المجموعة البترولية المستقلة ش.م.ك.ع.
Independent Petroleum Group K.S.C.P.

40 Years
1976 -2016

Annual Report
2016

His Highness Sheikh
Sabah Al-Ahmad Al-Jaber Al-Sabah
The Amir of The State of Kuwait

His Highness Sheikh

Nawwaf Al-Ahmad Al-Jaber Al-Sabah

The Crown Prince of The State of Kuwait

Board of Directors

• ***Khalaf A. Al-Khalaf***	Chairman
• ***Ghazi F. AlNafisi***	Vice Chairman
• ***Waleed J. Hadeed***	Chief Executive Officer
• ***Abdullah A. Zaman***	Managing Director - Planning
• ***Ali M. Al-Radwan***	Director
• ***Ali R. Al-Bader***	Director
• ***Abdullah E. Al-Kandari***	Director & Chief Financial Officer
• ***Mohammad A.Qasim***	Director and General Manager - Marketing

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Report of the Board of Directors for 2016

Message to the Shareholders

Dear Shareholders,

On behalf of the Board of Directors I am pleased to present to the shareholders the 40th Annual Report of the performance of the Independent Petroleum Group (IPG) for the year 2016.

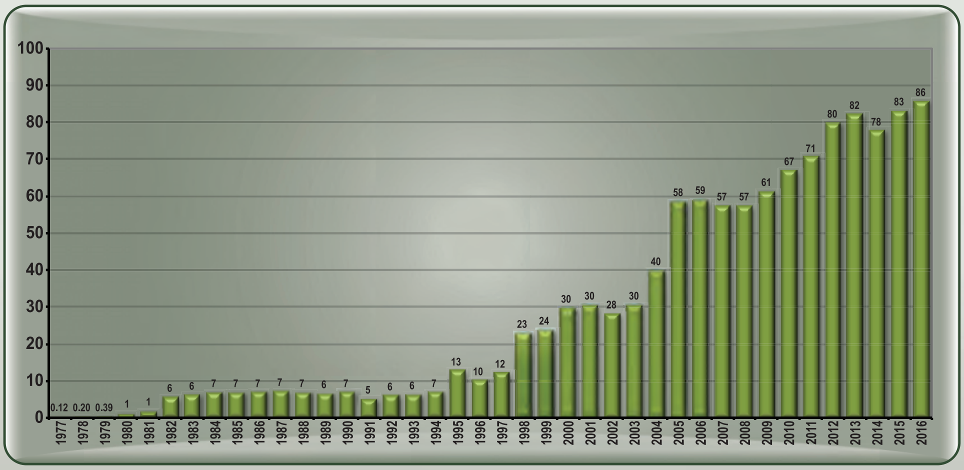
It has been forty years since the establishment of IPG on September 11th, 1976. These forty years were full of challenges, with minor failures and major successes. IPG managed to survive against sharp turmoil and fluctuations in the global financial and oil markets. During the course of these forty years, IPG's initial capital has increased from 690,000 Kuwaiti Dinars to KD 15,225,000 today. At the end of 2016, the shareholder's equity has also increased to 85,724,000 Kuwaiti Dinar. IPG was listed in the Kuwait Stock Exchange on December 10th, 1995. IPG's growth was also manifested in the number of staff which increased from three (3) in 1976 to 122 at the end of 2016. The number of offices and subsidiaries also increased to ten: in Kuwait, Singapore, London, Mozambique, South Africa, Zimbabwe, Dubai, Morocco, Zambia and Lebanon.

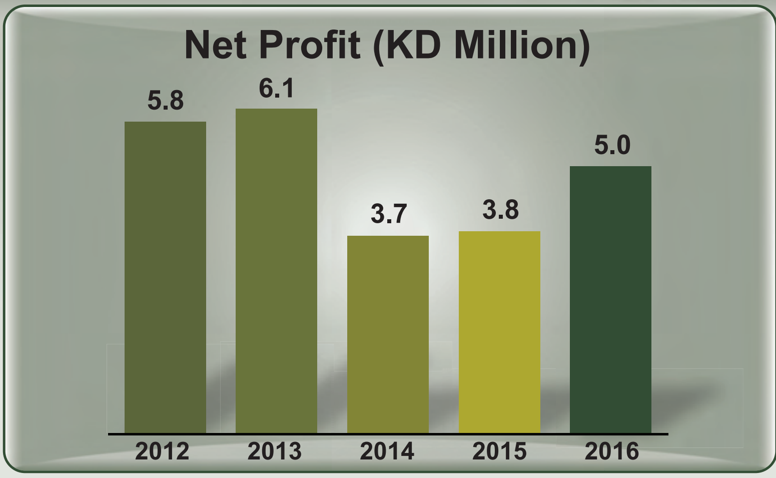
The year 2016 was full of surprises casting a shadow of uncertainties on trends in the oil and global money markets. The first among these was the British exit from the European Union, while the second was Trump's victory in the American presidential elections. Furthermore, the recent unexpected OPEC Agreement to limit the oil production has given rise to oil prices during the last quarter of this year. Nevertheless, IPG maintained a good performance attaining a net profit in 2016 of 5.008 Million Kuwaiti Dinar i.e. equivalent to 34.63 Fils per Share.

Oil Markets fluctuated sharply during the year as WTI crude prices started the year at $44 then dropped to $33 in February but then increased again to $54 by year end. Global Financial Markets likewise fluctuated, caused by doubts and uncertainties of the future of international trade and international relations. However, despite these uncertainties, IPG's portfolio performance as at the end of the year was satisfactory when compared to other indices.

The Board of Directors have adopted policies, procedures and regulations during 2016 governing the application of rules of corporate governance. Introducing such policies during the year was in accordance with the Capital Markets Authority and best corporate governance practices including protection of shareholders and other stakeholders. Furthermore, to maximize the added value for shareholders and provide transparency in all of the Group's dealings under the law and instructions of regulators. The corporate governance report includes the achievements of the Board of Directors with regard to the application of corporate governance under the instruction of the CMA.

IPG's Equity Movement (KD Million)





SUMMARY OF THE COMPANIES RESULTS FOR 2016

MARKETING & TRADING ACTIVITY

Despite intense competition by international oil trading companies, namely in the African Markets, IPG managed to market about 3.9 million tons, equivalent to 82,000 barrels per day, an increase of about 5.3% compared to 2015. 2016 has also witnessed IPG's return to the Zambian markets. IPG continued its close cooperation with many National Oil Companies such as Aramco, The Bahrain Petroleum Company (BAPCO), Egyptian General Petroleum Corporation (EGPC) and Aden Refinery Company. Furthermore, IPG strengthened its ties with international oil companies such as Shell, Exxon Mobil, British Petroleum and refineries operating in the Mediterranean.

(a) TRADING ACTIVITY IN THE GULF & RED SEA

Sales to the Gulf and Red Sea regions represented the highest share of our markets, reaching 1.44 million tons which were mostly sold to Saudi Arabia, United Arab Emirates, Yemen and The Arab Republic of Egypt.

(b) TRADING ACTIVITY IN EAST AFRICA

IPG was able to market 960,000 tons of petroleum products in Zimbabwe, Mozambique and Zambia, representing an increase of about 550,000 tons over what was marketed in 2015. "Reconstituted Crude" sales to Zambia were the major part of these sales.

(c) TRADING ACTIVITY IN THE MEDITERRANEAN SEA & BLACK SEA

IPG's sales in this region increased to 1.23 million tons compared to 1.1 million tons marketed during 2015. Sales to Lebanon declined to 590,000 tons from 700,000 tons during 2015. This decline in sales was due to the loss of a major customer, combined with an increase in the Lebanese Government sales of Diesel. However, despite this decline in sales, IPG was able to maintain good performance in Uniterminals (50% owned by IPG) in 2016, generating higher profits than in 2015.

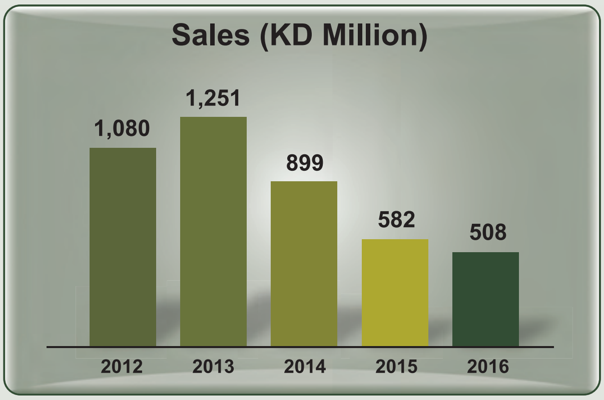
IPG also increased its sales to Morocco by 10%; 440,000 tons compared to 400,000 tons during 2015. IPG utilized HTTSA tanks in Tangier (32.5% owned by IPG) to provide supplies to its local customers.

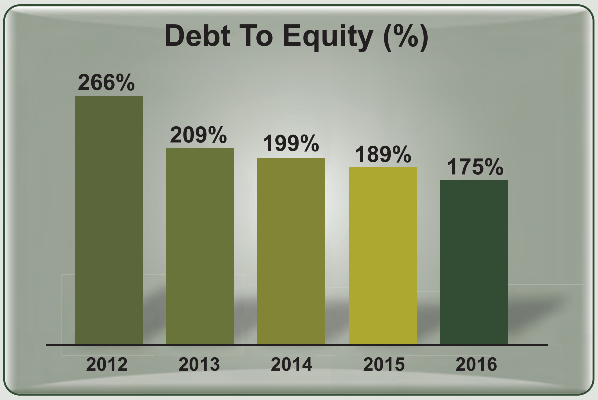
(d) TRADING ACTIVITY IN THE FAR EAST

IPG's sales of petroleum products to customers in Singapore, South Korea and Vietnam reached about 316,000 tons.

(e) SHIPPING

The two new tankers owned by IPG were leased the tanker "Abdurrazak Khaled Zaid Al-Khaled" to Shell and the tanker " Al-Betroleya" to Aramco for a period of one year at competitive rates. Charter rates have declined at the end of 2016 due to economic slow-down and freezing of oil production by OPEC. IPG's Shipping Department carried out a total of 133 shipments during the year, totaling approximately 4.24 million tons of both petroleum products and crude oil.





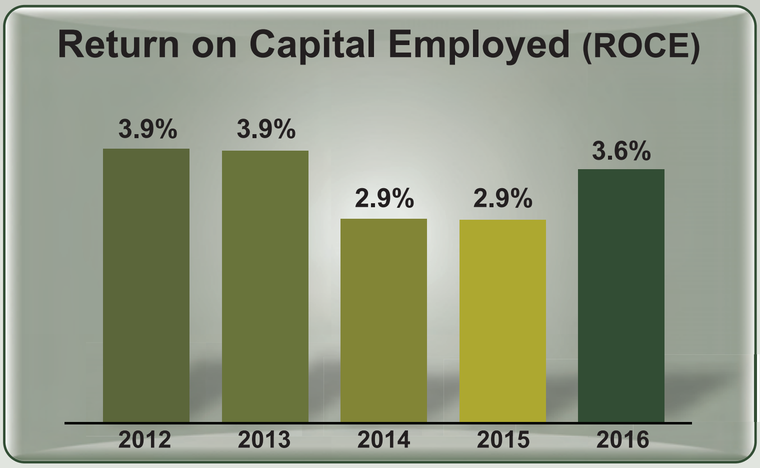
(f) STORAGE OF PETROLEUM PRODUCTS

The total petroleum products that were stored and then marketed by IPG during 2016 reached about 880,000 tons. Most of these storage operations were carried out utilizing storage terminals that are partly owned by IPG. These storage operations plus some sales into retail operations helped IPG maintain a good level of sales into Zimbabwe, Mozambique and Morocco. Apart from that, Arab Tank Terminals storage in Yanbu Saudi Arabia was partially leased to Aramco where it will be utilized for blending of Gasoline and retail sales to local markets.

BUSINESS & PROJECT DEVELOPMENT

The Business Development & Projects Department (BD) actively monitored the execution of wholly or partially owned projects.
In 2016, the Department was actively involved in the implementation of the Phase III Infrastructure Project (Debottlenecking) at ATTL facilities in Yanbu, Saudi Arabia which was financed by IPG at a total cost of USD 14 million. Upon completion of the project in June 2017, it will enable the terminal to receive 100,000 - ton Long Range tankers.
Expansion works are in progress at HTTSA in Tangier Morocco to add the 2nd Jetty and truck loading facilities at a total cost of 14.5 million Euros, which is expected to be completed by June of 2017.

Furthermore, the Department also monitored the project execution work of the two new terminal facilities at the Ports of Beira and Matola in Mozambique, in partnership with Galp Energia Group of Portugal. Adverse weather conditions and heavy rains, combined with slow pace of project execution by the contractor Steval (EPC), has affected the project's progress. Now it has been finally agreed with Steval to reschedule the projects execution. The new estimates are for the Beira project to be completed by 3rd Quarter of 2017, while Matola project is expected to be completed by 1st quarter of 2018.

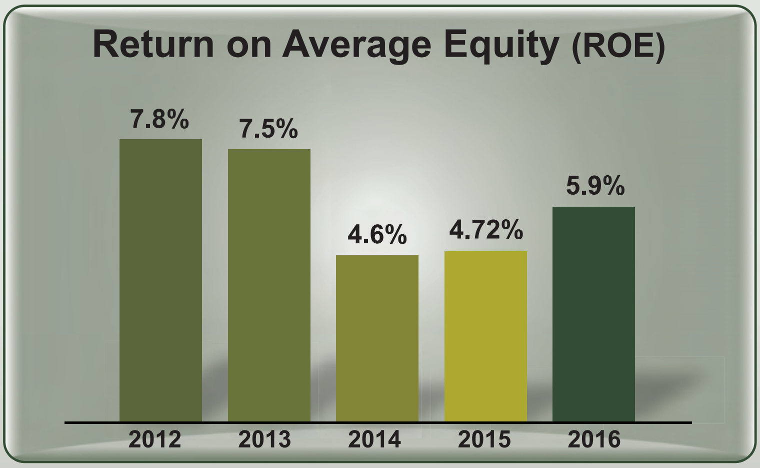


FINANCE & TREASURY

The Finance Department continues to ensure the Group's liquidity requirement for its trading activity and to participate in entering in International bidding contracts to supply the group's customers with competitively priced petroleum products. Furthermore, the Department resorted to Structured Financial Arrangements which supported IPG to enter into new markets.
IPG has continued to strengthen its relationship with international, regional and local banks, through visits and follow-through so as to obtain the best financing for its trading and project activities.

HUMAN RESOURCES

IPG's business performance and future success relies primarily on its employees. During 2016, ten (10) new employees were recruited, bringing the total staff to 122. IPG also maintained a good percentage of Kuwaiti employees, reaching 18% of the total workforce at the end of 2016.



INFORMATION TECHNOLOGY

Globally, 2016 was considered a very challenging year for Cyber Security which led IPG to focus more on fortifying the Security and safety Infrastructure. The Department started by successfully migrating the email exchange servers to the cloud – Microsoft Office365 which enhanced Security and saved cost. As a major security step, the Department migrated the Payments to be done through SWIFT, which is the most secured way used worldwide by banks and large financial organizations. As a final step towards strengthening IPG's Security, the Department decided to replace the whole Security Infrastructure with the best solution available globally and currently the Department is in the designing & Implementation phase.

LEGAL DEPARTMENT

The team spirit and the continuous coordination between the Legal Department and IPG's other Departments contributed in minimizing commercial risks, which is mostly quite difficult for other companies to achieve, due to the difficult business environment where IPG operates.

Since inception in 2007, the Legal Department has played a leading role in providing IPG's head office and all its worldwide branches with the highest level of legal opinions.

This was adopted based on the foregoing, and the Board of Directors has approved the financial statement for the financial year ended 31.12.2016 recommending the following:

1. Cash dividend of 30% approximately 30 fils per share amounting to KD 4,567,500 (Four million Five hundred Sixty Seven thousand Five hundred Kuwaiti Dinars) for the year ended 31/12/2016 towards registered shareholders on the date of the AGM.
2. Approving the remuneration towards the members of the Board of Directors for the financial year ended 31/12/2016 amounting to KD 80,000 (KD Eighty thousand only).
3. Approving the increase of the paid-up capital of the company from 15,225,000 KD, divided into 152,250,000 shares to 18,840,750 KD, divided into 188,407,500 shares, representing an increase of 3,615,750 KD, equivalent to 36,157,500 new shares, representing an increase of 23.749% to the existing paid-up capital of the Company. This will bring a nominal increase of 100 fils per share and a premium of 200 fils per share, less issuance expenses.

These recommendations are subject to the approval of the competent authorities, General and extraordinary assemblies.

In conclusion, the Board of Directors expresses its sincere gratitude to the shareholders for their invaluable trust and support and to all the employees of IPG for their dedication.

Khalaf Ahmad Al-Khalaf
Chairman

IPG's Subsidiary, Joint Venture and Associate Companies (brief of facilities and latest development)

1. D&K Holdings: (L.L.C.) – UAE: (IPG share 100% - Subsidiary Company)

D&K Holdings LLC is the shipping arm of IPG. The company owns and operates 4 petroleum product vessels which are fully utilized by IPG. The D&KH fleet will provide IPG with the required strategic controlled tonnage coverage.

2. Uniterminals – Lebanon: (IPG share 50% - Joint Venture Company)

Uniterminals markets petroleum products to wholesale buyers in Lebanon. It owns and operates a petroleum product storage terminal with a capacity of 74,000 m^3. It has a paid up capital of US $16.7 million. By Shareholding IPG's capacity is 37,000 m^3.

Other Shareholder is:

- Unihold SAL – Lebanon

3. Inpetro SARL, Beira – Mozambique: (IPG share 40% - Associate Company)

Inpetro owns and operates petroleum products storage terminal in Port Beira, Mozambique with a storage capacity of 95,000 m³ constructed at a total capital cost of US $26 million. By Shareholding IPG's capacity is 38,000 m³.

Other Shareholders are:

- PETROMOC – National Oil Company of the Republic of Mozambique
- NOIC - National Oil Infrastructure Company of Zimbabwe (Pvt.) Limited

4. Arabtank Terminals Ltd (ATT), Yanbu – Kingdom of Saudi Arabia: (IPG share 36.5% - Associate Company)

ATT owns and operates a storage facility of 287,700 m³ of which 268,500 m³ is for petroleum products and 19,200 m³ for chemical products with a total capital cost of US $ 74 million along with a pipeline connection (three 16" lines) to Samref Refinery, Yanbu, KSA. ATT is going ahead with a project to improve the operational efficiency and flexibility of the terminal, with the ability to receive LR vessels in the new berth 20 in addition to the existing berth 21. EPC Contract was signed with Belleli in November 2015 at a cost of US$ 11.7 Million to execute the project. The project is under construction phase and expected to be commissioned by Q2 2017. By Shareholding IPG's capacity is 105,000 m³.

Other Shareholders are:

- Emirates National Oil Company (ENOC)
- Saudi Arabian Refining Company (SARCO)

5. Horizon Tangiers Terminals SA (HTTSA) – Morocco: (IPG share 32.5% - Associate Company)

HTTSA owns and operates a storage and bunkering facility of 532,919 cbm for clean and dirty petroleum products at Port Tangiers, Morocco at a total capital cost of € 140.5 million. HTTSA is financing construction of Jetty no. 2 by TMSA at a cost of approx.

€ 12 million. Upon completion of the Jetty no. 2, HTTSA will have access to the Jetty no. 2 in addition to the existing exclusive Jetty No. 1 which will add flexibility on shipping facilities for the Clients of HTTSA. The Jetty no. 2 is expected to be operational by Q2 of 2017. By Shareholding IPG's capacity is **173,199 m³**.

Other Shareholders are:

- Horizon Terminals Limited (HTL), 100% subsidiary of Emirates National Oil Company (ENOC)
- Afriquia SMDC

6. Horizon Djibouti Holdings Limited (HDHL) – Djibouti: (IPG share 22.22% - Associate Company)

HDHL owns 90 % of the Horizon Djibouti Terminals Limited (HDTL), with the remaining balance (10%) owned by Govt. of Djibouti. HDTL owns and operates an independent storage terminal for petroleum products, LPG, chemicals and edible oils with a storage capacity of 371,000 m^3 constructed at a capital cost of US $100 million. By Shareholding IPG's capacity is 74,200 m^3.

Other Shareholders are:

- Horizon Terminals Limited (HTL)
- Net Support Holdings Limited (NSHL)
- Essense Management Limited (EML)

7. Horizon Singapore Terminals Private Limited (HSTPL) – Singapore: (IPG share 15% - Associate Company)

HSTPL owns and operates an independent petroleum storage terminal with a storage capacity of 1.2 million m^3 and four jetties at a capital cost of US $299 million. By Shareholding IPG's capacity is 186,750 cbm.

Other Shareholders are:

- Horizon Terminals Limited (HTL)
- Boreh International Limited (BIL)
- South Korea Energy Asia Pte. Limited (SK)
- Martank BV (MBV)

8. Asia Petroleum Limited (APL) – Pakistan: (IPG share 12.5% - Associate Company)

APL owns and operates a petroleum products pipeline (including pumping station and storage) in Pakistan. The pipeline runs from Zulfiqarabad terminal at Pipri, Karachi to Hub, Baluchistan to transport Fuel Oil for HUBCO Power Plant. The facility was constructed at a total capital cost of US $100 million. By Shareholding IPG's capacity is 10.25 Km.

Other Shareholders are:

- Pakistan State Oil (PSO)
- Asia Infrastructure Ltd of Singapore (AIL)
- VECO International of USA (VECO)

9. Vopak Horizon Fujairah Limited (VHFL) – UAE:

(IPG share 11.11% - Associate Company)

VHFL owns and operates an independent petroleum products storage terminal in Fujairah with a storage capacity of 2.6 million m³ including marine facilities with 4 berths and one single point mooring (SPM), at a total capital cost of US $505 million. By Shareholding IPG's capacity is 290,000 m³.

Other Shareholders are:

- VOPAK Oil Logistics Europe & Middle East B.V. of Netherlands (VOPAK)
- Horizon Terminals Limited (HTL)
- The Government of Fujairah



Financial Highlights

	2012	2013	2014	2015	2016
Sales (KD Million)	1080	1251	899	582	**508**
Gross Margin (%)	0.8%	0.7%	0.5%	1.0%	**1.5%**
Operating Profit (KD Million)	3.3	2.96	2.3	3.0	**3.5**
Net Profit (KD Million)	5.8	6.1	3.7	3.8	**5.0**
Earning Per share (Fils)	40.35	42.00	25.60	26.20	**34.63**
Price Earning (Times)	8.67	9.40	15.04	10.69	**10.54**
Book value (Fils)	552	567	538	573	**593**
Cash Dividend (%)	30%	30%	25%	25%	**30%**
Dividend Yield (%)	8.6%	7.6%	6.5%	8.9%	**8.2**
Total Assets (KD Million)	375.2	342.9	293.4	269.1	**285.3**
Shareholders' Equity (KD Million)	79.8	82.0	77.8	82.9	**85.7**
Return on Average Equity (%)	7.8%	7.5%	4.6%	4.7%	**5.9%**
Return on Average Capital Employed (%)	3.9%	3.9%	2.9%	2.9%	**3.6%**

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Consolidated Financial Statements

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KPMG

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Independent Auditors' report

To The Shareholders of
Independent Petroleum Group K.S.C.P.
State of Kuwait

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Independent Petroleum Group K.S.C.P. ("the Parent Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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 International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current 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.

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The Key audit matter	How the matter was addressed in our audit
Investments available for sale	
Investment in Vopak Horizon Fujairah Limited (VHFL) amounting to KD 27.32 million, classified as investment available for sale, is fair valued using discounted cash flow technique. The valuation is carried out by the Parent Company's internal valuer ("Valuer") and there has been no change in valuation technique as compared to prior years. Due to the unquoted nature of this investment, the assessment of fair value is subjective and requires a number of significant judgements and estimates by management in particular to discount rates, capitalization rate, growth rates and the estimation of future cash flows projections. Accordingly, this was an area of focus for our audit. Refer to Note 3 - Critical judgements and estimation uncertainty and Note 5 – Investments.	Our audit procedures over the valuation of the investment included, but were not limited to, the following: • Discussions were held with the Valuer on the appropriateness of valuation technique and involved our specialists to test the key inputs and assumptions used to determine fair value; and • Evaluate the reasonableness of the key inputs and assumptions made by the Valuer in conjunction with available supporting information, such as the verification of financial inputs to the VHFL management accounts, historical ratios, capacity utilization rates, discount rates, growth rates and cash flow projections.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Group's 2016 annual report, other than the consolidated financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the Board of Directors report which forms part of the annual report and the remaining sections of the annual report are expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility 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 IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

KPMG RSM

statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the consolidated financial statements include the information required by the Companies Law No. 1 of 2016 and its Executive Regulations and the Parent Company's Memorandum and Articles of Association, as amended. In our opinion, proper books of account have been kept by the Parent Company, an inventory count was carried out in accordance with recognized procedures and the accounting information given in the board of directors' report agrees with the books of accounts of the Parent Company. We have not become aware of any violations of the provisions of the Companies Law No. 1 of 2016 and its Executive Regulations, or of the Parent Company's Memorandum and Articles of Association, as amended, 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.

Safi A. Al-Mutawa
License No. 138 "A"
of KPMG Safi Al-Mutawa & Partners
Member firm of KPMG International

Nayef M. Al Bazie
License No 91-A
RSM Albazie & Co.

Kuwait: 13 February 2017

Consolidated statement of financial position

For the year ended 31 December 2016

	Notes	**2016 KD'000**	2015 KD'000
ASSETS			
Current assets			
Cash on hand and at banks	4	**34,891**	39,127
Investments at fair value through statement of income	5	**53,348**	51,427
Trade and other receivables	6	**67,521**	52,123
Inventories		**29,004**	25,999
Total current assets		**184,764**	168,676
Non-current assets			
Other loans	7	**716**	729
Investments available for sale	5	**28,651**	26,790
Investment in joint venture	8	**4,453**	4,070
Investment in associates	9	**28,341**	29,244
Property and equipment	10	**38,353**	39,548
Total non-current assets		**100,514**	100,381
Total assets		**285,278**	269,057
LIABILITIES AND EQUITY			
Current liabilities			
Due to banks	11	**131,233**	134,101
Directors' fees payable		**80**	80
Trade and other payables	12	**46,420**	27,484
Current portion of term loan	13	**1,626**	3,095
Total current liabilities		**179,359**	164,760
Non-current liabilities			
Non-current portion of term loan	13	**17,465**	19,244
Provision for staff indemnity	14	**2,730**	2,181
Total non-current liabilities		**20,195**	21,425
Total liabilities		**199,554**	186,185
Equity			
Share capital	15	**15,225**	15,225
Share premium		**22,587**	22,587
Legal reserve	16	**7,613**	7,613
General reserve	17	**606**	606
Fair value reserve	5	**26,366**	24,514
Foreign currency translation adjustments		**(1,550)**	(1,158)
Treasury shares reserve		**1,429**	1,429
Treasury shares	18	**(2,770)**	(2,770)
Retained earnings		**16,218**	14,826
Total equity		**85,724**	82,872
Total liabilities and equity		**285,278**	269,057

The accompanying notes form an integral part of these consolidated financial statements.

Khalaf Ahmad Al-Khalaf	Ghazi Fahad Al-Nafisi	Waleed Jaber Hadeed
Chairman	*Vice Chairman*	*Chief Executive Officer*

Consolidated statement of income

For the year ended 31 December 2016

	Notes	2016 KD'000	2015 KD'000
Sales		**508,137**	582,189
Cost of sales		**(500,646)**	(576,384)
Gross profit		**7,491**	5,805
Net interest relating to oil marketing operations	19	**(3,592)**	(3,020)
Net results of oil marketing operations		**3,899**	2,785
Share in results of associates and joint venture	20	**5,439**	5,562
Dividend income	21	**2,355**	1,320
General and administrative expenses		**(1,438)**	(1,439)
Staff costs		**(4,415)**	(3,680)
Depreciation	10	**(2,350)**	(1,598)
Operating profit		**3,490**	2,950
Unrealised gain from investments at fair value through statement of income	21	**1,477**	16
Other income	22	**172**	943
Profit for the year before provisions for contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), National Labour Support Tax ("NLST"), Zakat and Directors' fees		**5,139**	3,909
Contribution to KFAS	23	**(51)**	(39)
Provision for NLST	24	**-**	-
Provision for Zakat	23	**-**	-
Directors' fees		**(80)**	(80)
Profit for the year		**5,008**	3,790
Earnings per share (fils)	25	**34.63**	26.20

The accompanying notes form an integral part of these consolidated financial statements.



Consolidated statement of comprehensive income

For the year ended 31 December 2016

	2016	2015
	KD'000	KD'000
Profit for the year	**5,008**	3,790
Other comprehensive income / (loss):		
Items that may be reclassified subsequently to profit or loss		
Changes in fair value of investments available for sale	**1,852**	4,930
Movement in share of associates' hedging reserve	**-**	30
Foreign currency translation adjustments	**(392)**	(67)
Other comprehensive income for the year	**1,460**	4,893
Total comprehensive income for the year	**6,468**	8,683

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of change in equity

For the year ended 31 December 2016

	Share capital KD'000	Share premium KD'000	Legal reserve KD'000	General reserve KD'000	Fair value reserve KD'000	Share of associates' hedging reserve KD'000	Foreign currency translation adjustments KD'000	Treasury shares reserve KD'000	Treasury shares KD'000	Retained earnings KD'000	Total KD'000
Balance at 1 January 2015	15,225	22,587	7,613	606	19,584	(30)	(1,091)	1,429	(2,770)	14,652	77,805
Total comprehensive income / (loss) for the year	-	-	-	-	4,930	30	(67)	-	-	3,790	8,683
Dividends for 2014 (Note 27)	-	-	-	-	-	-	-	-	-	(3,616)	(3,616)
Balance at 31 December 2015	15,225	22,587	7,613	606	24,514	-	(1,158)	1,429	(2,770)	14,826	82,872
Total comprehensive income / (loss) for the year	-	-	-	-	1,852	-	(392)	-	-	5,008	6,468
Dividends for 2015 (Note 27)	-	-	-	-	-	-	-	-	-	(3,616)	(3,616)
Balance at 31 December 2016	15,225	22,587	7,613	606	26,366	-	(1,550)	1,429	(2,770)	16,218	85,724

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of cash flow

For the year ended 31 December 2016

	Notes	2016 KD'000	2015 KD'000
Cash flows from operating activities			
Profit for the year before provisions for contribution to KFAS, NLST, Zakat and Directors' fees		**5,139**	3,909
Adjustments for:			
Interest expense	19	**3,734**	3,241
Share in results of associates and joint venture	20	**(5,439)**	(5,562)
Dividend income	21	**(2,355)**	(1,320)
Provision for staff indemnity	14	**560**	234
Depreciation	10	**2,350**	1,598
Unrealised gain from investments at fair value through statement of income	21	**(1,477)**	(16)
Interest income	19 & 22	**(444)**	(252)
		2,068	1,832
Changes in operating assets and liabilities:			
- Trade and other receivables		**(15,376)**	60,335
- Inventories		**(3,005)**	(1,744)
- Trade and other payables		**18,918**	(31,651)
Cash generated from operations		**2,605**	28,772
Payment of staff indemnity	14	**(11)**	(34)
Interest received		**422**	234
Payment to KFAS		**(39)**	(38)
Directors' fees paid		**(80)**	(80)
Net cash generated from operating activities		**2,897**	28,854
Cash flows from investing activities			
Proceeds of loans to associates		**1,207**	-
Other loans		**13**	396
Purchase of property and equipment	10	**(859)**	(18,370)
Dividends received		**6,832**	3,801
Net cash generated from / (used in) investing activities		**7,193**	(14,173)
Cash flows from financing activities			
Due to banks		**(2,868)**	(12,909)
Term loan		**(3,248)**	14,903
Dividends paid		**(3,616)**	(3,616)
Interest paid		**(3,727)**	(3,215)
Net cash used in financing activities		**(13,459)**	(4,837)
Effect of foreign currency translation		**(637)**	(2,278)
Net (decrease) / increase in cash and cash equivalents		**(4,006)**	7,566
Cash and cash equivalents at beginning of the year		**38,897**	31,331
Cash and cash equivalents at end of the year	4	**34,891**	38,897

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2016

1. Formation and activities

Independent Petroleum Group K.S.C.P. ("the Parent Company") was established on 11 September 1976 as a Kuwaiti Shareholding Company, under commercial registration No. 24496. The Parent Company was listed on the Kuwait Stock Exchange on 10 December 1995.

The objectives of the Parent Company and its subsidiaries (the "Group") are as follows:

Benefit from national scientific and business expertise in petroleum and petrochemical industry to achieve the following objectives:

a) Provide economic, technical and specialist advisory services to oil and petrochemicals producing and consuming governments and companies, in areas of marketing, refining, production, investment, financial affairs, planning, maritime transport, organization, training and other areas related to oil and petrochemicals;

b) Conduct marketing researches, and gather and publish information about the oil and petrochemicals industry;

c) Provide specialist services to the oil and petrochemicals consuming and producing governments to expedite communications and maintain consistent relationships among them;

d) Initiate and carry out marketing operations and industrial projects for its own account or the account of oil and petrochemicals consuming and producing governments or in collaboration and participation with them in all areas of oil and petrochemical industry;

e) Acquire facilities, tools, equipment and all other instruments used in oil and petrochemicals industry including manufacturing plants, transport means and others, for its own account or in participation with oil and petrochemicals producing and consuming governments and companies all over the world; and

f) Act as agents and representatives for oil and petrochemicals producing and consuming governments and companies, and carry out all other operations required by company's activities, interests and objectives including sale, purchase and acquisition in all areas related to oil and petrochemicals.

The Parent Company may have interest or to participate in any manner with entities that carry on similar business or that may assist it with achieving its objectives in the State of Kuwait or abroad, and it may buy these entities or acquire them as subsidiaries.

The registered address of the Parent Company is P.O. Box 24027, Safat 13101, State of Kuwait.

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 replaced the Companies Law No 25 of 2012 and its amendments. According to Article No. 5, the new Law will be effective retrospectively from 26 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.

The consolidated financial statements were authorized for issue by the Board of Directors on 13 February 2017. The Shareholders' Annual General Assembly has the power to amend these consolidated financial statements after issuance.

Notes to the consolidated financial statements

For the year ended 31 December 2016

2. Significant accounting policies

a) Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), the relevant provisions of the Companies Law No. 1 of 2016 ("the new Law") and its Executive Regulations, Ministerial Order No. 18 of 1990 and the Company's Articles and Memorandum of Association.

The consolidated financial statements have been prepared under the historical cost convention, except for the following items that are stated at their fair value.

- Investments at fair value through statement of income
- Investments available for sale
- Derivative financial assets and liabilities
- Inventories

The consolidated financial statements are presented rounded to the nearest thousand Kuwaiti Dinars ("KD'000"), which is the Parent Company's presentation currency. The functional currency of the Group is the US Dollars ("USD").

The accounting policies applied by the Group are consistent with those used in the previous year except for the changes due to implementation of the following amended International Financial Reporting Standards effective from 1 January 2016:

Amendments to IFRS 11 – Joint Arrangements

The amendments to IFRS 11 require acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 Business Combinations principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the year.

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

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

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements have to apply that change retrospectively. These amendments do not have any impact on the Group.

Amendments to IAS 1 Disclosure Initiative

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

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of income and other comprehensive income and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of other comprehensive income ("OCI") 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 Group.

b) **Standards issued but not yet effective**

The following new and amended standards have been issued but are not effective for the financial year beginning 1 January 2016 and not early adopted by the Group:

IFRS 9 - Financial Instruments

The standard, effective for annual periods beginning on or after 1 January 2018, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 specifies how an entity should classify and measure its financial instruments and includes a new expected credit loss model for calculating impairment of financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 15 - Revenue from contracts with customers

The standard, effective for annual periods beginning on or after 1 January 2018, establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces the following existing standards and interpretations upon its effective date:

- IAS 18 – Revenue,
- IAS 11 – Construction Contracts,
- IFRIC 13 – Customer Loyalty Programs,
- IFRIC 15 – Agreements for the Construction of Real Estate,
- IFRIC 18 – Transfers of Assets from Customers, and,
- SIC 31 – Revenue-Barter Transactions Involving Advertising Services

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

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

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12

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

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

IAS 7 Disclosure Initiative – Amendments to IAS 7

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

c) Basis of consolidation

The consolidated financial statements include the financial statements of the Parent Company and its subsidiaries (see below). Subsidiaries are those enterprises controlled by the Parent Company. Control exists when the Parent Company has power over the investee; is exposed, or has rights to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns.

The Parent Company reassess 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 listed above.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. All inter-company balances and transactions, including inter-company profits and unrealized profits and losses are eliminated in full on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interest even if that results in a deficit balance. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in consolidated statement of income; and
- Reclassifies the Parent Company's share of components previously recognised in other comprehensive income to consolidated statement of income or retained earnings as appropriate.

Details of the Parent Company's subsidiaries are as follows:

Name of subsidiary	Place of incorporation	Ownership interest 2016	2015	Principal activity
Independent Petroleum Group Limited	Bahamas	100%	100%	Trading of crude oil and petroleum products
Independent Petroleum Group of Kuwait Limited.	United Kingdom	100%	100%	Representative office
Independent Petroleum Group (Asia) Pte. Limited.	Singapore	100%	100%	Trading of crude oil and petroleum products
Independent Petroleum Group (Southern Africa) (Pty) Limited.	South Africa	100%	100%	Representative office
D&K Holdings L.L.C.	United Arab Emirates	100%	100%	Holding Company for subsidiaries in shipping

d) Financial instruments

Financial assets and financial liabilities carried in the consolidated statement of financial position include cash on hand and at banks, investments at fair value through statement of income, investments available for sale, trade and other receivables, other loans, derivative financial instruments, due to banks, trade and other payables and term loans.

Financial instruments are classified on initial recognition as financial assets, financial liabilities or equity in accordance with the substance of the contractual arrangement. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

i. Cash and cash equivalents

Cash and cash equivalents include cash on hand, current accounts with banks, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

ii. Trade receivables and loans

Trade receivables and loans are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. Appropriate allowances for estimated irrecoverable amounts are recognised in the consolidated statement of income when there is objective evidence that the asset is impaired.

iii. Investments

Investment at fair value through statement of income

Investments at fair value through statement of income are initially recognised at cost being the fair value, excluding transaction costs. These investments are either “held for trading” or “designated at fair value through statement of income”.

Held for trading investments are acquired principally for the purpose of selling or repurchasing in the near term or are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking.

Investments designated at fair value through statement of income are investments which are designated as investments at fair value through statement of income on initial recognition.

After initial recognition, investments at fair value through statement of income are remeasured at fair value. Gains or losses arising either from the sale of or changes in fair value of investments at fair value through statement of income are recognised in the consolidated statement of income.

Investments available for sale

Investments available for sale are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose off the investment within 12 months of the reporting date.

Investments available for sale are initially recognised at fair value plus transaction costs. After initial recognition, investments available for sale are remeasured at fair value, except for investments in unquoted securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost. Unrealized gain or loss on remeasurement of investments available for sale to fair value is recognized directly in other comprehensive income in the fair value reserve account until the investment is derecognised or determined to be impaired, at which time the cumulative gain or loss previously recognised in the fair value reserve is included in the consolidated statement of income.

Trade date and settlement date accounting

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

Fair value

For investments traded in active financial markets, fair value is determined by reference to quoted current bid prices at the close of business on the reporting date. For other investments, the fair value is derived from recent arm's length transaction, comparison to similar instruments for which market observable prices exist, discounted cash flow method, or other relevant valuation techniques used by market participants.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment may include:

a) significant financial difficulty of the issuer or counterparty; or

b) default or delinquency in interest or principal payments; or

c) it becomes probable that the counterparty will enter bankruptcy or financial re-organisation; or

d) The disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually, are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the specified credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. Impairment losses are recognized in the consolidated statement of income.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated statement of income.

With the exception of equity investments available for sale, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated statement of income.

In respect of equity investments available for sale, impairment losses previously recognised through the consolidated statement of income are not reversed through the consolidated statement of income. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income.

Derecognition

An investment (in whole or in part) is derecognized either when: the contractual rights to receive the cash flows from the investment have expired; or the Group has transferred its rights to receive cash flows from the investment and either (a) has transferred substantially all the risks and rewards of ownership of the investment, or (b) has neither transferred nor retained substantially all the risks and rewards of the investment, but has transferred control of the investment. Where the Group has retained control, it shall continue to recognize the investment to the extent of its continuing involvement in the investment.

iv. Bank borrowings

Bank borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of income over the period of the borrowings using the effective interest method.

v. Payables

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

vi. Derivatives

In the normal course of business, the Group enters into commodity swap and future contracts. These derivatives are initially recognized as an asset or liability on the commitment date. These contracts are treated as derivatives held for trading purposes, do not qualify for hedge accounting and are stated and subsequently remeasured to fair value with any resultant gain or loss recognized in the consolidated statement of income.

e) **Inventory**

Inventory of oil and petroleum products is valued at fair value less cost to sell. Any changes arising on the revaluation of inventories are recognised in the consolidated statement of income.

f) **Investment in joint venture**

A joint venture is a joint arrangement, whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Long term subordinated loans provided by the Group to the joint venture are accounted as part of the investment.

The results and assets and liabilities of joint venture are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Under the equity method, investment in joint venture is carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the joint venture, less any impairment in the value of individual investments. Losses of an joint venture in excess of the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

Any goodwill arising on the acquisition of the Group's interest in a joint venture is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of an associate.

Where the Group transacts with its joint venture, unrealized profits and losses are eliminated to the extent of the Group's interest in the joint venture.

Upon loss of joint control, the Group measures and recognizes its remaining investment at its fair value. Any difference between the carrying amount of the former joint venture upon loss of joint control and the fair value of the remaining investment and proceeds from disposal is recognized in consolidated statement of income.

g) **Investment in associates**

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and net asset changes of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments.

Notes to the consolidated financial statements

For the year ended 31 December 2016

Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Where a Group transacts with its associate, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

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

h) Property and equipment

Property and equipment except freehold land are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes the purchase price and directly associated costs of bringing the asset to a working condition for its intended use.

Depreciation is calculated based on the estimated useful lives of the applicable assets. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Significant improvements and replacements of assets (including improvements to leasehold property) are capitalised.

Freehold land is carried at cost and is not depreciated. Other assets are depreciated on straight line basis as follows:

Buildings	20 years
Vessels	16 - 25 years
Furniture, equipment and computer software	3 - 5 years
Motor Vehicles	5 years
Leasehold improvements	Shorter of useful life of assets lease period

The estimated useful lives, residual values and depreciation methods are reviewed at each date of statement of financial position, with the effect of any changes in estimate accounted for on prospective basis.

Properties in the course of construction for administrative or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees. Depreciation of these assets, on the same basis as other property and equipment, commences when the assets are ready for their intended use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(n)).

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of income.

i) **Provision for staff indemnity**

The Group is liable to make defined contribution to State Plans and lump sum payments under defined benefits plans to employees at cessation of employment, in accordance with the laws of the place where they are deemed to be employed. The benefit plan is unfunded and is computed as the amount payable to employees as a result of involuntary termination on the statement of financial position date. This basis is considered to be reliable approximation of the present value of the final obligation.

j) **Treasury shares**

Treasury shares consist of the Parent Company's own shares that have been issued, subsequently reacquired by the Parent Company and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are sold, gains are credited to a separate account in shareholders' equity (treasury shares reserve) which is not distributable. Any realized losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings, reserves and then to share premium. Gains realized subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of share premium, reserves, retained earnings and the treasury shares reserve. No cash dividends are paid on these shares. Any 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.

k) **Foreign currencies**

Foreign currency transactions are translated to the functional currency (USD) at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies outstanding at the year-end are retranslated into USD at the rates of exchange prevailing at the reporting date. Any resultant gains or losses 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 the exchange rates as at the dates of the initial transactions and are not subsequently retranslated. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in USD, which is the functional currency of the Parent Company. The presentation currency for the consolidated financial statements is the Kuwaiti Dinar (KD).

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in KD using exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and recognized in the Group's foreign currency translation reserve. Such exchange differences are recognized in the consolidated statement of income in the period in which the foreign operation is disposed off.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing exchange rate.

l) Revenue recognition

Revenue from sales is recognized when delivery has taken place and transfer of risks and rewards has been completed.

Interest income is recognised on a time proportion basis that reflects the effective yield on the asset.

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.

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

Other revenues and expenses are recorded on an accrual basis.

m) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Interest on other borrowings is calculated on an accrual basis and is recognised in the consolidated statement of income in the period in which it is incurred.

n) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its 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.

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.

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 consolidated statement of income.

o) Provision

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

p) Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

q) Segment reporting

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenue and incurs costs. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is identified as the person being responsible for allocating resources, assessing performance and making strategic decisions regarding the operating segments.

3. Critical judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 2, the Parent Company's management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a) Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

(i) Revenue recognition

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The determination of whether the revenue recognition criteria as specified under IAS 18 are met requires significant judgment.

(ii) Provision for doubtful debts

The determination of the recoverability of the amount due from customers and the factors determining the impairment of the receivable involve significant judgment.

(iii) Classification of investments

On acquisition of an investment, the Group decides whether it should be classified as "at fair value through statement of income" or "available for sale". The Group follows the guidance of IAS 39 on classifying its investments.

The Group classifies investments as "at fair value through statement of income" if they are acquired primarily for the purpose of short term profit making or if they are designated at fair value through statement of income at inception, provided their fair values can be reliably estimated. All other investments other than investment in subsidiaries, associates and joint venture are classified as "available for sale".

(iv) Impairment of investments

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

(v) Useful lives of property and equipment

The cost of property and equipment is depreciated over the estimated useful life of the asset. The estimated useful life is based on expected usage of the asset and expected physical wear and tear, which depends on operational factors.

(vi) Impairment of property and equipment

The Group determines whether the vessel is impaired at least annually by obtaining estimates of fair value from independent valuers. Where the fair value less selling cost is lower than vessel carrying values, the estimation of recoverable value further requires an estimation of the value in use of the vessel. Estimating the value in use requires management to make an estimate of the expected future cash flows and remaining useful life of the vessel and to choose a suitable discount rate in order to calculate the present value of those cash flows.

(vii) Residual value of the vessels

The residual value of the vessels is determined based on the estimations performed by the D&K's technical department. The estimates are calculated using the deadweight of the vessels multiplied by management's estimate of the scrap steel rate, which is partly based on the age of the vessels and quality of the steel.

b) Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the date of the consolidated statement of financial position 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:

(i) Sales, cost of sales and inventory

Where the sales and purchase transactions are based on forward pricing, the sales, cost of sales and inventory is estimated with reference to the closing commodity price quote (Platts) in the commodity exchange in accordance with the terms of the contract.

(ii) Allowance for doubtful debts

The extent of allowance for doubtful debts involves a number of estimates made by the management. Allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified. The allowances and write-down of receivables is subject to management approval.

(iii) Fair value of unquoted equity investments

If the market for a financial asset is not active or not available, the Group estimates fair value by using valuation techniques which include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances. This valuation requires the Group to make estimates about expected future cash flows and discount rates that are subject to uncertainty.

4. Cash on hand and at banks

	2016 KD'000	2015 KD'000
Cash on hand and at banks	**9,356**	17,475
Call accounts and time deposits	**25,535**	21,422
Cash and cash equivalents	**34,891**	38,897
Time deposits with maturity exceeding three months	**-**	230
	34,891	39,127

Time deposits earned interest at an average effective interest rate of 0.4 % (2015: 0.25%) per annum and mature within 3 to 6 months (2015: 3 to 6 months) from the date of the placement.

5. Investments

	2016 KD'000	2015 KD'000
Investments at fair value through statement of income:		
Held for trading:		
Managed portfolios	**51,894**	49,933
Securities	**1,454**	1,494
	53,348	51,427
Investments available for sale:		
Quoted securities	**192**	190
Unquoted securities	**28,459**	26,600
	28,651	26,790

Investments at fair value through statement of income with a carrying amount of KD 51.89 million (2015: KD 49.93 million) are pledged as collateral against amounts due to banks (Note 11).

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During the year, the Group has fair valued its investment in Vopak Horizon Fujairah Limited (VHFL) (unquoted security), consequently, a fair value gain of KD 1.9 million (2015: fair value gain of KD 5 million) has been recognized under fair value reserve in equity through the statement of other comprehensive income for changes in fair value of investments available for sale. Accordingly, unquoted securities include investment of 11.1% in VHFL carried at fair value of KD 27.32 million (2015: KD 25.46 million). The fair value was based on discounted cash flows using a rate based on the risk free rate of 2.45% (2015: 2.27%) and the risk premium of 6.47% (2015: 6.56%) specific to the investment.

The unquoted securities also include an investment of 12.5% in Asia Petroleum Ltd. carried at cost of KD 1.14 million (2015: KD 1.14 million) as it was not possible to reliably measure the fair value since there is no access to relevant information; accordingly this is stated at cost.

6. Trade and other receivables

	2016 **KD'000**	2015 KD'000
Trade receivables	**57,980**	44,042
Prepaid expenses	**1,608**	4,442
Refundable deposits and taxes	**26**	30
Others	**7,907**	3,609
	67,521	52,123

The Group's credit period varies from customer to customer. Trade receivables are short term in nature and carry interest rates on commercial terms. A significant portion of trade receivables are due within three months from the reporting date and are secured against letter of guarantees issued by customers in favor of the Group.

7. Other loans

	2016 **KD'000**	2015 KD'000
Arabtank Terminals Limited	**716**	712
Others	**-**	17
	716	729

The Group has provided a long-term subordinated loan to Arabtank Terminals Ltd., Kingdom of Saudi Arabia, an associate company.

The interest rates for the above loans vary from 0.5% to 8% (2015: 0% to 8%) per annum for loans given at fixed interest rates and 3.5% (2015: 3.5%) over three months LIBOR for loans given at floating interest rates.

8. Investment in joint venture

	2016 **KD'000**	2015 KD'000
Uniterminals S.A.L., Lebanon	**4,453**	4,070

Uniterminals S.A.L.

The Group has a 50% equity shareholding with equivalent voting power in Uniterminals Ltd, Lebanon.

The following table illustrates summarised financial information of the Group's investment in its joint venture:

	2016 **KD'000**	2015 KD'000
Current assets	**25,590**	26,750
Non-current assets	**6,196**	6,094
Current liabilities	**(22,620)**	(24,396)
Non-current liabilities	**(260)**	(308)
Net assets	**8,906**	8,140
Group's share of net assets	**4,453**	4,070
Operating profit	**1,978**	1,424
Loan interest and other expenses	**(322)**	(390)
Profit for the year	**1,656**	1,034
Group's share of profit for the year (Note 20)	**828**	517

Dividends received from the Joint Venture during the year amounts to KD 489 thousands (2015: KD 1,053 thousands).

9. Investment in associates

	Location	**Percentage of ownership**	**2016** **KD'000**	2015 KD'000
Inpetro SARL	Mozambique	40%	**1,645**	1,886
Arabtank Terminals Ltd., (ATT)	Kingdom of Saudi Arabia	36.5%	**5,566**	5,174
Horizon Djibouti Holdings Ltd. (HDHL)	Djibouti	22.22%	**5,588**	7,907
Horizon Singapore Terminals Private Ltd., (HSTPL)	Singapore	15%	**7,143**	6,775
Horizon Tangiers Terminals SA. (HTTSA)	Morocco	32.5%	**8,399**	7,502
			28,341	29,244

Inpetro SARL

The Group's investment in Inpetro SARL represents an investment in a petroleum storage terminal. Summarized financial information of the associate as of 31 December were as follows:

Notes to the consolidated financial statements

For the year ended 31 December 2016

	2016 KD'000	2015 KD'000
Total assets	**2,247**	2,908
Total liabilities	**(602)**	(1,022)
Net assets	**1,645**	1,886
Operating income	**1,117**	1,389
Operating expenses	**(855)**	(650)
Profit for the year (Note 20)	**262**	739

Arabtank Terminals Ltd., (ATT)

The Group's investment in ATT represents its share of investment in the first phase of the project towards chemical product storage facilities and its share in the second phase of the project towards petroleum product storage facilities. Summarized financial information of the associate as of 31 December were as follows:

	2016 KD'000	2015 KD'000
Total assets	**7,442**	6,495
Current liabilities	**(587)**	(780)
Long-term debt	**(1,289)**	(541)
Net assets	**5,566**	5,174
Operating income	**1,139**	1,375
Operating expenses	**(796)**	(841)
Profit for the year (Note 20)	**343**	534

Horizon Djibouti Holdings Ltd ("HDHL")

The Group's investment in HDHL represents an investment in a petroleum storage terminal. Summarized financial information of the associate as of 31 December were as follows:

	2016 KD'000	2015 KD'000
Total assets	**6,032**	9,317
Total liabilities	**(444)**	(1,410)
Net assets	**5,588**	7,907
Operating income	**2,182**	2,105
Operating expenses	**(934)**	(898)
Profit for the year (Note 20)	**1,248**	1,207

Horizon Singapore Terminals Private Ltd., ("HSTPL")

The Group's investment in HSTPL represents 15% share in the issued and paid-up share capital. As per the shareholders' agreement dated 29 March 2005, all commercial, technical and operating policy decisions require the approval of shareholders together holding not less than 86% of the issued share capital of the investee company. On this basis the Group has significant influence but not overall control over the financial and operating policy decisions of the investee company.

Summarized financial information of the associate as of 31 December were as follows:

	2016 KD'000	2015 KD'000
Total assets	**10,463**	11,297
Total liabilities	**(3,320)**	(4,522)
Net assets	**7,143**	6,775
Operating income	**3,647**	3,703
Operating expenses	**(2,008)**	(2,049)
Profit for the year (Note 20)	**1,639**	1,654

Horizon Tangiers Terminals SA. ("HTTSA")

The Group's Investment in HTTSA represents an Investment in a petroleum storage terminal. Summarized financial information of the associate as of 31 December were as follows:

	2016 KD'000	2015 KD'000
Total assets	**11,271**	10,868
Total liabilities	**(2,872)**	(3,366)
Net assets	**8,399**	7,502
Operating income	**2,816**	2,596
Operating expenses	**(1,697)**	(1,685)
Profit for the year (Note 20)	**1,119**	911

Summarised financial information of the above associates as of 31 December were as follows:

	2016 KD'000	2015 KD'000
Current assets	**25,366**	38,576
Non-current assets	**135,227**	139,801
Current liabilities	**(18,593)**	(19,311)
Non-current liabilities	**(21,240)**	(32,393)
Net assets	**120,760**	126,673
Operating income	**49,801**	50,314
Operating expenses	**(27,596)**	(27,108)
Profit for the year	**22,205**	23,206

During the year, the Group received a dividend of KD 3.99 million (2015: KD 1.45 million) from its associates.

10. Property and equipment

	Freehold Land KD'000	Buildings KD'000	Vessels KD'000	Furniture, equipment and computer software KD'000	Motor vehicles KD'000	Leasehold improvements KD'000	Capital work in progress KD'000	Total KD'000
Cost								
As at 1 January 2015	544	1,692	25,647	1,042	163	74	4,453	33,615
Additions	-	-	22,737	86	-	-	(4,453)	18,370
Currency translation effects	-	-	753	29	-	-	-	782
As at 31 December 2015	544	1,692	49,137	1,157	163	74	-	52,767
Additions	-	-	753	23	83	-	-	859
Disposals	-	-	-	-	(32)	-	-	(32)
Currency translation effects	-	-	308	(7)	(1)	(4)		296
As at 31 December 2016	544	1,692	50,198	1,173	213	70	-	53,890
Accumulated depreciation								
As at 1 January 2015	-	1,061	9,408	969	125	58	-	11,621
Charge for the year	-	40	1,447	90	19	2	-	1,598
As at 31 December 2015	-	1,101	10,855	1,059	144	60	-	13,219
Charge for the year	-	40	2,246	44	17	3	-	2,350
Disposals	-	-	-	-	(32)	-	-	(32)
As at 31 December 2016	-	1,141	13,101	1,103	129	63	-	15,537
Carrying amount								
As at 31 December 2016	544	551	37,097	70	84	7	-	38,353
As at 31 December 2015	544	591	38,282	98	19	14	-	39,548

The vessels have been collaterised against term loan (Note 13).

11. Due to banks

Due to banks represents the credit facilities in KD and USD provided by the Group's banks. These facilities carry an average interest rate of 2.8 % (2015: 2.2%) per annum. Due to banks are partially secured by investments at fair value through statement of income with a carrying amount of KD 51.89 million (2015: KD 49.93 million) (Note 5).

12. Trade and other payables

	2016 KD'000	2015 KD'000
Trade payables	**23,404**	18,383
Accrued expenses	**19,665**	6,072
Accrued staff leave	**218**	296
Provision for KFAS	**51**	39
Others	**3,082**	2,694
	46,420	27,484

13. Term loan

The term loan relates to the financing of the vessels acquired through DKHL (a subsidiary). The term loan is denominated in USD and is secured by the mortgage of the vessels (Note 10) and carries interest ranging from 1.75% to 5.32 % (2014: 1.75% to 5.32%) per annum.

14. Provision for staff indemnity

	2016 KD'000	2015 KD'000
Balance at 1 January	**2,181**	1,981
Charge for the year	**560**	234
Payments made during the year	**(11)**	(34)
Balance at 31 December	**2,730**	2,181

15. Share capital

The authorised, issued and fully paid up share capital consists of 152,250,000 shares of 100 fils each (2015: 152,250,000 shares of 100 fils each), fully paid in cash.

16. Legal reserve

As per the Companies' Law and the Parent Company's Articles of Association, 10% of the profit for the year before provisions for contribution to KFAS, NLST, Zakat and Directors' fees is required to be transferred to the legal reserve. However, the Parent Company has resolved not to increase the legal reserve above an amount equal to 50% of its paid up share capital.

Distribution of this reserve is limited to the amount required to enable the payment of a dividend of 5% of the paid up share capital in years when retained earnings are not sufficient for payment of such dividends.

17. General reserve

In accordance with the Parent Company's Articles of Association, 10% of the profit for the year before provisions for contribution to KFAS, NLST, Zakat and Directors' fees is to be transferred to the general reserve. The transfer was discontinued by an ordinary resolution adopted in the general assembly as recommended by the Board of Directors. There are no restrictions on distributions from the general reserve.

18. Treasury shares

	2016	2015
Number of shares	**7,620,000**	7,620,000
Percentage of issued shares	**5.0%**	5.0%
Market value (KD million)	**2.78**	2.13
Cost (KD million)	**2.77**	2.77

The Parent Company has allotted an amount equal to the treasury shares balance from the available retained earnings as of 31 December 2016. Such amount will not be available for distribution during treasury shares holding period. Treasury shares are not pledged.

19. Net interest relating to oil marketing operations

	2016 KD'000	2015 KD'000
Interest income	**142**	221
Interest expense	**(3,734)**	(3,241)
	(3,592)	(3,020)

20. Share in results of associates and joint venture

	2016 KD'000	2015 KD'000
Inpetro SARL (Note 9)	**262**	739
Arabtank Terminals Ltd. (Note 9)	**343**	534
Horizon Djibouti Holdings Ltd (Note 9)	**1,248**	1,207
Horizon Singapore Terminals Private Ltd., (Note 9)	**1,639**	1,654
Horizon Tangiers Terminals (Note 9)	**1,119**	911
Uniterminals S.A.L. (Note 8)	**828**	517
	5,439	5,562

21. Investment income

	2016 KD'000	2015 KD'000
Unrealised gain from investments at fair value through statement of income	**1,477**	16
Dividend income	**2,355**	1,320

During the year ended 31 December 2016, the Group received a dividend of KD 2.34 million (2015: KD 0.99 million) from Vopak Horizon Fujairah Limited (VHFL) and KD Nil (2015: KD 0.30 million) from Asia Petroleum Ltd.

22. Other income

	2016 KD'000	2015 KD'000
Net foreign exchange (loss)/gain	**(130)**	912
Interest income related to project	**302**	31
	172	943

23. Contribution to KFAS and provision for Zakat

Contribution to Kuwait Foundation for the Advancement of Sciences is calculated at 1% of the profit of the Group after deducting its share of income from Kuwaiti shareholding subsidiaries and associates and transfer to legal reserve.

Provision for Zakat is calculated at 1% of the profit of the Parent Company after deducting its share of income from Kuwaiti shareholding subsidiaries and associates in accordance with Law No 46/2006 and Ministry of Finance resolution No. 58/2007 and their executive regulations. Zakat has not been provided, since there was no profit for the Parent Company on which Zakat could be calculated.

During 2016, the Group filed a suit against the Ministry of Finance contesting for their claim of KD 325 thousand towards Zakat for the years from 2008 to 2014. The Court of First Instance has referred the case to The Experts Department and the hearing is scheduled to be on 28 March 2017.

24. Provision for NLST

During 2006, the Group filed a suit against the Ministry of Finance contesting their claim for additional amount of KD 442 thousands towards NLST for the year from 2001 to 2004. This claim represents difference between NLST computed on the annual consolidated profit of the Group and that based on annual profit of the Parent Company.

A judgement was granted in favour of the Group in the suit filed as mentioned above. Accordingly, the Group continued to calculate NLST based on the annual profit of the Parent Company for the years from 2005 to 2016. The Group continued with their claim against the ministry for the outstanding amounts for the years 2005 to 2016.

NLST has not been provided, since there was no profit for the Parent Company on which NLST could be calculated.

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25. Earnings per share

Earnings per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	2016	2015
Profit for the year (KD'000)	**5,008**	3,790
Weighted average number of issued shares outstanding	**152,250,000**	152,250,000
Weighted average number of treasury shares outstanding	**(7,620,000)**	(7,620,000)
Weighted average number of shares outstanding	**144,630,000**	144,630,000
Earnings per share (fils)	**34.63**	26.20

26. Proposed dividends

The Board of Directors proposed a cash dividend of 30 fils per share for the year ended 31 December 2016 (2015: 25 fils per share). This proposal is subject to the approval of the Shareholders' Annual General Assembly.

27. Annual general assembly

The Shareholders' Annual General Assembly held on 22 March 2016 approved the annual audited consolidated financial statements for the year ended 31 December 2015 and dividends were declared for the year ended 31 December 2015 at 25 fils per share (2014: 25 fils).

28. Related party transactions and balances

These represent transactions with the related parties in the normal course of business. The terms of these transactions are on negotiated contract basis.

Related parties primarily comprise the Parent Company's major shareholders, directors, subsidiaries, associates, joint venture, key management personnel and their close family members.

The related party transactions and balances included in the consolidated financial statements are as follows:

	Joint Venture KD'000	Associates KD'000	Total 2016 KD'000	Total 2015 KD'000
1 Revenues:				
Sales	78,341	-	**78,341**	118,560
Storage expense	-	4,641	**4,641**	5,697
2 Due from / to related parties:				
Trade and other receivables	8,060	-	**8,060**	7,606
Trade and other payables	-	673	**673**	498
Others and short-term loans (note 7)	-	716	**716**	729

	2016 KD'000	2015 KD'000
3 Key management compensation		
Salaries and other short-term benefits	**829**	661
Terminal benefits	**262**	57
	1091	718

29. Segment information

The Group primarily operates in the trading of crude oil and petroleum products. The trading of crude oil and petroleum products is also related to storage and distribution operations. These operations are inter-related and subject to similar risks and returns. The management has determined that the Group is considered to have a single reportable operating segment. The Group operates in different geographic locations. Information about the Group's reportable operating segment is summarised as follows:

	2016				2015			
	Africa and Middle East KD'000	**Europe KD'000**	**Asia and Far East KD'000**	**Total KD'000**	Africa and Middle East KD'000	Europe KD'000	Asia and Far East KD'000	Total KD'000
Sales	**477,370**	**2,437**	**28,330**	**508,137**	525,028	-	57,161	582,189
Segment result	**9,932**	**15**	**1,746**	**11,693**	7,050	-	2,617	9,667
Unallocated corporate expenses				**(8,203)**				(6,717)
Operating profit				**3,490**				2,950
Other information:								
Segment assets	**67,521**	**-**	**-**	**67,521**	49,743	-	2,380	52,123
Unallocated corporate assets				**217,757**				216,934
Total assets				**285,278**				269,057
Segment liabilities	**6,670**	**16,533**	**201**	**23,404**	17,395	-	988	18,383
Unallocated corporate liabilities				**176,150**				167,802
Total liabilities				**199,554**				186,185

Depreciation, capital expenditure and non-cash expenses are mainly related to unallocated corporate assets.

The results of the Group's associates and joint venture are included in the Africa and Middle East segment and Asia and Far East segment.

30. Financial Instruments and risk management

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in Note 2 to these consolidated financial statements.

Categories of financial instruments

	2016 KD'000	2015 KD'000
Financial assets		
Cash on hand and at banks	**34,891**	39,127
Investments at fair value through statement of income	**53,348**	51,427
Investments available for sale	**28,651**	26,790
Trade and other receivables	**67,521**	52,123
Other loans	**716**	729
	185,127	170,196
Liabilities		
Due to banks	**131,233**	134,101
Directors' fees payable	**80**	80
Trade and other payables	**46,420**	27,484
Term loan	**19,091**	22,339
	196,824	184,004

Financial risk management objectives

The Group's Management provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group. These risks include market risk (including currency risk, interest rate risk and equity price risk), credit risk and liquidity risk.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group's activities exposes it primarily to the financial risk of changes in interest rates and equity prices. The Group is not exposed to foreign currency risk as most of its financial assets and liabilities are denominated in USD.

Interest rate risk

The Group is exposed to interest rate risk as it borrows funds at floating interest rates. The Group also places short-term deposits with banks.

Interest rate sensitivity analysis

At 31 December 2016, if interest rates on borrowings (due to banks and term loan) and short-term deposits had been 1% higher / lower with all other variables held constant, profit for the year would have been increased / decreased by KD 1.25 million respectively (2015: profit for the year would have been increased / decreased by KD 1.35 million).

The Group's exposures to interest rates on short-term deposits, due to banks and term loan are detailed in Notes 4, 11 and 13 respectively to the consolidated financial statements.

Equity price risk

Equity price risk is the risk that fair values of equity securities decrease as the result of changes in level of equity indices and the value of individual equity security. The equity price risk exposure arises from the Group's investment in equity securities classified as 'Investments at fair value through income statement' and 'Investments available for sale'.

As at 31 December 2016, if the net asset value of the managed portfolio would have increased / decreased by 5% (2015: 5%), the profit for the year would have increased / decreased by KD 2.59 million (2015: profit for the year would have increased / decreased by KD 2.50 million). The effect on other comprehensive income due to equity price risk is not material as the quoted available for sale investments are not significant.

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management.

Exposure to credit risk

The financial instruments which potentially subject the Group to credit risk consist of current and call accounts at banks, time deposits, loans and trade and other receivables. The Group places its cash and time deposits with various reputed financial institutions and avoids credit concentration. In regard to the concentration of credit risk of trade and other receivables, the Group's deals are usually with major oil companies of high credit rating, and governmental institutions.

The Group's maximum exposure arising from default of the counter-party is limited to the carrying amount of cash on hand and at banks, other loans and trade and other receivables.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

All the financial liabilities of the Group, except for non-current portion of term loan, are due within one year. In case of the term loan KD 1.626 million (2015: KD 3.095 million) is due within one year and KD 17.47 million (2015: KD 19.24 million) is due between one and seven years.

Fair value of financial instruments

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

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

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Receivables, payables and short-term borrowings

The carrying amounts approximate fair values because of the short maturity of such instruments.

Cash on hand and at banks, deposits and investments

The carrying amounts of cash on hand and at banks and deposits approximate fair values. The fair value of quoted securities is based on market quotations. The Group's management does not have access to relevant information in order to reliably measure the fair value of the unquoted securities that are available-for-sale except for VHFL as disclosed in Note 5. Accordingly, the carrying amount of these investments is based on their cost. In the opinion of management, the fair value of these investments is not significantly different from their carrying amount.

Fair value estimation

All assets and liabilities for which fair value is measured or disclosed in the 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:

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

The fair value of managed portfolios under investments at fair value through statement of income amounting to KD 51.89 million (2015: KD 49.93 million) and quoted securities under available-for-sale investments amounting to KD 0.19 million (2015: KD 0.19 million) are determined only based on Level 1 fair value measurement which is the quoted market prices prevailing at the reporting date. The fair value of securities under held for trading category is determined based on Level 2 fair value measurement inputs.

The fair value of investment in VHFL, classified as investments available for sale is determined based on Level 3 fair value measurement which is based on the Discounted Cash Flow method of valuation.

During the year ended 31 December 2016, there were no transfers between different levels of fair value measurement. During the year, the Group has recognized a gain of KD 1.9 million (2015: Gain of KD 5 million) in other comprehensive income in respect of fair value measurements of investments available for sale categorized in Level 3 of the fair value hierarchy.

Future and swap contracts

The fair value of the Group's open futures and swap contracts are the estimated amounts that the Group would receive or pay to terminate the contracts at the reporting date. The estimated fair values of these contracts classified under Level 1 are as follows:

		Notional amount 2016 KD'000	Notional amount 2015 KD'000	**Fair value 2016 KD'000**	Fair value 2015 KD'000
Swap contracts	Buy	**1,329**	22,178	**1,494**	20,969
Swap contracts	Sell	**2,775**	33,578	**2,979**	30,666
Future contracts	Buy	**10,974**	3,665	**11,477**	3,360
Future contracts	Sell	**18,667**	3,557	**19,584**	3,101

31. Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's strategy remains unchanged from 2015.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash on hand and at banks. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

The capital structure of the Group consists of debt, which includes due to banks and term loan and cash on hand and at banks and equity comprising issued capital, reserves, treasury shares and retained earnings as disclosed in these consolidated financial statements.

	2016 KD'000	2015 KD'000
Due to banks and term loan (Note 11 & 13)	**150,324**	156,440
Less: cash on hand and at banks (Note 4)	**(34,891)**	(39,127)
Net debt	**115,433**	117,313
Total equity	**85,724**	82,872
Total capital resources	**201,157**	200,185
Gearing ratio	**57%**	59%

32. Contingent liabilities and commitments

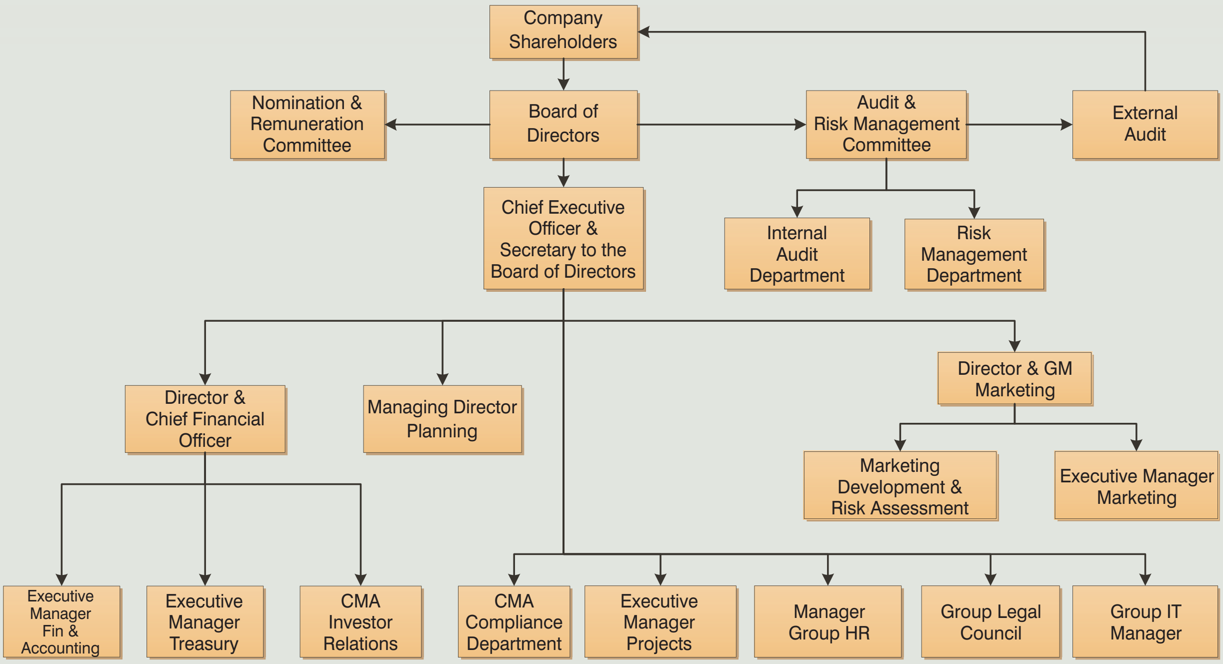
	2016 KD'000	2015 KD'000
Contingent liabilities:		
Letters of guarantee and bid bonds	**7,674**	3,384
Letters of credit	**21,859**	34,410
	29,533	37,794
Commitments:		
Investments in projects	**4,084**	4,500

CORPORATE GOVERNANCE:

Independent Petroleum Group K.S.C.P (IPG K.S.C.P), under the leadership of its Board of Directors, is fully committed to the implementation of the new rules on Corporate Governance issued by the Capital Market Authority (CMA), Kuwait. The Company's vision is to implement Corporate Governance, both in letter and spirit.

1. GOVERNANCE STRUCTURE:

The Company endeavors to promote the governance and compliance culture in all facets of the business and at all levels. The organization structure provides for sound governance practices to be reflected within its reporting lines, clear segregation of duties and independence in all the management functions of the Company. The Company's corporate governance structure is portrayed in the chart given below:



2. BOARD COMPOSITION:

The Board of Directors of the Company is a balanced one, taking into consideration the skills and expertise required for efficiently carrying out the Company's business activities. The Board consists of eight members elected by the General Assembly for a period of three years. Of these, four are non-executive, including the Chairman. The other Board members are executive members involved in the day-to-day activities of the Company.

The Board, comprising of eight members is as follows:

A. A. Khalaf Ahmad Al-Khalaf, Founder and Chairman of IPG K.S.C.P.

Joined IPG Board on September 11, 1976.
Non-executive & non-independent member

Experience:

- Ex - Minister of Electricity and Water, Government of the State of Kuwait.
- Ex - General Manager, M H Al-Shaya Company.
- Ex - Board Member, Kuwait Aviation Fueling Company.
- Ex - Board Member, Kuwait Spanish Petroleum Company.

- Ex - Board Member, Kuwait National Petroleum Company.
- Ex - Assistant Superintendent, Water and Power Stations, Ministry of Electricity and Water, Kuwait.
- Ex - Co-Director of the Water Resources Development Center, Ministry of Electricity and Water, Kuwait.
- Ex - Project Engineer, Kuwait National Petroleum Company.

QUALIFICATION:

B.Sc. Mechanical Engineering, University of New Hampshire, USA, 1964.

B. Ghazi Fahed Abdul Aziz Alnafisi, Founder and Vice-Chairman of IPG K.S.C.P.

Joined IPG Board on September 11, 1976.
Non-executive & non-independent member

Experience:

- Founder, Chairman & Managing Director of Al Salhiya Real Estate Co (Till Date).
- Member of Board of Directors of Arcapita Bank, Bahrain (Till Date).
- Vice-Chairman of of Azzad Catering & Services Company (Till Date).
- Chairman of Kuwait Hotels Owners' Association (Till Date).
- Ex - Chairman of the Board of Gulf Investment Co., Bahrain.
- Ex - Chairman & Managing Director of National Investment Company, Kuwait.
- Ex - Chairman of the Board of Kuwait Aviation Fueling Company.
- Ex - General Manager of Kuwait Aviation Fueling Company.

QUALIFICATION:

- Diploma in Aeronautical Engineering – Chelsea College, University of London, June 1965.
- Special one and half year training session on Aviation Fueling from British Petroleum.

C. Waleed Jaber Hadeed, Founder, Board Member and Chief Executive Officer of IPG K.S.C.P.

Joined IPG Board on September 11, 1976.
Executive & non-independent member

Experience:

- Ex - General Manager, International Marketing Department (London), Kuwait National Petroleum Company.
- Manager, Middle East Office (Kuwait), International Marketing Department, Kuwait National Petroleum Company.
- Manager, Far East Office (Singapore), International Marketing Department, Kuwait National Petroleum Company.

QUALIFICATION:

B.Sc. Economics and Mathematics, Central Missouri State University, USA 1967.

D. Abdullah Mohammed Akil Zaman, Founder, Board Member and Director – Planning of IPG K.S.C.P.

Joined IPG Board on September 11, 1976.
Executive & Non-independent member

Experience:

- Ex - Board Member, Kuwait Spanish Petroleum Company.
- Ex - Board Member, Kuwait Aviation Fueling Company.
- Ex - Deputy Managing Director, Planning, Kuwait National Petroleum Company.
- Ex - Manager Planning, International Marketing Department (London), Kuwait National Petroleum Company.
- Ex - Planning Department, Head Office, Kuwait National Petroleum Company.
- Ex - Systems Analyst, Kuwait National Petroleum Company.

QUALIFICATION:

BA Mathematics, University of California, Berkeley, USA, 1964.

E. Ali Mohammed AL-Radwan, Founder and Board Member of IPG K.S.C.P.

Joined IPG Board on September 11, 1976.
Non-executive & non-independent member

Experience:

- Founder and Senior Partner in The Law Bureau Ali-Radwan & Partners, Kuwait (Till Date).
- Founder & Chairman of the National and German Electrical & Electronic Services Company (Till Date).
- Deputy General Manager, Deputy Chairman & Member of the Board in Kuwait National Petroleum Company.
- Ex - Secretary General to the National Assembly & Constitution Assembly.
- Ex - Founder & Member of the Kuwait Bar Association.
- Ex - Member of the Board of Directors, Kuwait Stock Exchange.
- Ex - Member of the Board of Directors, Kuwait Oil, Gas & Energy (Kuwait Government Company).

QUALIFICATION:

- BA in law – Cairo University – 1961.

F. Ali Abdul Rahman Rashid Al-Bader, Board Member of IPG K.S.C.P.

Joined IPG Board on March 9, 2003.
Non-executive & Independent member

Experience:

- Member of Board of Directors of the Public Authority for Compensations (Kuwait).
- Member of the Higher Council for Planning and Development.
- General Manager – Al Arab Consultancies Office.
- Ex - Chairman, Gulf Bank of Kuwait.
- Ex - Member of Board of Directors of Kuwait Economic Development Fund.

- Ex - Chairman of the Board and Managing Director of Kuwait and Middle East Bank.
- Ex - Managing Director of the Public Authority for Investment (Kuwait).
- Ex - President Arab-African International Bank.
- Ex - Member of Banking Control Management, Kuwait.

QUALIFICATION:

- Master of Business Administration, Finance – Michigan State University- 1973.
- Bachelor Degree in Commerce & Accounting – Cairo University -1969.

G. Abdullah Ebrahim Ali Al-Kandari, Board Member and Chief Financial Officer of IPG K.S.C.P.

Joined IPG on March 28, 2001 & Board Member since March 03, 2010.
Executive & non-independent member.

Experience:

- Finance Manager, Independent Petroleum Group (IPG).
- Ex - Cost & Budget Coordinator, Kuwait Petroleum Corporation International Operations (KPC).
- Ex - Auditor, Anwar Al-Qatami & Grant Thornton.
- Ex - Senior Internal Auditor, Burgan Bank.
- Special 15-month training program on operation of banks with Burgan Bank.

QUALIFICATION:

- Graduated from University of Kuwait 1983.
- Graduated with Master Degree in Professional accounting from University of Miami 1986.
- Member of American Institute of Certified Public Accountants "AICPA" from Washington State – USA -1992.

H. Mohammed Abdul Hamid Mohammed Ali Qasim, Board Member and General Manager – Marketing of IPG K.S.C.P.

Joined IPG on December 5, 2004 & Board Member since March 24, 2013.
Executive & non-independent member

Experience:

- Ex - Deputy Managing Director (Sales), Kuwait Petroleum Co.
- Ex - DMD, Marketing (Planning), Kuwait Petroleum Co.
- Ex - Vice President, Kuwait Petroleum International, Kuwait.
- Ex - Board Member, Kuwait Petroleum International, KPI Aviation Co (UK) Ltd, Kuwait Petroleum Espana, Kuwait Petroleum France, Kuwait Petroleum Sweden, Kuwait Petroleum Development Thailand, KNPC (Kuwait National Petroleum Co.).
- Ex - Vice President, Refinery/Milazzo Joint Venture with AGIP.
- Ex - Chairman, Kuwait Petroleum Western Hemisphere Co., USA.
- Ex - Board Member, Kuwait Aviation Fuelling Co., Kuwait.
- Ex - Manager, Crude Oil Sales Dept., Kuwait Petroleum Corporation.
- Ex - Manager, Q8 Lubricant Sales Dept., Kuwait Petroleum Corporation.

- Ex - Manager, Sales Administration Dept., Kuwait Petroleum Corporation.
- Ex - Manager, Kuwait Petroleum Corporation (Singapore Liaison office).
- Ex - Area Sales Co-ordinator, Kuwait Petroleum Corporation.
- Ex - Assistant Manager, Tokyo Office, Japan, Kuwait Petroleum Corporation.
- Ex - Senior Sales Representative, Kuwait National Petroleum Company, London Office.
- Ex - Executive Trainee, Kuwait National Petroleum Company, Marketing Division.
- Ex - Supervisor, Bank of Kuwait and Middle East.

QUALIFICATION:

- B.Sc. in Economics - Kuwait University -1972.
- Banking Diploma - Banking Institute of Kuwait.
- Masters (International Business) – Sophia University, Tokyo, Japan-1981.

3. BOARD MEETINGS DURING 2016:

Details of meetings held by the Board and various Board Committees during 2016 are as given below:

Name of Board Member	Meeting No. 195 Dated 10/01/2016	Meeting No. 196 Dated 02/03/2016	Meeting No. 197 Dated 10/04/2016	Meeting No. 198 Dated 10/04/2016	Meeting No. 199 Dated 11/07/2016	Meeting No. 200 Dated 11/10/2016	Total Meetings Attended
Khalaf A. Al-Khalaf	✓	✓	X	X	✓	✓	4
Ghazi Fahad Alnafisi	✓	✓	✓	✓	✓	✓	6
Waleed J. Hadeed (Secretary to Board of Directors)	✓	✓	✓	✓	X	✓	5
Abdullah A. Zaman	✓	✓	✓	✓	✓	✓	6
Ali M. Al-Radwan	✓	✓	✓	✓	X	✓	5
Ali R. Al-Bader (Independent Member)	✓	✓	✓	✓	X	✓	5
Abdullah E. Al-Kandari	✓	✓	✓	✓	✓	✓	6
Mohammed A. Qasim	X	✓	✓	✓	✓	✓	5

The Board's Secretary performed all the administrative and legal responsibilities of the Board of Directors. The Secretary also aided the Board members in gaining access to the required information to perform their roles, on a continuous basis, according to the Board of Directors' decision or based on discussions with the Chairman of the Board.

The minutes of all meetings held by the Board and various Board Committees are documented and signed by the members thereof.

4. BOARD OF DIRECTORS' ROLE & RESPONSIBILITIES AND ACCOMPLISHED TASKS DURING 2016:

The duties and responsibilities of every director of the Board is clearly laid out in the Charter and the delegation of authority and responsibility to the executive directors is well defined. The Company has a policy to provide accurate and timely information to the directors on a periodic basis for evaluation, review and decision making process.

Major Role & Responsibilities:

- Approving major company goals, strategies, plans and policies.
- Approve annual budgets, quarterly and annual financial information.
- Supervising company's major capital expenditure, asset and stock ownership and disposal of the same.
- Ensuring the company's commitment to policies and procedures.
- Ensuring the accuracy and validity of the information required for disclosure.
- Establishing effective communication channels to enable shareholders' access to periodic and continuous information on the Company's activities and any other essential developments therein.
- Structuring the Corporate Governance system, its general supervision and monitoring.
- Monitoring the performance of each Board Member and Executive Management using the Key Performance Indicators (KPIs).
- Preparing the Annual Report to be presented at the General Assembly. Forming the specialized Committees as required by the regulatory bodies and defining their responsibilities, rights and obligations.
- Determining the authority delegated to the Executive Management and the decision making process.
- Monitoring the performance of the Executive Management members and ensure that they are accomplishing all assigned roles.
- Approving succession planning.
- Setting a policy for regulating the relationship with the Stakeholders to protect their rights.
- Setting a mechanism to regulate dealings with Related Parties to avoid conflict of interest.
- Approving Key Risk Indicators, measurements and risk appetite for the company to deal with these risks.

Accomplished tasks during 2016:

- The Board reviewed and approved different charters under CMA.
- On a regular basis the Board followed up on the progress of the executive management in implementing various policies and procedures.
- The Board periodically reviewed the progress of various approved projects.
- The Board monitored the progress of strategy implementation through approved Key Performance Indicators.

5. BOARD OF DIRECTORS' COMMITTEES:

In discharging its duties, the Board delegates authority to relevant Board sub-committees with clearly defined mandates although the Board retains its accountability. The Board has established the following Board sub-committees to enhance its supervision and effectiveness over operations of the Company. Each committee member's expertise, skills and background were considered while forming the Committees:

a. Audit & Risk Management Committee:

Scope & Activity:

The Committee is responsible to provide a culture of commitment in the company and by that, ensuring the correctness and integrity of the financial reporting of the company as well as the verification of the adequacy and effectiveness of the internal control systems applied. The Committee reports directly to the Board and will specialize in risk management, and preparing the policies & procedures for risk management function to comply with Company's risk appetite. CMA, Kuwait, has permitted the Company to combine the functions of Audit & Risk Management under one Committee. The main role of the Committee includes the following:

- Review of periodical financial statements before submission to the Board of Directors.
- Allowing the external auditor to discuss his views with the Committee before submission of the annual accounts to the Board for approval.
- The study of accounting policies and principles used, their amendments and to express any opinion and recommendation to the Board of Directors in that matter.
- Reviewing the level of compliance with applicable legal requirements that are specific to them, such as CMA regulations, Commercial Companies Law and other applicable laws.
- To review the charter of the internal audit function annually and also to ensure that the internal audit function has open communications with executive management and other auditors.
- Reviewing the results of the internal audit and regulatory reports.
- Ensuring the independence of external auditor. Reviewing the scope and methodology of the proposed action plan and monitoring the performance of external auditor.
- Preparing and reviewing the strategies and policies of risk management and risk appetite.
- Evaluating the systems and mechanisms that are used to determine, measure, and monitor the risks.
- Assisting the Board in identifying and assessing the acceptable thresholds of risk.
- Reviewing and recommending the organizational structure of risk management unit.
- Reviewing deals and suggested transactions with related parties (if any).
- Reviewing the information and reports that are related to risk management and which are published in the annual report of the company.

Composition of Audit & Risk Management Committee:

- Ghazi Fahad Alnafisi (Head of the Committee)
- Ali R. Al-Bader.
- Ali M. Al-Radwan.

Meetings of the Committee:

The Committee meets on a regular basis, at least four times during the year and on a quarterly basis, or whenever the need arises, or upon the request of the head of the Committee or two of its members. The first meeting of the Committee was held on 11 October, 2016 and all the Committee members attended it.

Key achievements of Audit & Risk Management Committee:

- Reviewed and discussed the periodical financial statement before submission to the Board.
- Approved the formation and outsourcing of the internal audit function.
- Reviewed and discussed the risk appetite and exposure levels in the countries in which the Company operates.
- Reviewed the hedging policy adopted by the Company.

b. Nomination & Remuneration Committee:

Scope & Activity:

The Committee develops policies and makes recommendations to the Board on nominations, appointment, re-appointment of BOD Members and Executive Management. The Committee supervises the implementation of remuneration policies of Board members and Executive Management. The Committee is also responsible for examining the selection and appointment practices of the Company.

The main role of the Committee includes the following:

- Recommendation to accept the nomination and re-nomination of the members of the Board and executive management.
- Developing a clear policy for the remuneration of the Board of Directors and executive management.
- Determining the right skills required for membership of the Board of Directors.
- Proposal of the nomination and re-nomination of the members of the Board to the General Assembly.
- Determining the performance evaluation mechanisms of the Board as a whole and the performance of each member of the Board and executive management.
- Encouraging the development of the skills of members of the Board on an ongoing basis.
- Periodical review of payroll and job grading.
- Overseeing the nomination procedures of Board members during the General Assembly.
- Preparing job descriptions for executive, non-executive, and independent members of the Board.

Composition of the Committee:

- Khalaf A. Al-Khalaf (Head of the Committee)
- Ghazi Fahad Alnafisi
- Ali R. Al-Bader

Meetings of Nomination & Remuneration Committee:

The Committee meets regularly, at least once in a year and the secretary records/documents the minutes of these meetings. The first meeting of the Committee was held on January 12, 2017 and all the members of the Committee attended it.

Key achievements of the Committee:

- Reviewed and discussed the remuneration policy adopted by the Company.
- Reviewed and approved the sitting fees payable to the Board of Directors for the year ended 2016.

Compensation paid to the Executive Management and Board of Directors:

Total value of remuneration paid to the key management including executive management for the current year 2016, given in the table below:

Amount in KD (Thousands)

Particulars	2016
Salaries of Executive Management	829
Current Year Terminal Benefit Expenses	262
Directors' Sitting Fees	80
Total	**1,171**

6. COMPANY'S EXECUTIVE MANAGEMENT:

Executive management of the Company possess qualifications, skills and competencies required for fulfilling their duties and responsibilities. Major roles and responsibilities of the executive management are as follows:

- Review and discuss any ideas or proposals to the Board of Directors.
- Responsible towards the Company, its shareholders and any third party for any acts of fraud or misuse of power, for any violations of the Companies Law / contractual obligations.
- Execute all internal policies and regulations of the Company which are approved by the Board of Directors.
- Execute annual strategy and plan approved by Board of Directors.
- Prepare periodic reports (financial and non-financial) concerning the accomplishments of the Company in the light of strategic plans and goals.
- Manage daily work and facilitate activities. This is in addition to managing Company resources optimally, increasing profits and decreasing expenses in accordance with the Company goals and strategy.
- Participate effectively in ethical values, culture building and development in the company.
- Set internal audit and risk management systems and ensure efficiency and sufficiency of the same.
- Ensure adherence to the risk mitigation policy approved by the Board.

7. INTEGRITY OF FINANCIAL REPORTING:

The executive management provided the Company's Board of Directors with a written undertaking on February 13, 2017 (date of the Board Meeting) that the Company's financial reports reflected a sound and fair representation of all financial aspects of the entity and that they were prepared in accordance with the applicable International Accounting Standards.

The Annual Report submitted to shareholders by the Board of Directors includes an undertaking of soundness and integrity of all financial statements and reports related to the Company's activity.

The Audit & Risk Management Committee recommends appointment, re-appointment and replacement of the external auditors specifying the remuneration thereof to the Board of Directors. The external auditor is appointed at the Annual General Meeting based on the recommendation of the Board of Directors. The Committee also ensures the independence of external auditors.

The quarterly and the annual financial statements of the Company are reviewed by the Audit & Risk Management Committee and Board of Directors before submission to the external auditors.

8. INTERNAL CONTROL:

The company has an internal control system to ensure that all tangible and intangible resources are directed, monitored, measured and protected in an effective manner.

The internal control process adopted by the Company's Board of Directors and executive management is designed to provide reasonable assurance regarding the achievement of following objectives:

- Effectiveness and efficiency of operations.
- Safeguarding of assets.
- Reliability of financial reporting.

- Compliance with applicable laws and regulations.
- Detection and prevention of errors and irregularities in a timely manner.

As required by CMA regulations, an independent external firm has been engaged to provide a high level Internal Control Review report before 31 March 2017.

9. INTERNAL AUDIT FUNCTION:

The company has nominated an Internal Audit head and appointed an independent external firm of professional accountants to perform the internal audit function in the Company. The objective of the Internal Audit Department is to provide an assurance over the operational effectiveness of the system of internal controls and implementation of Company's policies & procedures through periodic reporting on various findings. The Internal Audit Function reports directly to the Audit & Risk Management Committee.

10. RISK MANAGEMENT FUNCTION:

The Company has a separate risk management department operating under the direct supervision of the Audit & Risk Management Committee to identify, measure and monitor risks associated with the Company's activities. Risk management function includes the methods and processes used to manage risks and seize opportunities related to the achievement of their objectives. It provides a framework for risk management, which typically involves identifying particular events or circumstances relevant to the Company's objectives (risks and opportunities), assessing them in terms of likelihood and magnitude of impact, determining a response strategy, and monitoring progress. By identifying and proactively addressing risks and opportunities, the Company protects and creates value for its stakeholders, including owners, employees, customers, regulators, and society overall.

The Company has identified Financial and Operational risk as a major risk requiring continuous monitoring and review.

11. CODE OF CONDUCT AND ETHICAL STANDARDS:

Company's Board of Directors has approved the professional and ethical standards of conduct that should be followed by all members of the Board of Directors and employees in their field of work regardless of the place and work circumstances. The Company stands committed to the highest degree of ethical standards representing the basic values and principles of the Code of Conduct. The Charter on Code of Conduct & Ethical Standards of the Company has been formulated to address the following values:

- Respect.
- Financial integrity & honesty.
- Diversity & equal opportunities.
- Health & safety.

12. DISCLOSURE & TRANSPERANCY:

The Company has an approved policy on disclosure & transparency that outlines the disclosure procedures commensurate with the legal and ethical requirements. The Company submits adequate and accurate disclosures to its stakeholders in line with the regulatory and legal requirements to fulfill its objectives of transparency. This policy is to be used as a reference for the departments' personnel to carry out their daily tasks. Strict adherence to this policy ensures conforming, at all times, to the laws and regulations in the State of Kuwait ("Kuwait"). In the event of any conflict or difference between the provisions of this policy and the provisions of the laws and regulations in Kuwait, the regulatory requirements will take precedence over the provisions of this policy.

The Charter addresses the following major aspects in relation to the Company's Disclosure & Transparency function:

- Providing Information to the Stakeholders
- Rules & Regulations applicable for the parties who have access to Company's insider information
- Disclosure of Company's information to the general` public
- Insider Information
- Interested Parties

The shareholders' register is maintained by the Kuwait Clearing Company which carries updated information about the shareholders of the Company. Agenda for Annual General Meeting is communicated to the Shareholders through insertions in major local dailies.

Conflict of Interest:

The Company exerts due care in applying policies to avoid conflict of interest. The Company has an approved policy to review all related party transactions on a regular basis so as to ensure fair practices and behavior from Board members and personnel. The Board monitors and addresses any probable interest that will conflict with the business interests of the Company adversely.

Investor Relations:

The Company's unit of investors' affairs is responsible for ensuring effective communication with shareholders in line with the approved policy. The Company communicates with shareholders through the Annual Reports & Accounts and by providing information in advance of the Annual General Meeting.

13. PROTECTION OF SHAREHOLDERS' RIGHTS:

The Company is committed to protect the rights of its shareholders. The approved policy on shareholders' rights aims to ensure the Company's commitment to guard the rights of its shareholders in accordance with the laws and other pertinent regulations. The provisions of this policy provides strict guidelines to the Company as a whole, Board of Directors, executive management, and employees in order to protect the shareholders' rights. The head of Committee and Compliance Department in coordination with the Secretary of the Board of Directors is responsible to apply this policy.

The Company endeavors to protect the shareholders' rights, which include the following:

- Ensuring the agreed-upon share in dividends.
- Provision of proportionate share in the Company's assets in case of liquidation.
- Providing data and information related to shareholders on the Company's activities, operations and investment strategy on a regular basis.
- Participation in the General Assembly meeting of shareholders and voting on its decisions.
- Right to get the financial statements for the financial period elapsed as well as the report

of the Board of Directors and the auditor's report.

- Timely information on Board of Director's Election.
- To issue a liability claim on the members of the Board or executive management, in case of their failure to perform the tasks assigned to them.
- Candidacy for membership of the Board of Directors.

Major Shareholders:

The major shareholder(s) who own or have control over 5% or more of the Company's share capital as at 31st December 2016 are:

Full Name	Percentage %
Markaz Energy Fund	10.500
Al Ahlia Insurance	7.990
Ghazi Fahad Alnafisi	6.735

14. RECOGNITION OF THE ROLE OF STAKEHOLDERS:

The Company is fully responsible to safeguard stakeholders' rights and create steady work environment by ensuring the entity's sound financial position. As part of the Corporate Governance framework, protection of Stakeholders' policy is developed to ensure respect and protection of stakeholders' rights according to laws and regulations issued by the relevant regulatory authorities in Kuwait. The policy applies to the Company, Board of Directors, Executive Management and all employees who have a role in protecting stakeholders' rights in the Company. If there is any conflict between the provisions of this policy and any regulatory requirements, always the regulatory requirements will take precedence over the provisions of this policy. The Head of Compliance department is responsible to monitor the implementation of this policy on behalf of the Company. Company's policy on protection of stakeholders' rights recognizes all the interested parties as Stakeholders, including, the shareholders, regulatory authorities, customers, employees, suppliers, third parties, etc.

The Board of Directors assumes the following main responsibilities in order to protect the rights of Company's stakeholders:

- Appointing competent Executive Management
- Supervision of the Company's affairs effectively and efficiently
- Adopting effective policies
- Awareness of the condition and performance of the Company
- Maintaining adequate capital for the Company
- Compliance with laws, regulations and instructions

The Company ensures the following to its stakeholders' in order to protect their rights:

- All the stakeholders are treated fairly and without discrimination
- Strict review of the transactions carried out by the Company with related parties (if any) and providing appropriate recommendations to the BOD.

- Providing reliable and adequate information to the stakeholders on a continuous basis.
- Periodic reporting to the BOD on grievances (if any) of the stakeholders.

Insider Information:

The policy on insider information is aimed at preventing employees, members of the Board and the Executive Management from using such information for personal benefit. A declaration has been obtained from the company's insiders acknowledging that they are aware of the consequences arising out of any misuse of the insider information.

Whistle Blowing Policy:

Whistleblowing Policy deals with the Company's obligation to provide an environment for exchange of positive communication between the Board, Executive Management and staff for achieving high standards of professionalism and integrity. This policy aims at detecting any practices that fall out of the scope of laws, regulations and sound professional behavior so as to be remedied on a timely basis. It also provides confidentiality and ensures full protection to the whistle blower.

15. ENCOURAGING AND ENHANCING THE PERFORMANCE OF BOARD MEMBERS AND EXECUTIVE MANAGEMENT:

The Company has developed Key Performance Indicators for evaluating the performance of the Board of Directors and as well as the performance of each Board member and executive management. Enhancing the value of stakeholders is the primary objective behind developing these performance indicators for each category stated above.

16. SOCIAL RESPONSIBILITY POLICY:

The Company is committed to align its work and strategy with responsibility towards the environment, community and major stakeholders. The purpose of this Policy is to guide the Company in its administration of social responsibility, including the achievement of sustainable development for the community and workers by contributing towards reducing the level of unemployment in the community and achieving optimum utilization of available resources. The Company also endeavors to enhance the knowledge and awareness of its employees on the importance of social responsibility programs through various staff outreach programs and communication tools.

The Company is planning to initiate various social responsibility programs under the following major areas:

- Responsibility towards society
- Protecting the environment
- Provision of healthy and efficient working environment for its employees at all the levels
- Other social responsibility endeavors including donations to other genuine social security initiatives, charity events, learning programs etc.