture and office equipment | 3 to 5 years   |

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income in the period the asset is derecognised. The assets residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively if appropriate.

#### Projects in progress

Projects in progress are carried at cost less impairment, if any. Costs are those expenses incurred by the Group that are directly attributable to the construction of assets. Once completed, the assets are transferred to either investment properties or to property, plant and equipment, depending on the management's intended use of the asset.

#### Investment properties

Investment properties comprise completed properties held to earn rentals or for capital appreciation or both. Property held under a lease is classified as investment property when the definition of an investment property is met. Investment properties are initially recorded at cost being the fair value of the consideration given and including acquisition charges associated with the investment property.

After initial recognition, the properties are re-measured to fair value annually on an individual basis with any gain or loss arising from a change in fair value being included in the consolidated statement of income in the period in which it arises.

### 3- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Investment properties (continued)**

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

The Group has classified certain assets held under long term operating leases as investment properties.

#### **Intangible assets**

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

The useful lives of intangible assets are assessed to be either finite or indefinite.

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

#### ***Build-own-transfer ("BOT") projects***

BOT projects are amortised over the duration of the individual contracts in the range of 4 to 20 years.

#### ***Customer lists***

Customer lists are amortised over a period of 15 years, which is determined to be the expected period of benefit from holding these lists.

Intangible assets with indefinite useful lives are not amortised but are tested for impairment annually or more frequently if events or change in circumstances indicate the carrying value may be impaired, either individually or at the cash generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

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

#### ***Brand***

The brand is assumed to have an indefinite useful life and is subject to impairment testing on at least an annual basis.

#### ***Goodwill***

Accounting policy relating to goodwill is documented in the accounting policy "Business combinations and goodwill".

### 3- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Investment in associates

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

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group's investments in its associate are either accounted for using the equity method or is measured at fair value.

##### a. Equity method

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

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

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of income and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group. After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss in the consolidated statement of income.

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

##### b. Measured at fair value

The Group's investment in an associate held through a Venture Capital Organisation, is measured at fair value. This treatment is permitted by IAS 28 'Investment in Associates', which allows investments held by Venture Capital Organisations to be accounted for at fair value through profit or loss in accordance with IAS 39 'Financial Instruments: Recognition and Measurement', with changes in fair value recognised in the consolidated statement of income in the period of the change.

#### Financial assets and liabilities

The Group's financial assets includes "financial assets at fair value through profit or loss", "financial assets available for sale", "loan to an associate", "trade receivables", "other current assets", "bank balances, cash and deposits" and "derivative financial instruments" whereas the Group's financial liabilities includes "interest bearing loans" and "trade and other payables". The Group determines the classification of its financial assets and liabilities at initial recognition.

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instruments. A regular way purchase of financial assets is recognised using the trade date accounting. Financial liabilities are not recognised unless one of the parties has performed or the contract is a derivative contract.

Financial assets and liabilities are measured initially at fair value (transaction price) plus, in case of a financial asset or financial liability not carried at fair value through profit or loss, directly attributable transaction costs. Transaction costs on financial assets carried at fair value through profit or loss are expensed immediately, while on other debt instruments they are amortised.

### 3- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Financial assets**

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

Financial assets at fair value through profit or loss includes financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss and investment in associates held through Venture Capital Organisation. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets are designated at fair value through profit or loss if they are managed, and their performance is evaluated on reliable fair value basis in accordance with documented investment strategy. Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in consolidated statement of income.

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

Financial assets available for sale are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables or held for trading. After initial measurement, financial assets available for sale are measured at fair value with unrealised gains or losses being recognised in other comprehensive income until the investment is derecognised, at which time the cumulative gain or loss recorded in other comprehensive income is recognised in the consolidated statement of income, or determined to be impaired, at which time the cumulative loss previously recorded in other comprehensive income is recognised in the consolidated statement of income. Financial assets available for sale whose fair value cannot be reliably measured are carried at cost less impairment losses, if any. Interest earned whilst holding financial assets available for sale is reported as interest income using the effective interest rate method.

#### ***Loan to an associate***

Loan to an associate is a non-derivative financial asset with fixed or determinable payments which is not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate, less impairment, if any.

#### ***Trade receivables***

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

#### ***Other current assets***

Other current assets are carried at their value, less impairment, if any.

#### ***Bank balances, cash and deposits***

Bank balances, cash and deposits in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

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

#### **Financial liabilities**

##### ***Interest bearing loans***

Interest bearing loans are carried on the consolidated statement of financial position at their principal amounts. Installments due within one year are shown as current liabilities. Interest is charged as an expense as it accrues in the consolidated statement of income, with unpaid amounts included in accrued expenses under 'trade and other payables'.

##### ***Trade and other payables***

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

### 3- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial assets and liabilities (continued)

##### Financial liabilities (continued)

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

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in consolidated statement of income.

###### *Offsetting*

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

#### Derivative financial instruments and hedge accounting

##### *Initial recognition and subsequent measurement*

The Group uses derivative financial instruments such as forward currency contracts, interest rate swaps and forward rate agreements to hedge its foreign currency risks and interest rate risks respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivative during the year that do not qualify for hedge accounting and the ineffective portion of an effective hedge, are taken directly to the consolidated statement of income.

The fair value of forward currency contracts is the difference between the forward exchange rate and the market rate. The forward exchange rate is referenced to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments. The fair value of options is determined using an option pricing model.

### 3- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Derivative financial instruments and hedge accounting (continued)

##### *Initial recognition and subsequent measurement (continued)*

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

##### *Fair value hedges*

The change in the fair value of a hedging derivative is recognised in the consolidated statement of income. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying value of the hedged item and is also recognised in the consolidated statement of income.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the consolidated statement of income over the remaining term to maturity. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in the consolidated statement of income.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the consolidated statement of income.

##### *Cash flow hedges*

The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income, while any ineffective portion is recognised immediately in the consolidated statement of income. Amounts taken to other comprehensive income are transferred to consolidated statement of income when the hedged transaction affects the consolidated statement of income, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability. If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in other comprehensive income are transferred to the consolidated statement of income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment occurs.

##### *Hedges of a net investment*

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the consolidated statement of income. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised in other comprehensive income is transferred to consolidated statement of income.

### 3- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Derivative financial instruments and hedge accounting (continued)

##### *Hedges of a net investment (continued)*

The Group uses interest bearing loans to hedge its exposure to foreign exchange risk on its investments in overseas subsidiaries. Refer to Note 19 for more details.

##### Fair values

The Group measures financial instruments, such as financial assets at fair value through profit or loss and financial assets available for sale, and non-financial assets such as investment properties fair value at each reporting date.

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

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

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

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

The Group's management determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted financial assets available for sale, and for non-recurring measurement, such as assets held for distribution in discontinued operation.

External valuers are involved for the valuation of Group's investment properties. Involvement of external valuers is decided upon annually by the management. Selection criteria include regulatory requirements, market knowledge, reputation, independence and whether professional standards are maintained. The management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

For unquoted financial instruments fair value is determined by reference to the market value of a similar investment, discounted cash flows, other appropriate valuation models or brokers' quotes.

### 3- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Fair values (continued)

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The management, in conjunction with the Group's external valuers, also compares changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are those expenses incurred in bringing each product to its present location and condition and are determined on the weighted average basis. Net realisable value is based on estimated selling price in the ordinary course of the business, less any further costs expected to be incurred on completion and disposal.

#### Impairment

##### *Financial assets*

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) may have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in economic conditions that correlate with defaults. If such evidence exists, an impairment loss is recognised in the consolidated statement of income. Impairment is determined as follows:

- for assets carried at fair value, impairment loss is the difference between carrying value and fair value;
- for assets carried at amortised cost, impairment is based on estimated future cash flows discounted at the original effective interest rate, and
- for assets carried at cost, impairment is the difference between the cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

In addition, an allowance is made to cover impairment for specific groups of assets where there is a measurable decrease in estimated future cash flows.

Impairment losses on equity investments classified as available for sale are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognised directly in other comprehensive income. In the case of debt instruments classified as available for sale, if the fair value of a debt instrument increases in a subsequent year and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

#### *Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than, investment property and inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

### 3- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Impairment (continued)

##### *Non-financial assets (continued)*

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on the Group's segment information reporting format determined in accordance with IFRS 8:Operating Segment.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the consolidated statement of income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro-rata basis.

#### Treasury shares

Treasury shares consist of the Parent Company's own issued shares that have been, subsequently reacquired by the Group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the cost of the shares acquired is charged to treasury shares account in equity. When the treasury shares are reissued, gains are credited to a separate account in equity, the 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 statutory reserve. Gains realised subsequently on the sale of treasury shares are first used to offset any provisional recorded losses in order of reserves, retained earnings and treasury share reserve account. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

#### Foreign currency translation

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. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange prevailing at reporting date. All differences are taken to the consolidated statement of income with the exception of differences on foreign currency borrowings accounted for as a hedge of a net investment in foreign operations.

### 3- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Foreign currency translation (continued)**

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. In case of non-monetary assets whose change in fair values are recognized directly in other comprehensive income, foreign exchange differences are recognized directly in OCI and for non-monetary assets whose change in fair value are recognized directly in the consolidated income statement, foreign exchange differences are recognized in the consolidated statement of income.

Assets (including goodwill) and liabilities, both monetary and non-monetary, of foreign operations are translated at the Parent Company's presentation currency KD at the exchange rates prevailing at the reporting date. Operating results of such operations are translated at average rates of exchange for the foreign operation's period of operations. The resulting foreign currencies translation differences are accumulated in a separate section of equity (foreign currency translation reserve) until the disposal of the foreign operation. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of income.

#### **Provisions**

A provision is recognised when, and only when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be incurred to settle the obligation.

#### **Employees' end of service benefits**

##### **Kuwaiti employees**

Pensions and other social benefits for Kuwaiti employees are covered by the Public Institution for Social Security Scheme, to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Group's share of contributions to this scheme, which is a defined contribution scheme under International Accounting Standard (IAS) 19 – Employee Benefits are charged to the consolidated statement of income in the year to which they relate.

##### **Expatriate employees in Kuwait**

Expatriate employees are entitled to an end of service indemnity payable under the Kuwait Labor Law and the Group's by-laws based on the employees' accumulated periods of service and latest entitlements of salaries and allowances. Provision for this unfunded commitment which represents a defined benefit plan under International Accounting Standard (IAS) 19 – Employee Benefits, has been made by calculating the notional liability had all employees left at the reporting date.

##### **International**

The Group has a number of defined benefit pension plans that cover a substantial number of employees other than Kuwaiti and expatriates in Kuwait. Retirement benefits are provided based on compensation as defined by local labour laws or employee contracts. The Group's policy is to fund some of these plans in accordance with local practice and contributions are made in accordance with independent actuarial valuations.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets (excluding net interest), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to 'other reserve' through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to consolidated statement of income in subsequent periods.

### 3- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Employees' end of service benefits (continued)

##### *International (continued)*

Past service costs are recognised in consolidated statement of income on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'salaries and employee benefits' in consolidated statement of income:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

#### **Leases**

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

##### *Group as a lessor*

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

##### *Group as a lessee*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of income on a straight-line basis over the lease term.

A property interest that is held by the Group under an operating lease may be classified and accounted for as an investment property when the property otherwise meets the definition of an investment property, evaluated property by property, and based on management's intention. The initial cost of a property interest held under a lease and classified as an investment property is determined at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount is recognised as a liability.

#### **Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

##### *Logistics revenue*

Logistics revenue primarily comprises inventory management, order fulfilment and transportation services. Logistics revenue is measured at the fair value of consideration received or receivable for goods and services and is recognised upon completion of the services.

##### *Freight forwarding and project forwarding revenues*

The Group generates freight forwarding revenues by purchasing transportation capacity from independent air, ocean and overland transportation providers and reselling that capacity to customers. Revenues are recognised in the period services are rendered, by reference to stage of completion of the services.

##### *Rental revenue*

Rental income arising on investment properties is accounted for on a straight line basis over the lease term.

### **3- SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Revenue recognition (continued)**

##### ***Interest income***

Interest income is recognised as interest accrues using the effective interest method ("EIR") that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

##### ***Dividend income***

Dividend income is recognised when the right to receive payment is established.

#### **Taxation**

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

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

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

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

##### ***Zakat***

Contribution to Zakat is calculated at 1% of the taxable profit for the year in accordance with the Ministry of Finance resolution No. 58/2007. As per law, income from associates and subsidiaries, cash dividends received from companies listed in Kuwait Stock Exchange which are subjected to Zakat have been deducted from the profit for the year.

#### ***Taxation on overseas subsidiaries***

Certain of the Parent Company's subsidiaries are subject to taxes on income in various foreign jurisdictions. Taxes payable are provided on taxable profits at the current rate in accordance with the fiscal regulations in the country where the subsidiary is located.

#### ***Significant accounting judgments, estimates and assumptions***

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

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

#### ***Classification of financial assets***

Management decides upon acquisition of an investment whether it should be classified as financial assets available for sale or financial assets at fair value through profit or loss.

Classification of financial assets at fair value through profit or loss depends on how management monitors the performance of those financial assets. When financial assets have readily available and reliable fair values and the changes in fair values are reported as part of the consolidated statement of income in the management accounts, they are classified at fair value through profit or loss. All other financial assets are classified as financial assets available for sale.

#### ***Impairment of financial assets available for sale***

The Group treats equity financial assets available for sale 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.

### 3- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Significant accounting judgements, estimates and assumptions (continued)

##### *Operating lease Commitments – Group as lessor*

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.

##### *Fair values of assets and liabilities acquired*

The determination of the fair value of the assets, liabilities and contingent liabilities as a result of business combination requires significant judgement.

##### *Contingencies*

Contingent assets and liabilities are not recognised in the consolidated financial statements, but are disclosed unless the possibility of inflow or outflow respectively of resources embodying economic benefits is remote, which requires significant judgement.

##### *Consolidation of entities in which the Group holds less than majority of voting rights*

The Group considers that it controls Agility Abu Dhabi PJSC even though it owns less than 50% of the voting rights. This is because the Group manages and controls the operations of the entity and all operational and strategic decisions require the approval of the Group.

Based on these facts and circumstances, management determined that, in substance, the Group controls this entity.

##### *Estimates and assumptions*

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

##### *Impairment of goodwill and intangible assets (with indefinite life)*

The Group determines whether goodwill and indefinite life 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 respective asset 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. The carrying amounts of goodwill and intangible assets with indefinite lives at 31 December 2016 were KD 245,989 thousand and KD 4,721 thousand respectively, (2015: KD 244,643 thousand and KD 4,721 thousand, respectively). More details are given in Notes 8 and 9.

##### *Valuation of investment properties*

The Group carries its investment properties at fair value, with change in fair values being recognised in the consolidated statement of income. Fair value is determined based on comparative analysis based on the assessment made by an independent real estate appraiser using values of actual deals transacted recently by other parties for properties in a similar location and condition, and based on the knowledge and experience of the real estate appraiser.

##### *Fair value measurements of financial instruments*

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the Discounted Cash Flow ("DCF") model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 30 for further disclosures.

##### *Pension and other post employment benefits*

The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

### 3- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Estimates and assumptions (continued)

##### *Pension and other post employment benefits (continued)*

In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality corporate bonds.

The mortality rate is based on publicly available mortality tables for the specific countries. Future salary increases and pension increases are based on expected future inflation rates for the respective countries.

Further details about defined benefit obligations are given in Note 18.

##### *Impairment of trade receivables*

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

##### *Valuation 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 is applied according to the inventory type and the degree of ageing or obsolescence, based on anticipated selling prices.

## 4- GROUP INFORMATION

Principal subsidiaries of the Group are as follows:

Name of company	Ownership % as at 31 December		Country of incorporation
	2016	2015	
PWC Transport Company W.L.L.	100.00%	100.00%	State of Kuwait
Agility DGS Logistics Services K.S.C.C.	100.00%	100.00%	State of Kuwait
Gulf Catering Company for General Trading and Contracting W.L.L. *	100.00%	100.00%	State of Kuwait
The Metal and Recycling Company K.S.C.P. ("MRC")*	66.48%	66.48%	State of Kuwait
Global Clearing House Systems K.S.C.C.*	60.60%	60.60%	State of Kuwait
National Aviation Services Company W.L.L.*	95.00%	95.00%	State of Kuwait
United Projects Company For Aviation Services K.S.C. P*	92.63%	92.63%	State of Kuwait
Tristar Transport L.L.C.	80.00%	80.00%	United Arab Emirates
Agility Logistics L.L.C.	100.00%	100.00%	United Arab Emirates
Agility Abu Dhabi P.J.S.C. (Note 3)	49.00%	49.00%	United Arab Emirates
Agility Logistics Corp.	100.00%	100.00%	United States of America
Agility Project Logistics Inc.	100.00%	100.00%	United States of America
Agility Company L.L.C.	100.00%	100.00%	Saudi Arabia
Agility Logistics Private Limited	100.00%	100.00%	India
Agility Logistics GmbH	100.00%	100.00%	Germany
Agility Logistics Limited	100.00%	100.00%	Hong Kong
Agility Logistics International B.V	100.00%	100.00%	Netherland
Agility International Logistics Pte Ltd.	100.00%	100.00%	Singapore
Agility Logistics Holdings Pte Ltd.	100.00%	100.00%	Singapore
Agility Logistics Limited	100.00%	100.00%	United Kingdom
Agility Do Brazillogistica Internacional S.A.	100.00%	100.00%	Brazil
Agility Project Logistics Pty Ltd.	100.00%	100.00%	Australia
Agility Limited	100.00%	100.00%	Papua New Guinea
Agility Logistics (Shanghai) Ltd.	100.00%	100.00%	China
Agility Logistics AG	100.00%	100.00%	Switzerland
Agility Spain SA	100.00%	100.00%	Spain
Agility AB	100.00%	100.00%	Sweden
Agility Company Ltd	100.00%	100.00%	Thailand

The principal activities of the subsidiaries as set out above are logistics and related services with the exception of the subsidiaries denoted by (\*) whose principal activities are infrastructure.

## 4- GROUP INFORMATION (continued)

### Material partly-owned subsidiary

MRC is the only subsidiary with non-controlling interests that is material to the Group. Summarised financial information of MRC is provided below. This information is based on amounts before inter-company eliminations.

	2016 KD 000's	2015 KD 000's
<i>Summarised statement of income:</i>		
Revenues	13,010	11,853
Cost of revenues	(8,927)	(9,007)
Operating expenses	<u>(2,497)</u>	(4,689)
EBITDA	1,586	(1,843)
Depreciation and amortisation	<u>(499)</u>	(507)
EBIT	1,087	(2,350)
Interest income	33	40
Finance cost	(273)	(239)
Taxation	<u>(17)</u>	(3)
Profit / (loss) for the year	<u>830</u>	(2,552)
(Loss) / profit allocated to non-controlling interests	<u>(545)</u>	320
<i>Summarised statement of financial position:</i>		
Non-current assets	27,719	28,178
Current assets	11,972	11,200
Non-current liabilities	(601)	(564)
Current liabilities	<u>(8,517)</u>	(8,760)
Total equity	<u>30,573</u>	30,054
Accumulated balances of non-controlling interests	<u>11,918</u>	11,761
<i>Summarised cash flow information:</i>		
Operating	652	1,065
Investing	(76)	(1,060)
Financing	<u>(554)</u>	1,596
Net increase in cash and cash equivalents	<u>22</u>	1,601

## 5- PROPERTY, PLANT AND EQUIPMENT

	<i>Land, buildings and improvements</i> KD 000's	<i>Tools, machinery and equipment</i> KD 000's	<i>Vehicles and ships</i> KD 000's	<i>Furniture and office equipment</i> KD 000's	<i>Total</i> KD 000's
<b>Cost:</b>					
As at 1 January 2016	175,274	91,626	67,030	87,550	421,480
Additions	7,851	1,078	36,210	13,732	58,871
Transfer from projects in progress (Note 6)	-	-	23,974	-	23,974
Arising on acquisition of subsidiaries (Note 31)	-	-	27,762	-	27,762
Transfer to other current assets (Note 15)*	(12,601)	(4,102)	-	-	(16,703)
Disposals	(390)	(1,829)	(145)	(5,771)	(8,135)
Exchange differences	(3,813)	(1,707)	(423)	(1,532)	(7,475)
<b>As at 31 December 2016</b>	<b>166,321</b>	<b>85,066</b>	<b>154,408</b>	<b>93,984</b>	<b>499,779</b>
<b>Depreciation:</b>					
As at 1 January 2016	(61,560)	(59,063)	(41,241)	(75,867)	(237,731)
Charge for the year	(12,983)	(5,166)	(3,214)	(6,729)	(28,092)
Transfer to other current assets (Note 15)*	3,533	2,289	-	-	5,822
Disposals	328	1,793	65	5,685	7,871
Exchange differences	1,493	1,435	71	1,349	4,348
<b>As at 31 December 2016</b>	<b>(69,189)</b>	<b>(58,712)</b>	<b>(44,319)</b>	<b>(75,562)</b>	<b>(247,782)</b>
<b>Net book value:</b>					
<b>As at 31 December 2016</b>	<b>97,132</b>	<b>26,354</b>	<b>110,089</b>	<b>18,422</b>	<b>251,997</b>
	<i>Land, buildings and improvements</i> KD 000's	<i>Tools, machinery and equipment</i> KD 000's	<i>Vehicles and ships</i> KD 000's	<i>Furniture and office equipment</i> KD 000's	<i>Total</i> KD 000's
<b>Cost:</b>					
As at 1 January 2015	168,859	82,966	58,270	86,443	396,538
Additions	3,235	10,003	12,085	6,432	31,755
Transfer from projects in progress (Note 6)	3,222	-	-	-	3,222
Disposals	(786)	(1,464)	(3,967)	(5,341)	(11,558)
Exchange differences	744	121	642	16	1,523
<b>As at 31 December 2015</b>	<b>175,274</b>	<b>91,626</b>	<b>67,030</b>	<b>87,550</b>	<b>421,480</b>
<b>Depreciation:</b>					
As at 1 January 2015	(52,897)	(54,815)	(39,492)	(73,595)	(220,799)
Charge for the year	(9,125)	(5,602)	(5,233)	(7,445)	(27,405)
Disposals	765	1,440	3,919	5,272	11,396
Exchange differences	(303)	(86)	(435)	(99)	(923)
<b>As at 31 December 2015</b>	<b>(61,560)</b>	<b>(59,063)</b>	<b>(41,241)</b>	<b>(75,867)</b>	<b>(237,731)</b>
<b>Net book value:</b>					
<b>As at 31 December 2015</b>	<b>113,714</b>	<b>32,563</b>	<b>25,789</b>	<b>11,683</b>	<b>183,749</b>

\*The book value represents the fair value as at the reporting date.

## 6- PROJECTS IN PROGRESS

Projects in progress comprise the cost of assets acquired and under construction that are not available for use at the reporting date. These assets, once completed, will be used for the Group's operations.

	2016 KD 000's	2015 KD 000's
As at 1 January	<b>34,267</b>	27,441
Additions	<b>6,435</b>	14,343
Transfer from other non-current assets	-	9,711
Transfer to property, plant and equipment (Note 5)	<b>(23,974)</b>	(3,222)
Transfer to investment property (Note 7)	<b>(8)</b>	(15,174)
Exchange differences	<b>(219)</b>	1,168
As at 31 December	<b>16,501</b>	34,267

## 7- INVESTMENT PROPERTIES

	2016 KD 000's	2015 KD 000's
As at 1 January	<b>261,474</b>	237,189
Additions	<b>2,061</b>	6,742
Transfer from projects in progress (Note 6)	<b>8</b>	15,174
Change in fair value	<b>5,143</b>	2,369
As at 31 December	<b>268,686</b>	261,474

The Group has classified certain commercial properties amounting to KD 266,080 thousands (2015: KD 258,719 thousands) held under long term operating leases as investment properties. All investment properties are located in Kuwait.

The fair values of investment properties as at 31 December 2016 and 31 December 2015 were determined by independent valuers who have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair values were determined based on market approach. In estimating the fair values of the properties, the highest and the best use of the properties is their current use. There has been no change to the valuation techniques during the year. The fair value of investment properties is measured under the Level 3 fair value hierarchy.

The significant assumption used in the determination of fair value was the market price (per sqm).

Under market approach, fair value is estimated based on comparable transactions. The market approach is based upon the principle of substitution under which a potential buyer will not pay more for the property than it will cost to buy a comparable substitute property. The unit of comparison applied by the Group is the price per square metre ('sqm').

A 5% increase or decrease in the estimated market price (per sqm) will increase or reduce the value of the investment properties by KD 13,434 thousand (2015: KD 13,073 thousand).

## 8- INTANGIBLE ASSETS

	BOT projects KD 000's	Customer lists KD 000's	Brand KD 000's	Total KD 000's
<b>Cost:</b>				
As at 1 January 2016	38,527	7,271	4,721	50,519
<b>As at 31 December 2016</b>	<b>38,527</b>	<b>7,271</b>	<b>4,721</b>	<b>50,519</b>
<b>Accumulated amortisation:</b>				
As at 1 January 2016	(11,360)	(5,164)	-	(16,524)
Charge for the year	(3,519)	(498)	-	(4,017)
<b>As at 31 December 2016</b>	<b>(14,879)</b>	<b>(5,662)</b>	<b>-</b>	<b>(20,541)</b>
<b>Net book value:</b>				
<b>As at 31 December 2016</b>	<b>23,648</b>	<b>1,609</b>	<b>4,721</b>	<b>29,978</b>
	BOT projects KD 000's	Customer lists KD 000's	Brand KD 000's	Total KD 000's
<b>Cost:</b>				
As at 1 January 2015	34,442	7,271	4,721	46,434
Additions	4,085	-	-	4,085
As at 31 December 2015	38,527	7,271	4,721	50,519
<b>Accumulated amortisation:</b>				
As at 1 January 2015	(8,069)	(4,666)	-	(12,735)
Charge for the year	(3,291)	(498)	-	(3,789)
<b>As at 31 December 2015</b>	<b>(11,360)</b>	<b>(5,164)</b>	<b>-</b>	<b>(16,524)</b>
<b>Net book value:</b>				
<b>As at 31 December 2015</b>	<b>27,167</b>	<b>2,107</b>	<b>4,721</b>	<b>33,995</b>

The intangible assets were acquired through business combinations in previous years.

BOT projects represent costs incurred on the construction of the Discovery Mall, Sheikh Saa'd Terminal, car park and commercial complex of Kuwait International Airport, and concession fee incurred for providing Ground handling services in Cote d'Ivoire on Build-Own-Transfer (BOT) basis.

The brand is assumed to have an indefinite useful life and is tested for impairment at the reporting date. In the opinion of the management, no impairment is required (2015: KD Nil).

## 9- GOODWILL

	2016 KD 000's	2015 KD 000's
<b>Cost:</b>		
As at 1 January	<b>271,861</b>	274,108
Exchange differences	<b>1,346</b>	(2,247)
As at 31 December	<b>273,207</b>	271,861
<b>Impairment:</b>		
As at 1 January and 31 December	<b>(27,218)</b>	(27,218)
Net carrying value	<b>245,989</b>	244,643

The goodwill acquired through business combinations has been allocated to the cash generating units as follows:

	Carrying amount of goodwill	
	2016 KD 000's	2015 KD 000's
Cash generating units:		
Global Integrated Logistics	<b>225,568</b>	223,769
Infrastructure	<b>20,421</b>	20,874
<b>Total</b>	<b>245,989</b>	244,643

The recoverable amounts of the cash generating units have been determined based on a value in use calculation using cash flow projections based on financial budgets approved by the management for 2017 and assuming an average annual growth rate of 5.6% (2015: 4.4%) for the four year period thereafter, which is in the range of the current short term growth rate for the logistics industry. The pre-tax discount rate applied to cash flow projections is 10% (2015: 10%) and cash flows beyond the 5 year period are extrapolated using a growth rate of 3% (2015: 3%). As a result of the exercise, the management has concluded that no impairment provision is considered necessary in the consolidated statement of income.

### Key assumptions used in value in use calculations

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

- Revenue;
- Earning Before Interest, Tax, Depreciation and Amortisation ("EBITDA");
- Discount rates; and
- Growth rate used to extrapolate cash flows beyond the 5 year period.

### Sensitivity to changes in assumptions

With regard to the assessment of value in use of the cash generating units, the management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

## 10- INVESTMENT IN ASSOCIATES

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

	2016 KD 000's	2015 KD 000's
At the beginning of the year	<b>47,622</b>	37,182
Addition	863	8,075
Share of results	4,446	3,592
Dividend received	(1,548)	(1,242)
Foreign currency translation adjustments	(216)	15
At the end of the year	<b>51,167</b>	47,622

The Group determines that Gulf Warehousing Company Q.S.C. ("GWC") is the material associate of the Group.

	2016 KD '000s	2015 KD 000's
Summarised GWC statement of financial position:		
Current assets	85,629	93,524
Non-current assets	228,870	157,938
Current liabilities	(43,488)	(26,914)
Non-current liabilities	(143,889)	(106,988)
Equity	<b>127,122</b>	117,560
Proportion of the Group's ownership	<b>21.59%</b>	21.11%
Group's share in the equity of GWC	27,690	24,817
Goodwill	<b>20,345</b>	20,034
Carrying value of GWC	48,035	44,851
Carrying value of other associates	<b>3,132</b>	2,771
	<b>51,167</b>	47,622
Summarised GWC statement of income:		
Revenue	<b>71,411</b>	65,720
Profit for the year of GWC	<b>18,393</b>	15,443

The fair value of the Group's interest as at 31 December 2016 in GWC, which is listed on the Qatar Stock Exchange is KD 54,241 thousand (2015: KD 47,609 thousand).

## 11- FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 KD 000's	2015 KD 000's
Investment in an associate – outside Kuwait	<b>109,881</b>	108,921
Quoted equity securities:		
- In Kuwait	<b>36</b>	36
	<b>109,917</b>	108,957

During the year ended 31 December 2011, the Group (through its wholly owned subsidiary, a Venture Capital Organisation) jointly with France Telecom acquired 44% equity interest in Korek Telecom L.L.C. ("Korek Telecom"), a limited liability company incorporated in Iraq, via a joint company owned 54% by the Group and 46% by France Telecom. As a result, the Group owns 23.7% indirect interest in Korek Telecom.

The investment in Korek Telecom has been classified as an investment in an associate as the Group exercises significant influence over financial and operating policies of Korek Telecom. As this associate is held as part of Venture Capital Organization's investment portfolio, it is carried in the consolidated statement of financial position at fair value. This treatment is permitted by IAS 28 "Investment in Associates and Joint Ventures" which allows investments held by Venture Capital Organisations to be accounted for at fair value through profit and loss in accordance with IAS 39, with changes in fair value recognised in the consolidated statement of income in the period of change.

### *Iraq Bilateral Investment Treaty Litigation*

In February 2017, the Parent Company filed a Request for Arbitration against the Republic of Iraq pursuant to Article 36 of the Convention on the Settlement of Investment Disputes between States and Nationals of Other States, and Article 10 of the Agreement between the Government of the State of Kuwait and the Government of the Republic of Iraq for Reciprocal Promotion and Protection of Investments (the "2015 BIT"). The arbitral claim arises from a series of actions and inactions of the Iraqi regulatory agency (CMC) relating to an alleged decision by it to annul the previous written consent granted in connection with the Parent Company's investment in Korek Telecom, one of Iraq's leading telecom operators, and requiring the re-establishment of the shareholder structure existing before the Parent Company's investment into Korek. The Parent Company's claims relate to the Republic of Iraq's failure to treat the Parent Company's investment of over \$380 million fairly and equitably, as well as the indirect expropriation of that investment in violation of the 2015 BIT, the 1964 Protocol Between the Governments of the State of Kuwait and the Republic of Iraq on the Promotion of the Movement of Capital and Investments Between the Two Countries, and customary international law.

Consequently the Group's management was unable to determine the fair value of this investment as at 31 December 2016 and 31 December 2015 and accordingly the investment is carried at its fair value as at 31 December 2013 of US Dollars 359 Million equivalent to KD 109,881 thousand (2015: KD 108,921 thousand).

As at 31 December 2016, interest bearing loan provided by the Group to Korek Telecom amounted to KD 35,569 thousand (2015: KD 35,258 thousand) (Note 27) for which the Group management is unable to determine the recoverability.

## 12- FINANCIAL ASSETS AVAILABLE FOR SALE

	2016 KD 000's	2015 KD 000's
Unquoted equity securities:		
- In Kuwait	<u>17,873</u>	19,776
- Outside Kuwait	<u>17,624</u>	16,315
	<u><u>35,497</u></u>	<u>36,091</u>

Certain unquoted equity securities amounting to KD 30,047 thousands (2015: KD 22,921 thousands) are carried at cost, less impairment, due to the unpredictable nature of their future cash flows and lack of other suitable methods for arriving at a reliable fair value of these investments.

The management has performed a review of its unquoted equity securities to assess whether impairment has occurred in the value of these investments and concluded that no impairment provision is considered necessary as at 31 December 2016 in respect of these investments.

## 13- INVENTORIES

	2016 KD 000's	2015 KD 000's
Goods for resale	<u>14,629</u>	13,653
Provision for obsolete and slow moving inventories	<u>(239)</u>	(195)
	<u><u>14,390</u></u>	<u>13,458</u>

Inventories mainly include items held in stock for delivery to logistics clients as part of logistics supply contracts.

The provision recognised as an expense during the year amounted to KD 694 thousand (2015: KD Nil thousand) which is recognised in the cost of revenues in the consolidated statement of income.

## 14- TRADE RECEIVABLES

	2016 KD 000's	2015 KD 000's
Gross trade receivables	<u>297,362</u>	299,928
Provision for impairment	<u>(56,216)</u>	(60,190)
	<u><u>241,146</u></u>	<u>239,738</u>

The carrying amount of the trade receivables approximates to their fair values. As at 31 December 2016, trade receivables amounting to KD 56,216 thousand (2015: KD 60,190 thousand) were considered impaired and fully provided for.

**Movement in the provision for impairment of trade receivables were as follows:**

	2016 KD 000's	2015 KD 000's
As at 1 January	<u>60,190</u>	56,682
Charge for the year (Note 22)	<u>2,137</u>	5,184
Amounts written off	<u>(6,218)</u>	(1,264)
Others (including exchange differences)	<u>107</u>	(412)
As at 31 December	<u><u>56,216</u></u>	<u>60,190</u>

## 14- TRADE RECEIVABLES (continued)

As at 31 December, the ageing analysis of unimpaired trade receivables is as follows:

		Past due but not impaired					Total
	Neither past due nor impaired	< 30 days	30 to 60 days	60 to 90 days	90 to 120 days	> 120 days	
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
<b>2016</b>	<b>170,038</b>	<b>34,273</b>	<b>10,689</b>	<b>7,072</b>	<b>5,326</b>	<b>13,748</b>	<b>241,146</b>
2015	115,778	41,920	35,755	11,574	17,213	17,498	239,738

Unimpaired trade receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of Group to obtain collateral over receivables and are, therefore, unsecured.

## 15- OTHER CURRENT ASSETS

	2016 KD 000's	2015 KD 000's
Prepaid expenses	24,061	25,236
Advances to suppliers	21,440	9,678
Assets held for sale (Note 5)	10,881	-
Claims in dispute [Note 26 (b)]	10,092	10,092
Deposits	8,852	8,353
Sundry receivables	3,361	3,160
Jobs in progress	1,851	2,089
Other claims receivables	1,594	2,364
Staff receivables	1,388	1,445
Other	10,205	8,192
	<b>93,725</b>	<b>70,609</b>

## 16- BANK BALANCES, CASH AND DEPOSITS

	2016 KD 000's	2015 KD 000's
Cash at banks and on hand	77,774	85,461
Short term deposits	9,466	21,746
<b>Cash and cash equivalents</b>	<b>87,240</b>	<b>107,207</b>
Deposits with original maturities exceeding three months	7,065	6,847
	<b>94,305</b>	<b>114,054</b>

Short term deposits (with original maturities up to three months) are placed for varying periods of one day to three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates. Term deposits (deposits with original maturities exceeding three months) earn interest ranging from 2.03% to 2.5% per annum (2015: 1% to 1.625% per annum).

## 17- SHARE CAPITAL, RESERVES AND DIVIDEND

### a) Share capital

	Number of shares		Amount	
	2016	2015	2016	2015
		KD'000s	KD'000s	
Authorized, issued and fully paid up shares of 100 fils each	<u>1,211,844,344</u>	1,211,844,344	<u>121,185</u>	121,185

### b) Share premium

The share premium is not available for distribution.

### c) Statutory reserve

In accordance with the Companies Law, as amended, and the Parent Company's Articles of Association, the Parent Company has resolved not to increase the statutory reserve above an amount equal to 50% of its paid up share capital. Accordingly, Nil (2015: 4.87%) of the profit for the year attributable to equity holders of the Parent Company before contribution to KFAS, NLST, Zakat and Board of Directors' remuneration is transferred to statutory reserve.

Distribution of the statutory reserve up to the amount equivalent to 50% of paid up share capital is limited to the amount required to enable the payment of a dividend of up to 5% of paid up share capital in years when accumulated profits are not sufficient for the payment of such dividend.

### d) Treasury Shares

	2016	2015
Number of treasury shares	<u>61,638,142</u>	61,638,142
Percentage of issued shares	<u>5.09%</u>	5.09%
Market value in KD 000's	<u>38,216</u>	29,582

### e) Dividend

On 26 May 2016, the shareholders at the annual general assembly of the Parent Company, approved the consolidated financial statements for the year ended 31 December 2015 and approved a cash dividend of 30 fils per share (2014: 35 fils per share amounting to KD 34,506 thousand) and bonus shares Nil (2014: 5%).

On 8 March 2017, the Board of Directors of the Parent Company recommended distribution of cash dividend of 15 fils per share (2015: 30 fils per share) and bonus shares of 10% (2015: Nil) for the year ended 31 December 2016. This proposal is subject to the approval of the shareholders' at the Annual General Assembly of the Parent Company.

## 17- SHARE CAPITAL, RESERVES AND DIVIDEND (continued)

### f) Other comprehensive income

The disaggregation of changes of other comprehensive income by each type of reserve in equity is shown below:

	<i>Foreign currency translation reserve</i> KD 000's	<i>Hedging reserve</i> KD 000's	<i>Investment revaluation reserve</i> KD 000's	<i>Other reserves</i> KD 000's	<i>Non controlling interests</i> KD 000's	<i>Total</i> KD 000's
<b>2016:</b>						
Financial assets available for sale:						
- Net changes in fair value of financial assets available for sale	-	-	542	-	-	542
Gainon hedge of net investments (Note 19)	-	104	-	-	-	104
Gainon cash flow hedge	-	320	-	-	-	320
Foreign currency translation adjustments	(7,785)	-	-	-	(2,532)	(10,317)
Re-measurement losses on defined benefit plans (Note 18)	-	-	-	(4,218)	-	(4,218)
	<b>(7,785)</b>	<b>424</b>	<b>542</b>	<b>(4,218)</b>	<b>(2,532)</b>	<b>(13,569)</b>
<b>2015:</b>						
Financial assets available for sale:						
- Net changes in fair value of financial assets available for sale	-	-	1,097	-	-	1,097
Loss on hedge of net investments (Note 19)	-	(568)	-	-	-	(568)
Gainon cash flow hedge	-	2,806	-	-	-	2,806
Foreign currency translation adjustments	1,801	-	-	-	2,443	4,244
Re-measurement losses on defined benefit plans (Note 18)	-	-	-	(2,766)	-	(2,766)
	<b>1,801</b>	<b>2,238</b>	<b>1,097</b>	<b>(2,766)</b>	<b>2,443</b>	<b>4,813</b>

## 18- PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS

	<i>2016</i> KD 000's	<i>2015</i> KD 000's
Defined benefit plans	<b>28,137</b>	25,872
Other benefit plans	<b>18,164</b>	15,422
As at 31 December	<b>46,301</b>	41,294

The following tables summarise the movement in the provision for employees' end of service benefits recognised in the consolidated statement of financial position:

	<i>2016</i> KD 000's	<i>2015</i> KD 000's
As at 1 January	<b>41,294</b>	36,938
Provided during the year	<b>9,802</b>	9,597
Paid during the year	<b>(7,818)</b>	(7,324)
Actuarial loss in respect of defined benefit plans	<b>4,218</b>	2,766
Others (including exchange differences)	<b>(1,195)</b>	(683)
As at 31 December	<b>46,301</b>	41,294

## 18- PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS (continued)

The Group assumed responsibility for defined benefit plans for the employees of subsidiaries acquired in the prior years. The plans are governed by the employment laws of the respective countries. The level of benefits provided depends on the length of employee service and salary at the retirement age, and require contributions to be made to separately administered funds.

Changes in defined benefit obligation and fair value of plan assets are as follows:

Pension cost charged to statement of income						Re-measurement gain (losses) recognised in other comprehensive income					
1 January 2016 KD 000's	Service cost KD 000's	Net interest KD 000's	Sub-total KD 000's	Benefits paid KD 000's	Return on plan assets* KD 000's	Actuarial changes on demographic assumptions KD 000's	Actuarial changes on financial assumptions KD 000's	Experience adjustments KD 000's	Sub-total KD 000's	Contributions by employer KD 000's	Others (including exchange differences) KD 000's
Defined benefit obligation	(116,798)	(1,305)	(1,952)	(3,257)	5,260	-	313	(10,453)	1,393	(8,747)	-
Fair value of plan assets	90,926	-	1,522	1,522	(4,789)	4,530	-	-	4,529	2,007	(7,892)
<b>Net benefit obligation</b>	<b>(25,872)</b>	<b>(1,305)</b>	<b>(430)</b>	<b>(1,735)</b>	<b>471</b>	<b>4,530</b>	<b>313</b>	<b>(10,453)</b>	<b>1,393</b>	<b>(4,218)</b>	<b>2,007</b>
											<b>(28,137)</b>
Pension cost charged to statement of income						Re-measurement gain (losses) recognised in other comprehensive income					
1 January 2015 KD 000's	Service cost KD 000's	Net interest KD 000's	Sub-total KD 000's	Benefits paid KD 000's	Return on plan assets* KD 000's	Actuarial changes on demographic assumptions KD 000's	Actuarial changes on financial assumptions KD 000's	Experience adjustments KD 000's	Sub-total KD 000's	Contributions by employer KD 000's	Others (including exchange differences) KD 000's
Defined benefit obligation	(116,388)	(1,474)	(2,449)	(3,923)	7,515	-	(377)	317	(2,904)	(2,964)	-
Fair value of plan assets	92,208	-	1,994	1,994	(6,953)	198	-	-	198	2,145	1,334
<b>Net benefit obligation</b>	<b>(24,180)</b>	<b>(1,474)</b>	<b>(455)</b>	<b>(1,929)</b>	<b>562</b>	<b>198</b>	<b>(377)</b>	<b>317</b>	<b>(2,904)</b>	<b>(2,766)</b>	<b>2,145</b>
											<b>(25,872)</b>

\*excluding amount included in net interest

## 18- PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS (continued)

The actual return on plan assets for the year ended 31 December 2016 was KD 6,052 thousand (2015: KD 2,193 thousand).

The major categories of the total plan assets at fair value are, as follows:

	2016 KD 000's	2015 KD 000's
Quoted investments		
- Equity	<b>36,146</b>	38,709
- Bonds	<b>25,355</b>	26,331
Unquoted investments		
- Real Estate	<b>14,648</b>	14,854
- Insurance Policies	<b>3,709</b>	7,307
- Others	<b>6,445</b>	3,725
	<b>86,303</b>	90,926

The principal actuarial assumptions used for the plan referred to above, which forms the most significant component of the liability for employees' end of service benefits, are as follows:

	2016	2015
Discount rate at 31 December	<b>2.08%</b>	2.64%
Expected rate of increase of employee remuneration	<b>2.00%</b>	2.28%
Future pension increase	<b>2.12%</b>	1.40%
Life expectation for pensioners at the age of 65 (years)	<b>21</b>	23

A quantitative sensitivity analysis for significant assumption as at 31 December 2016 and 31 December 2015 is as shown below. The sensitivity analysis above have been determined based on a method that extrapolates the impact on net defined benefit obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

	<i>Impact on the net defined benefit obligations</i>	
	2016 KD 000's	2015 KD 000's
<b>Discount rate</b>		
- 1% increase	<b>(15,194)</b>	(11,307)
- 1% decrease	<b>18,595</b>	18,653
<b>Expected rate of increase of employee remuneration</b>		
- 1% increase	<b>494</b>	522
- 1% decrease	<b>(488)</b>	(554)
<b>Future pension cost increase</b>		
- 1% increase	<b>12,705</b>	13,309
- 1% decrease	<b>(5,594)</b>	(5,755)
<b>Life expectancy</b>		
- increase by 1 year	<b>4,578</b>	4,766
- decrease by 1 year	<b>(4,606)</b>	(4,796)

## 18- PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS (continued)

The following payments are expected contributions to be made in the future years out of the defined benefit plan obligation:

	2016 KD 000's	2015 KD 000's
Within the next 12 months	<b>2,399</b>	2,647
Between 2 and 5 years	<b>9,257</b>	9,938
Between 5 and 10 years	<b>10,137</b>	12,250
Beyond 10 years	<b>14,441</b>	14,870
	<b>36,234</b>	39,705

The average duration of the defined benefit plan obligation at the end of the reporting period is 15 years (2015: 14 years).

## 19 INTEREST BEARING LOANS

	2016 KD 000's	2015 KD 000's
Committed Term Loan obtained from local bank and its repayable in annual instalments commencing from December 2011	<b>16,528</b>	16,384
Committed Term Loan obtained from local bank in December 2012 and is repayable in annual instalments commencing from April 2013	<b>15,500</b>	19,000
Committed Term Loan obtained from a foreign bank and is repayable in monthly instalments commencing from May 2016.	<b>54,160</b>	18,823
Committed Term Loan obtained from a foreign bank and is repayable in monthly instalments commencing from March 2016.	<b>19,441</b>	-
Other loans	<b>33,774</b>	27,224
	<b>139,403</b>	81,431

### *Committed facility*

A committed borrowing facility is one in which the lender is legally obliged to provide the funds subject to the Group complying with the terms of the loan facility agreement. A commitment fee is usually charged to the Group on any undrawn part of the facility.

### *Uncommitted facility*

An uncommitted borrowing facility is one in which the lender is not legally obliged to provide the funds and the facility is therefore repayable on demand.

Floating interest rate loans amounting to KD 50,702 thousand (2015: KD 57,106 thousand) carry margin ranging from 0.8 % to 4.8% per annum (2015: 0.75 % to 2% per annum) over the benchmark rates.

The following table shows the current and non-current portions (analysed by currency) of the Group's loan obligations:

	Current portion KD 000's	Non-current Portion KD 000's	Total KD 000's
Kuwaiti Dinars	4,000	11,500	<b>15,500</b>
US Dollars	35,237	74,787	<b>110,024</b>
Hong Kong Dollar	6,679	-	<b>6,679</b>
Chinese Yuan	2,664	-	<b>2,664</b>
Euro	1,981	-	<b>1,981</b>
Others	1,931	624	<b>2,555</b>
<b>At 31 December 2016</b>	<b>52,492</b>	<b>86,911</b>	<b>139,403</b>
At 31 December 2015	41,193	40,238	<b>81,431</b>

## 19- INTEREST BEARING LOANS (continued)

Included in interest bearing loans are loans amounting to KD 88,923 thousand (2015: KD 37,122 thousand) which are held by subsidiaries in the Group. Trade receivables and certain other assets of the respective subsidiaries are pledged as collateral against these loans. Also included in interest bearing loans is a loan amounting to KD 15,500 thousand (2015: KD 19,000 thousand) which is secured by a pledge of shares of a subsidiary.

### *Hedge of net investments in foreign operations*

Included in interest bearing loans at 31 December 2016 are loans denominated in US\$ 54,000 thousand (hedging instrument), which have been designated as a hedge of the net investments in the overseas subsidiaries (with functional currency US dollars) and are being used to hedge the Group's exposure to foreign exchange risk on these investments. Gains or losses on the retranslation of interest bearing loans are transferred to other comprehensive income to offset any gains or losses on translation of the net investments in these subsidiaries. During the year, foreign exchange gain arising on translation of the hedging instrument amounting to KD 104 thousand (2015: Loss KD 568 thousand) was taken to other comprehensive income (hedging reserve).

## 20- OTHER NON-CURRENT LIABILITIES

	2016 KD 000's	2015 KD 000's
Non – current portion of lease obligations	3,118	3,528
Amounts due to related parties (Note 27)	3,633	6,253
Other liabilities	<u>5,018</u>	<u>7,324</u>
	<u><b>11,769</b></u>	<u><b>17,105</b></u>

## 21- TRADE AND OTHER PAYABLES

	2016 KD 000's	2015 KD 000's
Trade payables	199,124	188,927
Accrued expenses	87,590	90,747
Accrued employee related expenses	41,822	39,618
NLST payable	15,390	15,009
Taxation on overseas subsidiaries	4,216	4,888
Zakat payable	5,459	5,322
KFAS payable	1,714	1,166
Short term portion of lease obligations	641	529
Amounts due to related parties (Note 27)	361	287
Directors' remuneration	140	140
Other liabilities	<u>32,364</u>	<u>36,580</u>
	<u><b>388,821</b></u>	<u><b>383,213</b></u>

The entire trade payables are of short term nature, non- interest bearing and normally settled on 30-60 day terms. The carrying amount of the liabilities largely corresponds to their fair values.

## 22- GENERAL AND ADMINISTRATIVE EXPENSES

	2016 KD 000's	2015 KD 000's
Salaries	<b>179,822</b>	174,838
Employee benefits	<b>23,104</b>	19,854
Rent	<b>26,943</b>	27,411
Professional fees	<b>31,647</b>	28,957
Repairs and maintenance	<b>19,185</b>	18,651
Facilities management	<b>9,723</b>	9,679
Communication	<b>6,048</b>	6,267
Travel	<b>6,987</b>	6,802
Insurance	<b>4,128</b>	4,367
Office supplies	<b>2,385</b>	2,569
Restructuring expenses	<b>2,462</b>	1,242
Provision for impairment of trade receivables (Note 14)	<b>2,137</b>	5,184
Bank charges	<b>1,434</b>	1,252
Advertising	<b>1,392</b>	1,488
Other expenses	<b>12,472</b>	12,270
	<b>329,869</b>	320,831

## 23- TAXATION

	2016 KD 000's	2015 KD 000's
NLST	<b>1,546</b>	1,451
Contribution to KFAS	<b>618</b>	550
Zakat	<b>618</b>	580
Taxation on overseas subsidiaries	<b>6,671</b>	5,823
	<b>9,453</b>	8,404

Deferred tax arising on overseas locations is not material to the consolidated financial statements.

## 24- BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share amounts are calculated by dividing profit for the year attributable to equity holders of the Parent Company by the weighted average number of shares outstanding during the year as follows:

	2016 KD 000's	2015 KD 000's
Profit for the year attributable to equity holders of the Parent Company	<b>59,053</b>	53,387
	Shares	Shares
Weighted average number of paid up shares	<b>1,211,844,344</b>	1,211,844,344
Weighted average number of treasury shares	<b>(61,638,142)</b>	(61,504,109)
Weighted average number of outstanding shares	<b>1,150,206,202</b>	1,150,340,235
Basic and diluted earnings per share - attributable to equity holders of the Parent Company	<b>51.34 Fils</b>	46.41 fils

As there are no dilutive instruments outstanding, basic and diluted earning per share are identical.

## 25- DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are financial instruments that derive their value with reference to the underlying interest rate, foreign exchange rate or other indices. Notional principal amounts merely represent amounts to which a rate or price is applied to determine the amounts of cash flows to be exchanged and do not represent the potential gain or loss associated with the market or credit risk of such instruments. The Group deals in the following derivative instruments to manage the interest rate risk and foreign exchange positions.

### **Derivatives held for trading**

Derivatives used for hedging purpose but which do not meet the qualifying criteria for hedge accounting are classified as 'derivatives held for trading'.

### **Forward foreign exchange contracts**

Forward foreign exchange contracts are agreements to buy or sell currencies at a specified rate and at a future date to manage the foreign currency positions.

### **Interest rate swaps**

Interest rate swaps are contractual agreements between two counter-parties to exchange interest payments on a defined principal amount for a fixed period of time in order to manage the interest rate risk on the interest bearing assets and liabilities.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts analysed by the terms of maturity. The notional amount, recorded gross, is the amount of a derivative's underlying amount and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

	<b>Notional amounts by term to maturity</b>				
	<b>Positive fair value</b> KD 000's	<b>Negative fair value</b> KD 000's	<b>Notional amount</b> KD 000's	<b>Within one year</b> KD 000's	<b>1 – 5 years</b> KD 000's
<b>2016</b>					
<b>Derivatives held for trading:</b>					
Forward foreign exchange contracts	-	(60)	4,796	4,796	-
<b>Derivatives held as cash flow hedge:</b>					
Interest rate swap	319	-	17,510	-	17,510
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	319	(60)	22,306	4,796	17,510
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>2015</b>					
<b>Derivatives held for trading:</b>					
Forward foreign exchange contracts	6	-	6,473	6,473	-

## 26- CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

	<b>2016</b> KD 000's	<b>2015</b> KD 000's
Letters of guarantee	123,638	109,455
Operating lease commitments	35,230	32,296
Capital commitments	22,534	12,539
	<hr/>	<hr/>
	181,402	154,290

## 26- CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS (continued)

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2016 KD 000's	2015 KD 000's
Within one year	<b>9,062</b>	8,854
After one year but not more than five years	<b>22,492</b>	18,132
More than five years	<b>3,676</b>	5,310
	<hr/> <b>35,230</b> <hr/>	<hr/> 32,296 <hr/>

Included in letters of guarantee are bank guarantees of KD 31,405 thousand (2015: KD 31,405 thousand), provided by a bank on behalf of the subsidiary, Global Clearing House Systems K.S.C. (Closed), to the General Administration of Customs in the State of Kuwait. These guarantees are issued by the bank on a non-recourse basis to the Group.

### Legal claims

#### (a) Freight forwarding business - investigation

On 26 November 2009, the Italian Competition Authority (ICA) opened an investigation into the activities of some 20 freight forwarding companies including Agility's subsidiary in Italy. The ICA issued its final decision on 15 September 2011, imposing a total fine of approximately KD 55,000 (Euro 139,000) on Agility.

This decision was appealed by other third parties before the court and the proceedings were stayed pending a reference on the interpretation on the relevant points of EU law to the European Court of Justice, which handed down its judgment on 20 January 2016 that supports Agility's position. On October 23, 2016, the Italian court issued a ruling confirming the European Court of Justice ruling, and rejecting the third party appeals, thereby rendering as final the ICA decision.

In August 2010, the Brazilian competition authority ("CADE") opened an investigation into the activities of the freight forwarding industry which included the Parent Company. The investigation is currently ongoing. The Brazilian competition authority purported to serve a notice on the Parent Company through its Brazilian subsidiary. The Parent Company has to date rejected the validity of service of the notice. However, CADE stated in public announcement that it considers the notice to the Parent Company duly served. The Parent Company filed proceedings before the Brazilian court on 18 February 2014 requesting that the service of process be declared null. The Court issued a ruling rejecting this request and the Parent Company appealed against this ruling on 2 June 2015.

As at 31 December 2016, due to inherent uncertainty surrounding these investigations, the Group's management (after consulting the external legal counsel) is not able to comment on the likely outcome of the investigations and in view of the difficulty in quantifying any additional potential liabilities in this regard, no provision is recorded in the consolidated financial statements.

#### (b) Guarantee encashment

A resolution was issued by the General Administration of Customs for Kuwait ("GAC") to cash a portion, amounting to KD 10,092 thousand of the bank guarantee submitted by Global Clearing House Systems K.S.C. (Closed) (the "Company"), a subsidiary of the Parent Company, in favour of GAC in relation to performance of a contract. Pursuant to this resolution, GAC called the above guarantee during the year ended 31 December 2007.

The Company appealed the above resolution at the Court of First Instance and the latter issued its judgment in favour of the Company and ordered GAC to pay an amount of KD 58,927 thousand as compensation against the non-performance of its obligations under the contract, and KD 9,138 thousand towards refunding of the guarantee encashed earlier, together with an interest of 7% per annum on these amounts to be calculated from the date the judgment becomes final.

The Company appealed the judgment before the Court of Appeal requesting an increase in compensation. GAC also filed an appeal No. 1955 / 2014 administrative 4 before the Court of Appeal. On 13 September 2015, the Court of Appeal pronounced its judgement affirming the decision of the Court of First Instance. Both the Company and GAC appealed against this ruling before the Kuwait Court of Cassation which is yet to pronounce its judgement.

## 26- CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS (continued)

### Legal claims (continued)

#### (b) Guarantee encashment (continued)

The Company also filed a claim against GAC and requested, under one of its demands, the Court of Appeal to prohibit GAC from encashing the remaining bank guarantees offered by the Company. The Court of Appeal issued its judgment in favour of the Company in blocking the encashment of the bank guarantees in the possession of GAC.

In addition to the above, there are legal disputes between the Company and GAC. Both the parties have filed various claims currently pending in the courts. The Group's in-house counsel believes that these matters will not have a material adverse effect on the Group's consolidated financial statements.

#### (c) KGL Litigation

During the year ended 31 December 2012, the Parent Company and certain of its subsidiaries were named as defendants in civil lawsuits filed by Kuwait and Gulf Link Transport Company ("KGL") and its affiliates in three separate jurisdictions in the United States for certain alleged defamation and interference with KGL's contracts with the US Government by an alleged former employee of the Parent Company. The Parent Company filed motions to dismiss the complaints and KGL also filed amended complaints. As a result, the Court in two of the jurisdictions granted the Parent Company's motion to dismiss the complaint. The ultimate outcome of the litigation in the other jurisdiction is uncertain at this time.

In addition to the above, the Group is involved in various incidental claims and legal proceedings matters. The legal counsel of the Group believes that these matters will not have a material adverse effect on the accompanying consolidated financial statements.

## 27- RELATED PARTY TRANSACTIONS

Related parties represent shareholders, directors and key management personnel of the Group, and companies which they control or over which they exert significant influence. Pricing policies and terms of these transactions are approved by the Group's management.

Transactions and balances with related parties are as follows:

2016	Major shareholders KD 000's	Other related parties KD 000's	Total KD 000's
<b>Consolidated statement of income</b>			
Revenues	-	908	908
Interest income	1,331	-	1,331
General and administrative expenses	(69)	(378)	(447)
Miscellaneous income	-	544	544
Finance costs	-	(284)	(284)
<b>Consolidated statement of financial position:</b>			
Financial assets available for sale	8,449	-	8,449
Amounts due from related parties	103	1,067	1,170
Loan to a related party	20,339	-	20,339
Loan to an associate (Note 11)	-	35,569	35,569
Amounts due to related parties (Notes 20and 21)	361	3,633	3,994

## 27- RELATED PARTY TRANSACTIONS (continued)

	Major shareholders KD 000's	Other related parties KD 000's	Total KD 000's
2015			
<i>Consolidated statement of income</i>			
Revenues	-	916	916
Interest income	290	3,430	3,720
General and administrative expenses	(67)	(383)	(450)
Miscellaneous income	2,000	524	2,524
Finance costs	-	(629)	(629)
<i>Consolidated statement of financial position:</i>			
Financial assets available for sale	8,449	-	8,449
Amounts due from related parties	-	535	535
Loan to a related party	9,486	-	9,486
Loan to an associate (Note 11)	-	35,258	35,258
Amounts due to related parties (Notes 20 and 21)	287	6,253	6,540

Amounts due from related parties have arisen as a result of transactions made in the ordinary course of the business and are interest free.

Loan to a related party represents amounts advanced by a subsidiary of the Group towards the construction and development of a Commercial Mall in UAE ("Project"). This amount bears annual interest of 8.5% and can be converted to equity in the Project on completion of construction subject to the Project achieving certain operational targets. The Group has contributed KD 8,449 thousand in equity of the Project as of the reporting date which is classified as financial assets available for sale.

A portion of amounts due to related parties carries an interest of 6.5% per annum (2015: 6.5% per annum).

### Compensation of key management personnel

*The remuneration of directors (executives) and other members of key management during the year were as follows:*

	2016 KD 000's	2015 KD 000's
Short-term benefits	<u>3,561</u>	<u>3,423</u>

Short term benefits include discretionary bonus amounting to KD1,950 thousand (2015: KD1,912 thousand) awarded to key management personnel.

## 28- OPERATING SEGMENT INFORMATION

The management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated statement of income.

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

- Logistics and Related Services;

The Logistics and Related Services segment provides a comprehensive logistics offering to its clients, including freight forwarding, transportation, contract logistics, project logistics and fairs and events logistics.

- Infrastructure

The Infrastructure segment provides other services which include industrial real-estate, airport and airplane ground handling and cleaning services, customs consulting, private equity and waste recycling.

## 28- OPERATING SEGMENT INFORMATION (continued)

	Logistics and related services KD 000's	Infrastructure KD 000's	Adjustments and eliminations KD 000's	Total KD 000's
<b>Year ended 31 December 2016</b>				
<b>Revenues</b>				
External customers	927,497	306,550	-	<b>1,234,047</b>
Inter-segment	878	11,326	(12,204)	-
<b>Total revenues</b>	<b>928,375</b>	<b>317,876</b>	<b>(12,204)</b>	<b>1,234,047</b>
<b>Results</b>				
Profit before interest, taxation, depreciation, amortisation and Directors' remuneration (EBITDA)	32,016	94,284	(11,124)	<b>115,176</b>
Depreciation				<b>(28,092)</b>
Amortisation				<b>(4,017)</b>
Profit before interest, taxation and Directors' remuneration (EBIT)				<b>83,067</b>
Interest income				<b>2,066</b>
Finance costs				<b>(7,922)</b>
Profit before taxation and Directors' remuneration				<b>77,211</b>
Taxation and Directors' remuneration				<b>(9,593)</b>
<b>Profit for the year</b>				<b>67,618</b>
<b>Total assets</b>	<b>693,717</b>	<b>959,116</b>	<b>(108,796)</b>	<b>1,544,037</b>
<b>Total liabilities</b>	<b>605,945</b>	<b>767,144</b>	<b>(778,294)</b>	<b>594,795</b>
Other disclosures:				
Goodwill (Note 9)	225,568	20,421	-	<b>245,989</b>
Intangible assets (Note 8)	6,330	23,648	-	<b>29,978</b>
Capital expenditure	(9,193)	(55,872)	(2,302)	<b>(67,367)</b>
Change in fair value of investment properties	-	5,143	-	<b>5,143</b>

## 28- OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2015	Logistics and related services KD 000's	Infrastructure KD 000's	Adjustments and eliminations KD 000's	Total KD 000's
<b>Revenues</b>				
External customers	997,005	306,454	-	1,303,459
Inter-segment	298	7,888	(8,186)	-
<b>Total revenues</b>	<b>997,303</b>	<b>314,342</b>	<b>(8,186)</b>	<b>1,303,459</b>
<b>Results</b>				
Profit before interest, taxation, depreciation, amortisation and Directors' remuneration (EBITDA)	27,353	72,037	437	99,827
Depreciation				(27,405)
Amortisation				(3,789)
Profit before interest, taxation and Directors' remuneration (EBIT)				68,633
Interest income				4,605
Finance costs				(5,704)
Profit before taxation and Directors' remuneration				67,534
Taxation and Directors' remuneration				(8,544)
<b>Profit for the year</b>				<b>58,990</b>
<b>Total assets</b>	<b>688,770</b>	<b>1,036,692</b>	<b>(263,057)</b>	<b>1,462,405</b>
<b>Total liabilities</b>	<b>625,635</b>	<b>730,706</b>	<b>(825,411)</b>	<b>530,930</b>
<b>Other disclosures:</b>				
Goodwill (Note 9)	223,769	20,874	-	244,643
Intangible assets (Note 8)	6,828	27,167	-	33,995
Capital expenditure	(10,477)	(42,357)	-	(52,834)
Change in fair value of investment properties	-	2,369	-	2,369

Inter-segment transactions and balances are eliminated upon consolidation and reflected in the "adjustments and eliminations" column. The Group's financing (including finance costs and finance income) and income taxes are managed on a Group basis and are not allocated to operating segments.

Capital expenditure consists of additions to property, plant and equipment, projects in progress and investment properties.

### Geographic information

The following tables present information regarding the Group's geographical segments:

	2016 KD 000's	2015 KD 000's
Revenue from external customers		
Middle East	322,321	314,107
Europe	302,612	332,026
Asia	308,149	335,883
America	200,982	218,982
Africa	99,983	102,461
	<b>1,234,047</b>	<b>1,303,459</b>

The revenue information above is based on the location of the subsidiaries.

## 28- OPERATING SEGMENT INFORMATION (continued)

	2016 KD 000's	2015 KD 000's
Non-current assets		
Middle-east	<b>568,052</b>	520,479
Asia	<b>161,418</b>	176,054
Europe	<b>43,857</b>	44,869
America	<b>28,006</b>	27,136
Africa	<b>28,164</b>	30,821
Unallocated	<b>54,054</b>	75,221
	<b>883,551</b>	874,580

Non-current assets for this purpose consist of property, plant and equipment, projects in progress, investment properties, intangible assets, goodwill, other non-current assets and loan to an associate.

## 29- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group has exposure to risks from its use of financial instruments and these risks are managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability. The Group's principal financial liabilities, other than derivatives, comprise interest bearing loans, trade and other payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group also has dividend payables. The Group's financial assets comprise trade and other receivables, and cash and short-term deposits. The Group also holds financial assets at fair value through profit or loss, financial assets available for sale, loan to an associate and related parties and enters into derivative transactions.

The Group's senior management reviews and agrees policies for managing risks and provides assurance to the Board of Directors of the Parent Company that the Group's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Group policies and Group risk appetite. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Group's policy that no trading in derivatives for speculative purposes shall be undertaken.

The major risks to which the Group is exposed in conducting its business and operations, and the means and organisational structure it employs in seeking to manage them strategically in building shareholder value are outlined below.

### Risk mitigation

As part of its overall risk management, the Group uses as considered appropriate, derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

### Excessive risk concentration

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

In order to avoid excessive concentrations and the risk arising there from, the Group monitors them on an ongoing basis. Identified concentrations of credit risks are controlled and managed accordingly. There are no significant concentrations of credit risk identified.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk with the latter subdivided into interest rate risk, foreign currency risk and equity price risk.

## 29- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables and other receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Group is also exposed to credit risk on its loan to an associate and loan to a related party.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit qualities of the customers are assessed on an ongoing basis. Outstanding customer receivables are regularly monitored and followed up.

Credit risk from balances with banks and financial institutions is managed by Group's treasury in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure. The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2016 and 2015 is the carrying amounts at the reporting date.

### Gross maximum exposure to credit risk

The table below shows the gross maximum exposure to credit risk across financial assets before credit risk mitigation:

	2016 KD 000's	2015 KD 000's
Bank balances	<b>94,305</b>	114,054
Trade receivables	<b>241,146</b>	239,738
Loan to an associate*	<b>35,569</b>	35,259
Other assets	<b>81,195</b>	89,676
	<b>452,215</b>	478,727

\* The Group management is unable to determine the recoverability of the loan to an associate (Note 11).

## 29- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### 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 periodic basis.

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

Financial liabilities	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Total KD 000's
<b>2016</b>					
Interest bearing loans	97	3,411	46,850	111,937	<b>162,295</b>
Trade and other payables	32,402	64,804	291,615	-	<b>388,821</b>
Other non-current liabilities	-	-	-	11,769	<b>11,769</b>
<b>Total financial liabilities</b>	<b>32,499</b>	<b>68,215</b>	<b>338,465</b>	<b>123,706</b>	<b>562,885</b>

## 29- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Liquidity risk (continued)

Financial liabilities	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Total KD 000's
2015					
Interest bearing loans	11,443	7,719	21,071	55,343	95,576
Trade and other payables	31,934	63,868	287,411	-	383,213
Other non-current liabilities	-	-	-	17,105	17,105
Total financial liabilities	<b>43,377</b>	<b>71,587</b>	<b>308,482</b>	<b>72,448</b>	<b>495,894</b>

### Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk, and other price risks, such as equity risk. Financial instruments affected by market risk include bank balances and trade receivables in foreign currencies, deposits, financial assets at fair value through profit or loss, financial assets available for sale, loan to an associate and related party, interest bearing loans, trade payables in foreign currencies and derivative financial instruments. The sensitivity analyses in the following sections relate to the position as at 31 December 2016 and 2015.

The Group manages market risk on the basis of pre-determined asset allocations across various asset categories, diversification of assets in terms of geographical distribution and industry concentration, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

### Interest rate risk

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

The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. The Group also manages its interest rate risk by entering into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

### Interest rate sensitivity

Based on the Group's financial assets and liabilities held at the year end, an assumed 50 basis points movement in interest rate, with all other variables held constant, would equally impact the Group's profit before taxation and Directors' remuneration as follows.

50 basis points movement		
Effect on consolidated statement of income		
	2016 KD 000's	2015 KD 000's
	<b>±552</b>	<b>±387</b>

### Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating and financing activities (when revenues, expenses and borrowings are denominated in a currency other than Kuwaiti Dinar) and the Group's net investments in foreign subsidiaries.

The Group manages its foreign currency risk by use of derivative financial instruments where appropriate and ensures that the net exposure is kept to an acceptable level. The Group has also designated certain interest bearing loans as hedging instruments against its net investment in foreign operations (Note 19).

## 29- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### *Foreign currency sensitivity*

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollars/ Kuwaiti Dinar exchange rate, with all other variables held constant, of the Group's profit before taxation and Directors' remuneration (due to changes in the fair value of monetary assets and liabilities including non-designated foreign currency derivatives) and the Group's equity (due to changes in the fair value of interest bearing loans designated as hedging instruments for net investments in foreign operations). The Group's exposure to foreign currency for all other currencies is not material.

	Change in currency rate by 1 %			
	Effect on other comprehensive income		Effect on consolidated statement of income	
	2016 KD 000's	2015 KD 000's	2016 KD 000's	2015 KD 000's
US Dollars	±165	±2,940	±31	±23

### *Equity price risk*

Equity price risk is the risk that fair values of equities change as the result of changes in level of equity indices and the value of individual stocks.

#### **Quoted Securities:**

The Group is not exposed to any significant equity price risk as there are no material investments held in quoted equity securities classified as 'financial assets at fair value through profit or loss'.

#### **Unquoted securities:**

Sensitivity analysis relating to Group's unquoted securities (financial assets available for sale and financial assets at fair value through profit or loss) is included in Note 30.

## 30- FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in orderly transactions between market participants at the measurement date. The fair values of financial instruments, with the exception of certain financial assets available for sale carried at cost (Note 12) are not materially different from their carrying values.

### Determination of fair value and fair value hierarchy:

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

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

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

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

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

	Level 1 KD'000	Level 2 KD'000	Level 3 KD'000	Total fair value KD'000
<b>2016</b>				
<b>Financial assets at fair value through profit or loss:</b>				
Investment in an associate	-	-	109,881	<b>109,881</b>
Quoted equity securities	36	-	-	<b>36</b>
	36	-	109,881	<b>109,917</b>
<b>Financial assets available for sale:</b>				
Unquoted equity securities	-	-	5,450	<b>5,450</b>
<b>Derivative:</b>				
Forward foreign exchange contracts	-	(60)	-	<b>(60)</b>
Interest rate swaps	-	319	-	<b>319</b>
	<b>36</b>	<b>259</b>	<b>115,331</b>	<b>115,626</b>
	Level 1 KD'000	Level 2 KD'000	Level 3 KD'000	Total fair value KD'000
<b>2015</b>				
<b>Financial assets at fair value through profit or loss:</b>				
Investment in an associate	-	-	108,921	<b>108,921</b>
Quoted equity securities	36	-	-	<b>36</b>
	36	-	108,921	<b>108,957</b>
<b>Financial assets available for sale:</b>				
Unquoted equity securities	-	-	13,170	<b>13,170</b>
<b>Derivative:</b>				
Forward foreign exchange contracts	-	6	-	<b>6</b>
	<b>36</b>	<b>6</b>	<b>122,091</b>	<b>122,133</b>

The impact on the consolidated statement of financial position or the consolidated statement of shareholders' equity would be immaterial if the relevant risk variables used to fair value the unquoted securities were altered by 5%.

There were no transfers between the hierarchies during 2016 and 2015.

## 30- FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

The movement in Level 3 fair value hierarchy during the year is given below:

	At 1 January 2016 KD'000	Gain / ( loss) recorded in the consolidated statement of income KD'000	Gain / ( loss) recorded in consolidated statement of comprehensive income KD'000	Others including net purchases (sales) and transfer KD'000	At 31 December 2016 KD'000
<b>Assets measured at fair value</b>					
Financial assets at fair value through profit or loss:					
Investment in an associate	108,921	-	960	-	109,881
<b>Financial assets available for sale:</b>					
Unquoted equity securities	13,170	-	542	(8,262)	5,450
	<b>122,091</b>	<b>-</b>	<b>1,502</b>	<b>(8,262)</b>	<b>115,331</b>

	At 1 January 2015 KD'000	Gain / ( loss) recorded in the consolidated statement of income KD'000	Gain / ( loss) recorded in consolidated statement of comprehensive income KD'000	Others including net purchases (sales) KD'000	At 31 December 2015 KD'000
<b>Assets measured at fair value</b>					
Financial assets at fair value through profit or loss:					
Investment in an associate	105,148	-	3,773	-	108,921
<b>Financial assets available for sale:</b>					
Unquoted equity securities	3,650	-	1,097	8,423	13,170
	<b>108,798</b>	<b>-</b>	<b>4,870</b>	<b>8,423</b>	<b>122,091</b>

### Fair value of the Group's financial assets that are measured at fair value on a recurring basis

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

The Group's management was unable to determine the fair value of the investment in an associate as at 31 December 2016 due to certain inherent uncertainties and accordingly the investment is carried at its fair value as at 31 December 2013 (Note 11).

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

Fair values of financial assets available for sale are measured based on their latest net asset values provided by the respective fund manager.

## 31- ACQUISITION OF SUBSIDIARY

On 15 March 2016, a subsidiary of the Parent Company (80% owned by the Parent Company) acquired 100% equity interest in Emirate Ships Investment Company LLC ("E-Ships"), a company incorporated in United Arab Emirates, for a consideration of KD 6,915 thousand, which is partially paid in cash amounting to KD 5,415 thousand and partially payable in four equal semi-annual instalments amounting to KD 1,500 thousand.

Following the acquisition, E-Ships became a subsidiary of the Group and has been consolidated from the date of exercise of control.

## 31- ACQUISITION OF SUBSIDIARY (continued)

The consideration paid and the fair value of assets acquired and liabilities assumed, as well as the non-controlling interest, are summarized as follows:

	KD 000's
Assets	
Property, plant and equipment	27,762
Other non-current assets	2,108
Trade and other receivables	547
Other current assets	564
Cash and cash equivalents	300
	<u>31,281</u>
Liabilities	
Term loans	20,086
Trade and other payables	1,245
	<u>21,331</u>
Net assets acquired	9,950
Purchase consideration	6,915
Non-controlling interest	1,990
Less: net identifiable assets acquired	(9,950)
Gain on bargain purchase on acquisition of a subsidiary	(1,045)
Net asset attributable to shareholders of the Parent Company	7,960
Net assets attributable to non-controlling interest	1,990
	<u>9,950</u>
Net cash flow on acquisition	
Consideration paid	(5,415)
Cash and cash equivalents in subsidiary acquired	300
Cash outflow on acquisition	<u>(5,115)</u>

## 32- CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2016 and 31 December 2015.

The Group includes within net debt, interest bearing loans less bank balances, cash and deposits. Capital includes equity attributable to the equity holders of the Parent Company and non-controlling interests.

	2016	2015
	KD 000's	KD 000's
Interest bearing loans	139,403	81,431
Bank balances, cash and deposits	(94,305)	(114,054)
Net Debt / (Cash)	45,098	(32,623)
Equity attributable to the equity holders of the Parent Company	920,582	907,026
Non-Controlling interests	28,660	24,449
Capital	949,242	931,475
Gearing	4.75%	(3.50%)

## Notes:

## Notes:

## Notes:



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