

**National Petroleum Services Company K.S.C.P.  
and Subsidiaries**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2016**



Building a better  
working world

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## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL PETROLEUM SERVICES COMPANY K.S.C.P.**

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

#### **Opinion**

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

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

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *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)* together with the ethical requirements that are relevant to our audit of the financial statements in the State of Kuwait, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL PETROLEUM SERVICES COMPANY K.S.C.P. (continued)**

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

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

##### *a) Recognition and measurement of revenue*

Revenue is recognised when the risks and rewards of the underlying products have been transferred to the customer or when the services have been rendered. Revenue for individual jobs are measured based on the contractual terms and master agreements that are agreed with customers relating to oil field services and non-oil field services. Due to multi-element nature of such jobs involving supply of goods which are of specialised nature and rendering of services that comprises supply of manpower and equipment usage charges, there is significant risk of misstatement in recognition and measurement of revenue. Therefore, we considered recognition and measurement of revenue as a key audit matter.

Our audit procedures, among other things, included assessing the appropriateness of Group's revenue recognition accounting policies and compliance with those policies. Further, we performed test of details by verifying the revenue recognised to the underlying contracts, master agreements and records supporting delivery of goods and services rendered, including the testing of timing of revenue recognition through cut-off procedures. We also performed substantive analytical review which included a detailed comparison of revenue and gross profit margin with the previous year and budgets as well as product wise detailed analysis.

Disclosures relating to the policy for revenue recognition is given in Note 3 to the consolidated financial statements.

##### *b) Provision for doubtful receivables*

The Group does not follow any specific policy such as ageing analysis etc. relating to provision for doubtful trade receivables considering the nature of customers and specialized nature of the products and services that the Group provides. Generally, provision is determined on a case to case basis after considering the customer's current financial position, risk of default, historical collection pattern, disputes relating to invoices raised and any other available information for assessing the credit worthiness of the counterparties or to assess any potential recoverability concerns relating to invoices raised. Due to significant estimation involved in the determination of provision, it is considered as a key audit matter.

Our audit procedures included, among other things, testing of receivables where no provision was recognised to check that there were no indicators of impairment. This included verifying if payments had been received since the year-end, reviewing historical payment patterns and any correspondence with customers on expected settlement dates. We selected a sample of the larger trade receivable balances where a provision for impairment of trade receivables was recognised and understood the rationale behind management's judgement. In order to evaluate the appropriateness of these judgements we verified whether balances were overdue, the customer's historical payment patterns and whether any post year-end payments had been received up to the date of completing our audit procedures. We also obtained corroborative evidence including correspondence supporting any disputes between the parties involved, attempts by management to recover the amounts outstanding and on the credit status of significant counterparties where available. By performing the procedures mentioned above we also challenged management's rationale where provisions were recognised on transactions that were not overdue as at the reporting date.

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL PETROLEUM SERVICES COMPANY K.S.C.P. (continued)**

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

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

##### *b) Provision for doubtful receivables (continued)*

The disclosures relating to the estimation uncertainty relating to the provision for doubtful receivables is given in Note 4 to the consolidated financial statements and also the disclosures relating to the carrying amount of trade receivables is given in note 8 to the consolidated financial statements.

#### **Other information included in the Annual Report of the Group for the year ended 31 December 2016**

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

Our opinion on the consolidated financial statements does not cover the other information and we do not 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 during the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of 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 the IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those Charged with Governance are responsible for overseeing the Group's financial reporting process.

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL PETROLEUM SERVICES 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**

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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for 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 the 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 NATIONAL PETROLEUM SERVICES 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 (continued)**

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our 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. 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, or 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.



WALEED A. AL OSAIMI  
LICENCE NO. 68 A  
EY  
(AL-AIBAN, AL-OSAIMI & PARTNERS)



QAIS M. AL NISF  
LICENCE NO. 38 A  
BDO AL NISF & PARTNERS

21 February 2017  
Kuwait



# National Petroleum Services Company K.S.C.P. and Subsidiaries

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 KD	2015 KD
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	8,367,545	9,047,928
Intangible assets		16,524	66,658
Financial assets available for sale	6	49,766	43,814
		<u>8,433,835</u>	<u>9,158,400</u>
<b>Current assets</b>			
Inventories	7	2,706,938	3,069,190
Trade receivables	8	8,070,180	5,541,628
Other receivables	9	893,662	346,129
Financial assets at fair value through profit or loss	10	2,396,954	141,245
Term deposits	11	4,000,000	4,000,000
Bank balances and cash	12	5,891,933	3,891,236
		<u>23,959,667</u>	<u>16,989,428</u>
<b>TOTAL ASSETS</b>		<u>32,393,502</u>	<u>26,147,828</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	13	5,760,951	5,760,951
Share premium	14	3,310,705	3,310,705
Treasury shares	15	(585,062)	(585,062)
Treasury shares reserve		33,825	33,825
Statutory reserve	16	3,541,472	2,723,364
Voluntary reserve	17	3,541,472	2,723,364
Foreign currency translation reserve		5,643	5,643
Cumulative changes in fair value		21,212	15,182
Retained earnings		9,124,176	6,414,335
<b>Equity attributable to equity holders of the Parent Company</b>		<u>24,754,394</u>	<u>20,402,307</u>
Non-controlling interests		39,162	49,843
<b>Total equity</b>		<u>24,793,556</u>	<u>20,452,150</u>
<b>Non-current liability</b>			
Employees' end of service benefits	18	1,591,972	1,416,260
<b>Current liability</b>			
Accounts payables and accruals	19	6,007,974	4,279,418
<b>Total liabilities</b>		<u>7,599,946</u>	<u>5,695,678</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>32,393,502</u>	<u>26,147,828</u>

Omran Habib Jawhar Hayat  
Chairman



The attached notes 1 to 29 form part of these consolidated financial statements

# National Petroleum Services Company K.S.C.P. and Subsidiaries

## CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2016

	<i>Notes</i>	<b>2016 KD</b>	<b>2015 KD</b>
Sales and services revenue		<b>27,002,458</b>	19,609,382
Cost of sales and services		<b>(17,633,132)</b>	(13,112,396)
<b>GROSS PROFIT</b>		<b>9,369,326</b>	6,496,986
Other income		<b>311,420</b>	52,511
Net investments income	20	<b>238,425</b>	1,624,358
Write off/impairment of property, plant and equipment	5	<b>(121,944)</b>	(665,857)
Administrative expenses	21	<b>(1,607,954)</b>	(1,478,564)
<b>PROFIT FOR THE YEAR BEFORE CONTRIBUTION TO KFAS, PROVISION FOR NLST, ZAKAT AND DIRECTORS' REMUNERATION</b>		<b>8,189,273</b>	6,029,434
Kuwait Foundation for the Advancement of Sciences (KFAS)		<b>(73,703)</b>	(54,500)
National Labour Support Tax (NLST)		<b>(204,732)</b>	(151,389)
Zakat		<b>(85,816)</b>	(60,556)
Directors' remuneration		<b>(115,000)</b>	(78,000)
<b>PROFIT FOR THE YEAR</b>		<b>7,710,022</b>	5,684,989
Attributable to:			
Equity holders of the Parent Company		<b>7,701,828</b>	5,682,281
Non-controlling interests		<b>8,194</b>	2,708
		<b>7,710,022</b>	5,684,989
<b>BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY</b>	22	<b>137.71 fils</b>	101.60 fils

The attached notes 1 to 29 form part of these consolidated financial statements



National Petroleum Services Company K.S.C.P. and Subsidiaries

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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December 2016

	<b>2016</b> <b>KD</b>	<b>2015</b> <b>KD</b>
<b>Profit for the year</b>	<b>7,710,022</b>	<b>5,684,989</b>
<b>Other comprehensive income</b>		
<i>Other comprehensive income (loss) to be reclassified to consolidated statement of income in subsequent periods:</i>		
Change in fair value of financial assets available for sale	<b>6,030</b>	<b>(5,585)</b>
Foreign currency translation adjustment	<b>-</b>	<b>7,055</b>
<b>Other comprehensive income for the year</b>	<b>6,030</b>	<b>1,470</b>
<b>Total comprehensive income for the year</b>	<b>7,716,052</b>	<b>5,686,459</b>
<b>Attributable to:</b>		
Equity holders of the Parent Company	<b>7,707,858</b>	<b>5,682,339</b>
Non-controlling interests	<b>8,194</b>	<b>4,120</b>
	<b>7,716,052</b>	<b>5,686,459</b>

The attached notes 1 to 29 form part of these consolidated financial statements

# National Petroleum Services Company K.S.C.P. and Subsidiaries

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to equity holders of the Parent Company										Non-controlling interests	Total
	Share capital	Share premium	Treasury shares	Treasury shares reserve	Statutory reserve	Voluntary reserve	Foreign currency translation reserve	Cumulative changes in fair value	Retained earnings	Sub-total		
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
At 1 January 2016	5,760,951	3,310,705	(585,062)	33,825	2,723,364	2,723,364	5,643	15,182	6,414,335	20,402,307	49,843	20,452,150
Profit for the year	-	-	-	-	-	-	-	-	7,701,828	7,701,828	8,194	7,710,022
Other comprehensive income for the year	-	-	-	-	-	-	-	6,030	-	6,030	-	6,030
Total comprehensive income for the year	-	-	-	-	-	-	-	6,030	7,701,828	7,707,858	8,194	7,716,052
Dividend paid (Note 13)	-	-	-	-	-	-	-	-	(3,355,771)	(3,355,771)	-	(3,355,771)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(18,875)	(18,875)
Transfer to reserves	-	-	-	-	818,108	818,108	-	-	(1,636,216)	-	-	-
At 31 December 2016	5,760,951	3,310,705	(585,062)	33,825	3,541,472	3,541,472	5,643	21,212	9,124,176	24,754,394	39,162	24,793,556
At 1 January 2015	5,760,951	3,310,705	(585,062)	33,825	2,120,691	2,120,691	-	20,767	4,454,228	17,236,796	-	17,236,796
Profit for the year	-	-	-	-	-	-	-	-	5,682,281	5,682,281	2,708	5,684,989
Other comprehensive income (loss) for the year	-	-	-	-	-	-	5,643	(5,585)	-	58	1,412	1,470
Total comprehensive income (loss) for the year	-	-	-	-	-	-	5,643	(5,585)	5,682,281	5,682,339	4,120	5,686,459
Dividend paid (Note 13)	-	-	-	-	-	-	-	-	(2,516,828)	(2,516,828)	-	(2,516,828)
Transfer to reserves	-	-	-	-	602,673	602,673	-	-	(1,205,346)	-	-	-
Net movement in non-controlling interests	-	-	-	-	-	-	-	-	-	-	45,723	45,723
At 31 December 2015	5,760,951	3,310,705	(585,062)	33,825	2,723,364	2,723,364	5,643	15,182	6,414,335	20,402,307	49,843	20,452,150

The attached notes 1 to 29 form part of these consolidated financial statements

# National Petroleum Services Company K.S.C.P and Subsidiaries

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 KD	2015 KD
<b>OPERATING ACTIVITIES</b>			
Profit for the year		7,710,022	5,684,989
Adjustments to reconcile profit for the year to net cash flows:			
Depreciation and amortization		1,538,069	1,651,287
Write off/impairment of property, plant and equipment	5	121,944	665,857
Gain on sale of property, plant and equipment		(3,711)	(16,719)
Net investments income	20	(238,425)	(1,624,358)
Interest income		(6,884)	-
Write back of provision for doubtful debts		-	(102,667)
Provision for employees' end of service benefits	18	391,943	365,303
		<u>9,512,958</u>	<u>6,623,692</u>
Working capital adjustments:			
Inventories		362,252	(857,781)
Trade receivables		(2,528,552)	920
Other receivables		(547,533)	636,411
Accounts payables and accruals		1,737,711	65,581
Cash generated from operations		<u>8,536,836</u>	<u>6,468,823</u>
Employees' end of service benefits paid	18	(216,231)	(80,689)
Net cash flows from operating activities		<u>8,320,605</u>	<u>6,388,134</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	5	(930,987)	(3,466,612)
Proceeds from sale of property, plant and equipment		5,202	51,325
Purchase of financial assets at fair value through profit or loss		(2,249,463)	-
Proceeds from sale of financial assets at fair value through profit or loss	20	161,370	3,150,001
Dividend income received	20	82,224	8,708
Investment expenses paid	20	(11,337)	-
Interest income received		6,884	-
Net movement in financial assets at fair value through profit or loss		-	(200)
Net movement in term deposits		-	(4,000,000)
Net cash flows used in investing activities		<u>(2,936,107)</u>	<u>(4,256,778)</u>
<b>FINANCING ACTIVITIES</b>			
Dividends paid		(3,364,926)	(2,490,903)
Dividend paid to non-controlling interests		(18,875)	-
Net movement in non-controlling interests		-	45,723
Net cash flows used in financing activities		<u>(3,383,801)</u>	<u>(2,445,180)</u>
<b>INCREASE (DECREASE) IN BANK BALANCES AND CASH</b>		<b>2,000,697</b>	<b>(313,824)</b>
Foreign currency translation adjustment		-	8,141
Bank balances and cash at 1 January	12	<u>3,891,236</u>	<u>4,196,919</u>
<b>BANK BALANCES AND CASH AT 31 DECEMBER</b>	12	<u><b>5,891,933</b></u>	<u><b>3,891,236</b></u>

The attached notes 1 to 29 form part of these consolidated financial statements

## 1 CORPORATE INFORMATION

The Group comprises National Petroleum Services Company K.S.C.P. (the "Parent Company") and its subsidiaries (collectively the "Group"). The Parent Company was established as a Kuwaiti shareholding Company on 3 January 1993 and was listed on the Kuwait Stock Exchange Market on 18 October 2003. The registered office of the Parent Company is at Industrial Shuaiba, Al-Ahmadi, Plot 3, P.O. Box 9801, 61008, Kuwait.

The objectives for which the Parent Company was incorporated for, are:

- Performing all support services for wells drilling, repairing and preparation for production as well as wells maintenance related services.
- Establishing industrial firms for the purpose of manufacturing and producing the equipments and materials necessary for achieving such objectives after obtaining the approval of the competent authorities.
- Importing and owning machines, tools and materials necessary for achieving its objectives.
- Owning lands and real estate necessary for establishing its entities and equipments.
- Importing and exporting chemicals necessary for the execution of the works stated in item no. (1) above.
- Concluding agreements and obtaining privileges which it deems necessary for the achieving its objectives.
- Possessing the needed patents, and trademarks.
- Obtaining and granting agencies in respect of the Parent Company's business.
- Conducting studies, queries and researches relevant to the Parent Company's objectives.

The Parent Company may practice all of the above mentioned activities inside or outside the State of Kuwait. The Parent Company may also have an interest or participate in any way with entities practicing activities similar to its own or which may assist it in achieving its objectives inside or outside the state of Kuwait, or may acquire those entities or have them affiliated to it.

The consolidated financial statements of the Group for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Parent Company's Board of Directors on 21 February 2017 and are subject to the approval of Annual General Assembly meeting of the shareholders of the Parent Company. The Annual General Assembly meeting 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.

Details of subsidiaries are given in Note 2.2.

### 2.1 BASIS OF PREPARATION

#### 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 preparation

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

The consolidated financial statements have been presented in Kuwaiti Dinars ("KD"), which is also the functional currency of the Group.

### 2.2 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) 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

**2.2 BASIS OF CONSOLIDATION (continued)**

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;
- 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 statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of consolidated statement of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company 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 components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries at 31 December, which is detailed below:

<i>Entity</i>	<i>Country of incorporation</i>	<i>Principal activities</i>	<i>Effective ownership %</i>	
			<i>2016</i>	<i>2015</i>
Napesco International Petroleum Services Single Person Company	Kuwait	Drilling & maintenance of oil wells and chemical waste management	100%	100%
Napesco India LLP (owned through Napesco International Petroleum Services Single Person Company)	India	Support activities for petroleum and natural gas mining incidental to onshore and offshore oil & gas extraction.	79.99%	79.99%

**Non-controlling interests**

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from the equity attributable to shareholders of the Parent Company.

## 2.3 CHANGES IN ACCOUNTING POLICIES

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous financial year, except for the adoption of the amendments to the existing standards relevant to the Group, effective as of 1 January 2016, which did not result in any material impact on the accounting policies, financial position or performance of the Group:

### *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.

### *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.

## 2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

### *IFRS 9 Financial Instruments*

The IASB issued IFRS 9 - Financial Instruments in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018 with a permission to early adopt. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial assets. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The adoption of this standard will have an effect on the classification and measurement of Group's financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities. 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*

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 Leases).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The Group does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

## 2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

### *IFRS 16 Leases*

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their statement of financial position as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of income.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. The Group does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable taking into account contractually defined terms of payment and excluding discounts and rebates. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

The following specific recognition criteria must also be met before revenue is recognised:

#### *Sale of goods*

Sales represent the invoiced value of goods supplied net of returns. Revenue from sale of goods is recognised when significant risks and rewards of ownership of goods are transferred to the buyer, normally on delivery of goods.

#### *Service income*

Service income is recognized when the service is rendered.

#### *Dividend income*

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

#### *Gain on sale of investments*

Gain on sale of investments is measured by the difference between the sale proceeds and the carrying amount of the investment at the date of disposal, and is recognized at the time of the sale.

### **Taxation**

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

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

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

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

#### *Zakat*

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



### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Property, plant and equipment

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

Depreciation is calculated on a straight line basis over the estimated useful lives of the property, plant and equipment up to the residual value, as follows:

• Buildings	20 years
• Plant and Machinery	10 years
• Furniture and fixtures	3 years
• Motor vehicles	3 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 value less costs to sell and their value in use.

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

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

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

#### Intangible assets

Intangible assets represent payment made towards acquiring right to use software. Intangible assets are carried at cost less accumulated amortisation and any impairment in value, if any.

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 are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expense category consistent with the function of the intangible assets. Amortisation is computed on straight line basis on the estimated useful lives of 3 years.

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.

#### Financial instruments

##### Financial assets

##### Initial recognition and measurement

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

Financial assets are recognised initially at fair value plus transaction costs except, in the case of financial assets not at fair value through profit and loss.

A "regular way" purchase of financial assets is recognised using the trade date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

The Group's financial assets include financial assets available for sale, trade receivables, financial assets at fair value through profit or loss, term deposits and bank balances and cash. At 31 December 2016, the Group did not have any held-to-maturity investments.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**

**Financial assets (continued)**

**Subsequent measurement**

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

*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 designated at fair value through profit or loss, investments held-to-maturity or loans and receivables.

After initial recognition, financial assets available-for-sale are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the cumulative changes in fair values reserve until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss is recognised in the consolidated statement of income. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any

*Trade receivables*

Trade receivables are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

*Financial assets at fair value through profit or loss*

The category of financial assets at fair value through profit or loss is sub divided into:

*(a) Financial assets held for trading*

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 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 the consolidated statement of income.

*(b) Financial assets designated at fair value through profit or loss upon initial recognition:*

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 a documented investment strategy. After initial recognition financial assets at fair value through profit or loss are remeasured at fair value with all changes in fair value recognised in the consolidated statement of income.

**Derecognition**

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of 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.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**

**Financial assets (continued)**

**Impairment of financial assets**

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrowers 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 arrears or economic conditions that correlate with defaults.

*Financial assets available-for-sale*

For financial assets available-for-sale, the Group assesses at each reporting date whether there is objective evidence that a financial asset available-for-sale or a group of financial assets available-for-sale is impaired.

In the case of equity investments classified as financial assets available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the equity investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on those financial assets available-for-sale previously recognised in the consolidated statement of income, is removed from other comprehensive income and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increase in their fair value after impairment is recognised directly in other comprehensive income.

**Financial liabilities**

**Initial recognition and measurement**

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

Financial liabilities are recognised initially at fair value and in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include accounts payables. At 31 December 2016, the Group did not have any financial liabilities at fair value through profit or loss.

**Subsequent measurement**

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

*Accounts payables*

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

**Derecognition**

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

**Offsetting of financial instruments**

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.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Impairment of non-financial assets**

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs to sell, an appropriate valuation model is used.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of income.

Where an impairment loss subsequently reverses the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of income.

**Fair value**

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

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

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

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

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 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.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fair value (continued)**

For financial instruments quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities. The fair value of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published net assets value.

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. For investments in equity instruments, where a reasonable estimate of fair value cannot be determined, the investment is carried at cost.

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.

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.

An analysis of fair value of financial instruments and further details as to how they are measured are provided in note 28.

**Inventories**

Inventories are valued at the lower of cost and net realizable value after providing allowances for any obsolete or slow moving items. Costs comprise direct materials and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is determined on a weighted average basis.

Net realizable value is the estimated selling price in the ordinary course of business less the costs of completion and selling expenses. Write-down is made for obsolete and slow-moving items based on their expected future use and net realizable value.

**Bank balances and cash**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of, cash in hand, bank balances, short-term deposits with an original maturity of three months or less.

**Treasury shares**

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

**Employees' end of service benefits**

The Group provides end of service benefits to its expatriate employees under the Kuwait Labour Law. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

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

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Provisions**

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

#### **Foreign currencies**

The consolidated financial statements are presented in KD which is the Group's presentation currency. 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 ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at reporting date. All exchange differences are taken to the consolidated statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rates as at the date 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. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

As at the reporting date, the assets and liabilities of the foreign subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the reporting date and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to the consolidated statement of comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of income.

#### **Contingencies**

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

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

#### **Segment information**

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

### 4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements require management to make judgements, 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 the assumptions and estimates could result in outcomes that require a material adjustment to the amount of the asset or liability affected in the future periods.

#### **Judgements**

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

##### *Classification of financial instruments*

Judgements are made in the classification of financial instruments based on management's intention at acquisition.

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

**4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

**Judgements (continued)**

*Classification of financial instruments (continued)*

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

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

*Impairment of financial assets available-for-sale*

The Group treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

**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:

*Fair value of unquoted equity investments*

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

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- an earnings multiple or industry specific earnings multiple;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics;
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are a number of investments where this estimation cannot be reliably determined. As a result, these investments are carried at cost less impairment.

*Useful lives of property, plant and equipment and intangible assets*

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

*Impairment of property, plant and equipment and intangible assets*

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication or objective evidence of impairment or when annual impairment testing for an asset is required. If any such indication or evidence exists, the asset's recoverable amount is estimated and an impairment loss is recognised in the consolidated statement of income whenever the carrying amount of an asset exceeds its recoverable amount.

*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 applied according to the length of time past due.

*Impairment of inventories*

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

## 5 PROPERTY, PLANT AND EQUIPMENT

	<i>Buildings KD</i>	<i>Plant and machinery KD</i>	<i>Furniture and fixtures KD</i>	<i>Motor vehicles KD</i>	<i>Total KD</i>
Cost					
As at 1 January 2016	2,827,278	17,914,150	643,613	447,510	21,832,551
Additions	-	803,838	37,529	89,620	930,987
Disposals	-	-	-	(8,650)	(8,650)
Write off	-	(504,904)	(67,316)	-	(572,220)
As at 31 December 2016	<u>2,827,278</u>	<u>18,213,084</u>	<u>613,826</u>	<u>528,480</u>	<u>22,182,668</u>
Depreciation					
As at 1 January 2016	1,393,173	10,553,669	540,577	297,204	12,784,623
Charge for the year	122,255	1,144,555	118,824	102,301	1,487,935
Relating to disposals	-	-	-	(7,159)	(7,159)
Relating to write off	-	(387,919)	(62,357)	-	(450,276)
As at 31 December 2016	<u>1,515,428</u>	<u>11,310,305</u>	<u>597,044</u>	<u>392,346</u>	<u>13,815,123</u>
Net carrying amount:					
As at 31 December 2016	<u>1,311,850</u>	<u>6,902,779</u>	<u>16,782</u>	<u>136,134</u>	<u>8,367,545</u>
	<i>Buildings KD</i>	<i>Plant and machinery KD</i>	<i>Furniture and fixtures KD</i>	<i>Motor vehicles KD</i>	<i>Total KD</i>
Cost					
As at 1 January 2015	2,827,278	14,675,227	596,491	375,215	18,474,211
Additions	-	3,276,423	48,450	141,739	3,466,612
Disposals	-	(37,500)	-	(69,291)	(106,791)
Foreign currency translation	-	-	(1,328)	(153)	(1,481)
As at 31 December 2015	<u>2,827,278</u>	<u>17,914,150</u>	<u>643,613</u>	<u>447,510</u>	<u>21,832,551</u>
Depreciation and Impairment					
As at 1 January 2015	1,270,919	8,573,417	470,717	272,625	10,587,678
Charge for the year	122,254	1,317,833	70,251	93,330	1,603,668
Relating to disposals	-	(3,438)	-	(68,747)	(72,185)
Foreign currency translation	-	-	(391)	(4)	(395)
Impairment charge for the year	-	665,857	-	-	665,857
As at 31 December 2015	<u>1,393,173</u>	<u>10,553,669</u>	<u>540,577</u>	<u>297,204</u>	<u>12,784,623</u>
Net carrying amount:					
As at 31 December 2015	<u>1,434,105</u>	<u>7,360,481</u>	<u>103,036</u>	<u>150,306</u>	<u>9,047,928</u>

The depreciation charged has been allocated in the consolidated statement of income as follows:

	<i>2016 KD</i>	<i>2015 KD</i>
Cost of sales and services	1,412,361	1,534,999
Administrative expenses	75,574	68,669
	<u>1,487,935</u>	<u>1,603,668</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

**5 PROPERTY, PLANT AND EQUIPMENT (continued)**

The Group's buildings are constructed on land leased from Public Authority of Industry, which will expire on July 31, 2018. The lease is renewable indefinitely, at nominal rates of ground rent, and with no premium payable for renewal of the lease.

During the year ended 31 December 2016, the Board of Directors approved for write off/impairment of plant and equipment (plant and machinery) at its net book value of KD 121,944 (2015: 665,857).

**6 FINANCIAL ASSETS AVAILABLE FOR SALE**

	<b>2016</b> <b>KD</b>	<b>2015</b> <b>KD</b>
Funds and managed portfolios	3,223	3,223
Quoted equity securities	46,543	40,591
	<u>49,766</u>	<u>43,814</u>

**7 INVENTORIES**

	<b>2016</b> <b>KD</b>	<b>2015</b> <b>KD</b>
Cement and acidizing chemicals	1,826,728	2,206,100
Spare parts and tools	880,210	863,090
	<u>2,706,938</u>	<u>3,069,190</u>

**8 TRADE RECEIVABLES**

	<b>2016</b> <b>KD</b>	<b>2015</b> <b>KD</b>
Trade receivables	8,110,180	5,581,628
Less: provision for doubtful debts	(40,000)	(40,000)
	<u>8,070,180</u>	<u>5,541,628</u>

As at 31 December 2016, the Group carries a provision of KD 40,000 (2015: KD 40,000) on trade receivables. Movement in provision for doubtful debts is as follows:

	<b>2016</b> <b>KD</b>	<b>2015</b> <b>KD</b>
At 1 January	40,000	142,667
Written back during the year	-	(102,667)
At 31 December	<u>40,000</u>	<u>40,000</u>

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

	<i>Neither past due nor impaired KD</i>	<b><u>Past due but not impaired</u></b>			<i>Total KD</i>
		<i>&lt;90 days KD</i>	<i>91-180 days KD</i>	<i>&gt;180 days KD</i>	
2016	6,435,219	1,080,754	248,039	306,168	8,070,180
2015	4,279,538	838,218	175,751	248,121	5,541,628

It is not the practice of the Group to obtain collateral over trade receivables.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

**9 OTHER RECEIVABLES**

	<i>2016</i> <i>KD</i>	<i>2015</i> <i>KD</i>
Advance payments to suppliers	494,250	158,436
Staff receivables	280,560	155,306
Deposits and other receivable	118,852	32,387
	<u>893,662</u>	<u>346,129</u>

**10 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<i>2016</i> <i>KD</i>	<i>2015</i> <i>KD</i>
<i>Financial assets held for trading:</i>		
Quoted equities	30,360	28,380
<i>Financial assets designated at fair value through profit or loss:</i>		
Funds and managed portfolios	2,366,594	112,865
	<u>2,396,954</u>	<u>141,245</u>

The valuation techniques for financial assets at fair value through profit or loss is disclosed in Note 28.

**11 TERM DEPOSITS**

Term deposits amounting to KD 4,000,000 (2015: KD 4,000,000) are denominated in Kuwaiti Dinars and are placed with local banks and earn interest at commercial rates.

Term deposits have maturity of more than 3 months and less than 12 months from the placement date.

**12 BANK BALANCES AND CASH**

For the purpose of consolidated statement of cash flows, bank balances and cash comprises the following:

	<i>2016</i> <i>KD</i>	<i>2015</i> <i>KD</i>
Cash on hand	22,993	22,997
Bank balances	5,868,940	3,868,239
	<u>5,891,933</u>	<u>3,891,236</u>

**13 SHARE CAPITAL AND DIVIDEND**

	<i>2016</i> <i>KD</i>	<i>2015</i> <i>KD</i>
57,609,510 shares of 100 fils each, paid in cash	5,760,951	5,760,951

The Board of Directors recommended distribution of a cash dividend of 80 fils per share (2015: 60 fils per share) and bonus shares of 42,390,490 shares (73.58% approximately on outstanding shares as at 31 December 2016) (2015: nil). The cash dividend, if approved in Annual General Assembly, shall be payable to the shareholders registered in the records of the Parent Company as of the date of the Annual General Assembly and the bonus shares, if approved in Annual General Assembly, shall be payable to the shareholders registered in the records of the Parent Company as of the date of the regulatory approval for distribution of bonus shares.

Dividend for the year ended 2015 was approved in the Annual General Assembly held on 20 April 2016 and was paid during the year.

# National Petroleum Services Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

### 14 SHARE PREMIUM

This represents cash received in excess of the par value of the shares issued. The share premium is not available for distribution except in cases stipulated by law.

### 15 TREASURY SHARES

	2016	2015
Number of treasury shares	1,680,000	1,680,000
Percentage of issued shares	2.92%	2.92%
Market value (KD)	1,377,600	1,092,000
Cost (KD)	585,062	585,062

The balance in the treasury shares reserve of KD 33,825 (2015: KD 33,825) is not available for distribution. Reserves equivalent to the cost of the treasury shares held are not available for distribution throughout the holding period of treasury shares.

### 16 STATUTORY RESERVE

As required by the Companies Law and the Parent Company's Articles of Association, 10% 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. The Parent Company may resolve to discontinue such annual transfers when the reserve totals 50% of paid up share capital.

Distribution of the Parent Company's statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when retained earnings are not sufficient for the payment of a dividend of that amount.

### 17 VOLUNTARY RESERVE

As required by the Parent Company's Articles of Association, 10% 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 the voluntary reserve. Such annual transfers may be discontinued by a resolution of the Parent Company's shareholders' General Assembly upon a recommendation by the Board of Directors. There is no restriction on distribution of the voluntary reserve.

### 18 EMPLOYEES' END OF SERVICE BENEFITS

Movements in the provision recognized in the consolidated statement of financial position are as follows:

	2016 KD	2015 KD
At 1 January	1,416,260	1,131,646
Charge for the year	391,943	365,303
Paid during the year	(216,231)	(80,689)
At 31 December	1,591,972	1,416,260

### 19 ACCOUNTS PAYABLES AND ACCRUALS

	2016 KD	2015 KD
Trade payables	375,130	523,557
Staff accruals and other accrued expenses	4,581,035	2,723,276
Advance received from subcontractor	511,056	551,227
Accrued leave	-	136,913
KFAS, NLST and Zakat payable	425,753	266,445
Directors' remuneration	115,000	78,000
	6,007,974	4,279,418

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

**20 NET INVESTMENT INCOME**

	<b>2016</b> <b>KD</b>	<b>2015</b> <b>KD</b>
Dividend income	82,224	8,708
Realised gain on sale of financial assets at fair value through profit or loss	161,370	1,650,001
Impairment loss on financial assets available for sale	(78)	(302)
Unrealized gain (loss) on financial assets at fair value through profit or loss	6,246	(34,049)
Investment expenses	(11,337)	-
	<u>238,425</u>	<u>1,624,358</u>

**21 ADMINISTRATIVE EXPENSES**

	<b>2016</b> <b>KD</b>	<b>2015</b> <b>KD</b>
Staff costs	1,102,444	970,450
Professional fees	58,873	34,707
Depreciation (Note 5)	75,574	68,669
Selling and distribution expenses	182,061	149,752
Others	189,002	254,986
	<u>1,607,954</u>	<u>1,478,564</u>

**22 BASIC AND DILUTED EARNINGS PER SHARE**

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

	<b>2016</b>	<b>2015</b>
Profit for the year attributable to equity holders of the Parent Company (KD)	<u>7,701,828</u>	<u>5,682,281</u>
	<i>Shares</i>	<i>Shares</i>
Weighted average number of ordinary shares	57,609,510	57,609,510
Less: weighted average number of treasury shares	(1,680,000)	(1,680,000)
Weighted average number of shares outstanding	<u>55,929,510</u>	<u>55,929,510</u>
<b>Basic and diluted earnings per share attributable to the equity holders of the Parent Company (fls)</b>	<u>137.71</u>	<u>101.60</u>

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

**23 CONTINGENT LIABILITIES**

At 31 December 2016 the Group had contingent liabilities in respect of letters of guarantee arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to KD 6,642,556 (2015: KD 4,210,804). Contingent liabilities have maturity of more than 12 months from the reporting date.

**24 COMMITMENTS**

At 31 December 2016, Group has capital commitment for purchase of property, plant and equipment amounting to KD 3,614,265 (2015: KD 185,415). Commitments have maturity of less than 12 months from the reporting date.

# National Petroleum Services Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

### 25 SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on the products and services and has two reportable operating segments i.e. oil field services and non-oil field services. Management treats the operations of these segments separately for the purposes of decision making, resource allocation and performance assessment. The segment performance is evaluated based on operating profit or loss.

#### Oil field services

Oil field services comprise of cementing and stimulation formulations for different applications and operating environments for Oil Rigs. It mainly includes well cementing services, and well intervention services.

#### Non-oil field services

Non-oil field services comprise of a number of diversified activities with health, safety and environmental services, engineering and consultancy services.

The following table presents revenue and segment results information in respect of the Group's business segments:

	Year ended 31 December 2016			Year ended 31 December 2015		
	Oil field services KD	Non-oil field services KD	Total KD	Oil field services KD	Non-oil field services KD	Total KD
Segment revenue	21,901,498	5,100,960	27,002,458	14,949,158	4,660,224	19,609,382
Segment cost	(12,802,534)	(4,830,598)	(17,633,132)	(9,676,307)	(4,049,435)	(13,725,742)
Segment results	9,098,964	270,362	9,369,326	5,272,851	610,789	5,883,640
Unallocated cost			(2,087,205)			(1,823,009)
Other income (net)			427,901			1,624,358
Profit for the year			7,710,022			5,684,989

Impairment of property, plant and equipment as included in the consolidated statement of income is allocated to Oil field Services segment.

# National Petroleum Services Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

### 25 SEGMENT INFORMATION (continued)

The following table presents segment assets information in respect of the Group's business segments:

	As at 31 December 2016			As at 31 December 2015		
	Oil field		Total	Non-oil field		Total
	Services	Non-oil field services		Services	Non-oil field services	
Segment assets	<b>KD</b> 27,993,345	<b>KD</b> 1,953,437	<b>KD</b> 29,946,782	<b>KD</b> 24,070,613	<b>KD</b> 1,892,156	<b>KD</b> 25,962,769
Unallocated assets			<b>2,446,720</b>			<b>185,059</b>
			<b>32,393,502</b>			<b>26,147,828</b>
Segment liabilities	<b>7,580,585</b>	<b>19,361</b>	<b>7,599,946</b>	<b>5,615,499</b>	<b>80,179</b>	<b>5,695,678</b>



**26 TRANSACTIONS WITH RELATED PARTIES**

Related parties represent the major shareholders, entities under the Parent Company's common control, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Parent Company's management.

**Compensation of key management personnel**

The remuneration of directors and other members of key management during the year is as follows:

	<i>2016</i> <i>KD</i>	<i>2015</i> <i>KD</i>
Salaries and short-term benefits	426,756	448,092
Employees' end of service benefits	16,674	16,674
	<u>443,430</u>	<u>464,766</u>

The shareholders at the Annual General Meeting held on 20 April 2016 approved the proposed Board of Directors' remuneration amounting to KD 78,000 for the year ended 31 December 2015.

The Board of Directors have proposed directors' remuneration for the year ended 31 December 2016 amounting KD 115,000 and is subject to approval by Annual General Assembly.

**27 RISK MANAGEMENT**

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk, interest/profit rate risk, foreign currency risk and equity price risk.

The Parent Company's Board of Directors is ultimately responsible for the overall risk management approach and for approving the risk strategies and principles. No significant changes were made in the risk management objectives and policies during the years ended 31 December 2016 and 31 December 2015. The management of the Group reviews and agrees policies for managing each of these risks which are summarised below:

**27.1 Credit risk**

Credit risk is the risk that counterparty will cause a financial loss to the Group by failing to discharge an obligation. Credit risk arises in the Group's normal course of business. The Group seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables.

***Collateral and other credit enhancements***

The Group does not have any collateral or other credit enhancements against any of the financial assets at 31 December 2016 and 31 December 2015.

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

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The Group minimises concentrations of credit risk by undertaking transactions with a large number of customers and with customers in various industries. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The Group's 5 largest customers account for 96% (2015: 94%) of outstanding trade receivables at 31 December 2016.

With respect to credit risk arising from the other financial assets of the Group, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Bank balances are placed with reputable financial institutions.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

**27 RISK MANAGEMENT (continued)****27.2 Liquidity risk**

Liquidity risk is the risk that the Group will be unable to meet liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind and monitors liquidity on a daily basis. The Group's credit sales require amounts to be paid within 60 to 90 days of the date of invoice and trade payables are normally settled within 60 to 120 days from the date of purchase.

The table below summarises the maturities of the Group's undiscounted financial liabilities at 31 December based on contractual payment dates.

<i>31 December 2016</i>	<i>Less than 3 months KD</i>	<i>3 to 12 months KD</i>	<i>Total KD</i>
Accounts payable (excluding advance received from subcontractor)	<u>5,447,954</u>	<u>48,964</u>	<u>5,496,918</u>
<i>31 December 2015</i>			
Accounts payable (excluding advance received from subcontractor)	<u>523,557</u>	<u>481,358</u>	<u>1,004,915</u>

**27.3 Market risk**

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market variables such as interest rates, foreign exchange rates, and equity prices, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all investments traded in the market.

Market risk is managed 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.

**27.3.1 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 is not currently exposed significantly to such risk.

**27.3.2 Foreign currency risk**

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Group's functional currency. Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Foreign exchange risk is managed on the basis of limits determined by management and a continuous assessment of current and expected exchange rate movements.

The tables below indicate the currencies to which the Group had significant exposure at 31 December on its monetary assets and liabilities. The analysis calculates the effect of a 5 % change in currency rate against the Kuwaiti Dinar, with all other variables held constant on the consolidated statement of income:

	<i>Effect on profit for the year</i>	
	<i>2016</i>	<i>2015</i>
	<i>KD</i>	<i>KD</i>
US Dollars	60,536	102,580

The exposure to other foreign currencies is not significant to the Group's consolidated financial statements. There is no direct impact on the Group's other comprehensive income.

**27 RISK MANAGEMENT (continued)****27.3 Market risk (continued)****27.3.3 Equity price risk**

Equity price risk arises from changes in the fair values of equity investments. The Group manages the equity price risk on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

The effect on consolidated statement of income (as a result of a change in the fair value of financial assets at fair value through profit or loss) and on consolidated statement of comprehensive income (as a result of a change in the fair value of financial assets available for sale) due to a reasonably possible change in market indices, with all other variables held constant is as follows:

	2016			2015		
	Change in equity price %	Effect on consolidated statement of income KD	Effect on consolidated statement of comprehensive income KD	Change in equity price %	Effect on consolidated statement of income KD	Effect on consolidated statement of comprehensive income KD
Market Indices						
Kuwait Stock Exchange	5%	-	2,312	5%		2,030
Others	5%	1,518	15	5%	7,062	161

**28 FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value of financial instruments are not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months), the carrying amounts approximate to their fair value.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

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

	Level 1 KD	Level 3 KD	Total KD
<b>At 31 December 2016</b>			
<i>Assets measured at fair value</i>			
Financial assets available for sale	46,543	3,223	49,766
Financial assets at fair value through profit or loss	30,360	2,366,594	2,396,954
	<u>76,903</u>	<u>2,369,817</u>	<u>2,446,720</u>
<b>At 31 December 2015</b>			
<i>Assets measured at fair value</i>			
Financial assets available for sale	40,591	3,223	43,814
Financial assets at fair value through profit or loss	28,380	112,865	141,245
	<u>68,971</u>	<u>116,088</u>	<u>185,059</u>

The fair value of the above investment securities is categorised as per the policy on fair value measurement in Note 2. Movement in level 3 is mainly on account of purchases and change in fair value. There were no transfers between the different levels of fair value during the year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

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

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

	<i>At 1 January 2016 KD</i>	<i>Net purchases and sales KD</i>	<i>Gain recorded in consolidated statement of income KD</i>	<i>At 31 December 2016 KD</i>
<b>Assets measured at fair value</b>				
Financial assets available for sale	3,223	-	-	3,223
Financial assets at fair value through profit or loss	112,865	2,249,463	4,266	2,366,594
	<u>116,088</u>	<u>2,249,463</u>	<u>4,266</u>	<u>2,369,817</u>
	<i>At 1 January 2015 KD</i>	<i>Net purchases and sales KD</i>	<i>Loss recorded in consolidated statement of income KD</i>	<i>At 31 December 2015 KD</i>
<b>Assets measured at fair value</b>				
Financial assets available for sale	3,223	-	-	3,223
Financial assets at fair value through profit or loss	1,644,074	(1,500,000)	(31,209)	112,865
	<u>1,647,297</u>	<u>(1,500,000)</u>	<u>(31,209)</u>	<u>116,088</u>

The fair value of the financial instruments are not materially different from their carrying value.

**29 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 shareholder or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2016 and 2015. Capital represents equity attributable to equity holders of the Parent Company and is measured at KD 24,754,394 as at 31 December 2016 (2015: KD 20,402,307).