



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



43
Years
Since 1976

*Annual
Report
2019*

43
Years
Since 1976



OUR OFFICES

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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

• Ali M. Al-Radwan	Chairman
• Ghazi F. AlNafisi	Vice Chairman
• Waleed J. Hadeed	Chief Executive Officer
• Abdullah A. Zaman	Director
• Hamad S.H.M.Al-Dalali	Director
• Ali R. Al-Bader	Director
• Abdullah E. Al-Kandari	Managing Director Finance
• Mohammad A.Qasim	Managing Director Marketing

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Report of the Board of Directors for 2019

Message to the Shareholders

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present the 43rd annual Report and consolidated financial statements for the year 2019.

The year 2019, like many others, has seen its share of changes and turmoil. Changes in policies effecting trade between nations created uncertainty and fluctuations in supply and demand and eventually on prices. This undoubtedly was reflected onto oil where crude prices varied from a low of 52.51 dollars per barrel to a high of 75.60 per barrel. The USA and China , the UK and EU, North Korea and USA, tensions in the Middle East and even the environmental debate all played a part in the imbalance of World markets.

As in other years, IPG continued to face stiff competition in the markets it is active in. However, relying on past experience, strong relationships and dexterity, IPG was able to overcome them. Although this led to a reduction in sales volumes compared to plan, IPG managed to compensate this by an increase in margins. IPG’s performance during 2019 was quite satisfactory achieving a net profit of 6.635 million KD, equivalent to 36.70 fils per share. The profit compares to 8 % over that of the year 2018.

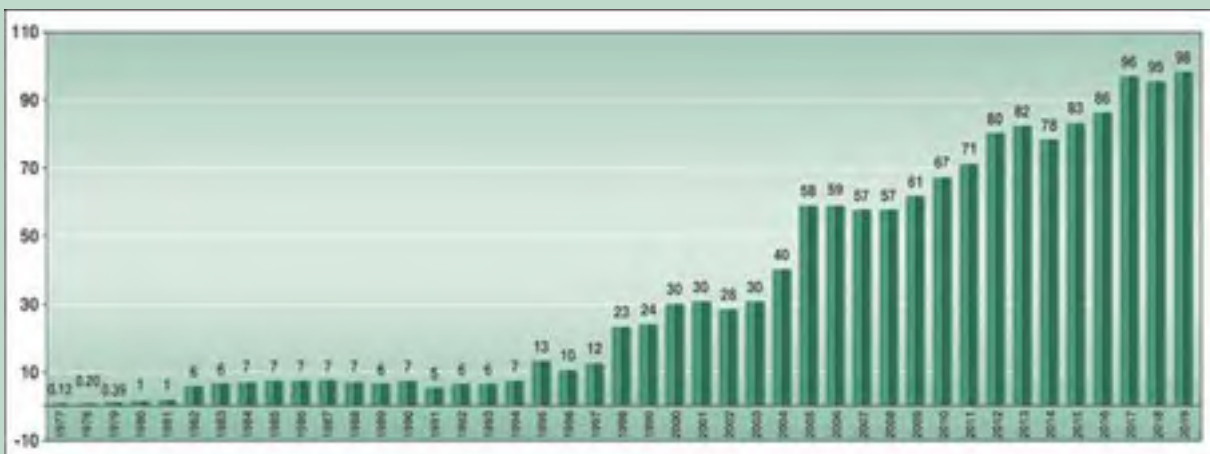
IPG is aware of the challenging market environment and the instability geopolitics create. Accordingly, its approach remains focused on minimizing risk and exposure while endeavoring to ensure growth and sustainability. As a result, there were no major setbacks in 2019.

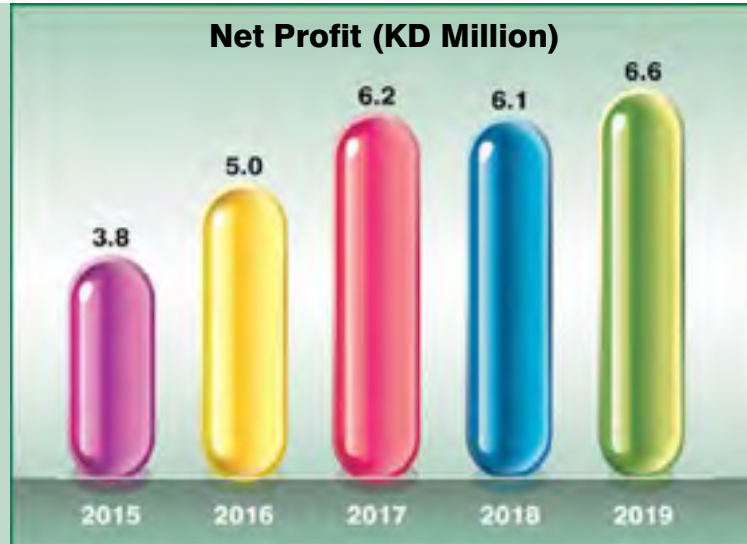
IPG’s performance during 2019 was commendable and I would like to take this opportunity to thank everyone who contributed to IPG’s strong performance from our shareholders to staff members and to all sectors associated with the Group.

The policies and regulations governing the Corporate Governance continues with the Board of Directors. The attached Corporate Governance report highlights the achievements of the year 2019. The Board of Directors expresses their thanks and appreciation to all shareholders for their confidence and the employees for their hard work and commitment to IPG.

Ali M. Al-Radwan
Chairman of the Board of Directors

IPG’s Equity Movement (KD Million)





Marketing Activities

IPG managed to market about 3.3 million tons in 2019 compared to 3.6 million tons in 2018. Though below plan there were increased sales volumes to the Red Sea , East Africa and Morocco, which are part of IPG's core markets. Despite strong competition, IPG managed to trade in its key regions while at the same time achieve improvements in margins.

Efforts are continuing to consolidate our position in these areas and recapture other areas of our trade. IPG continued its close co-operation with many national oil companies, strengthened its ties with the major oil companies and refiners as well as with its trading partners.

(a) Trading activities in the Arabian Gulf and Red Sea.

Sales in the Arabian Gulf and Red Sea region ranked high with close to 1.4 million tons traded. This represented about 43% of IPG's total volumes.

(b) Trading activities in East Africa.

Nearly 670 thousand tons were shipped to East Africa. This represented about 21% of total volumes.

(c) Activities in Mediterranean Sea

Euro-Med region recorded over 1.1 million tons of product traded. it accounted for about 35% of the total volumes.

(d) Trading activities in India / Far East Asia

There were reduced activities in the far east in 2019. IPG has restructured its activities in this region and plan to increase the volumes traded there.

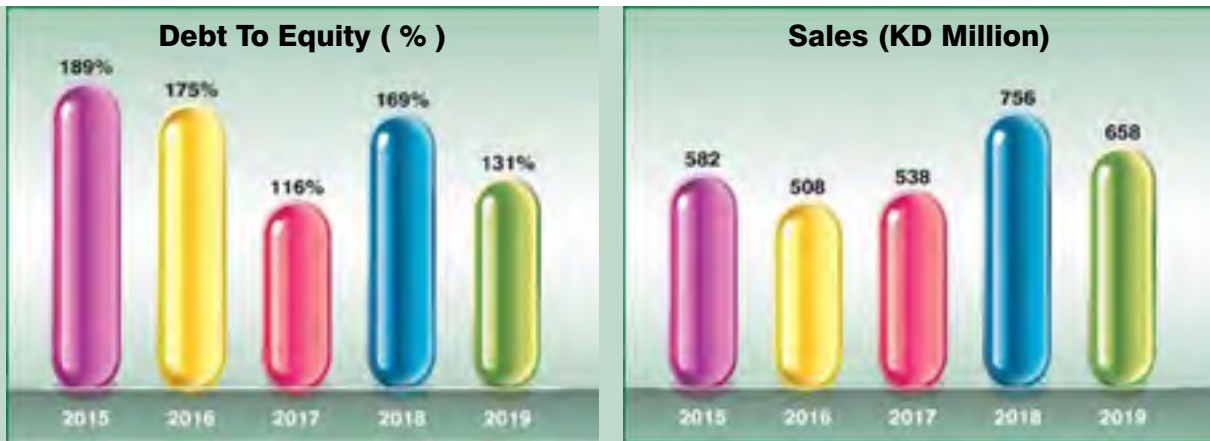
(e) Storage of Petroleum Products

IPG continues to utilize its storage capacities to enhance its marketing activities. Total volume of products stored by IPG in these oil terminals were about 1.3 million cubic meters in 2019. IPG is taking steps to increase storage capacities in its key trading markets.



Shipping

As of 1 Jan 2020 , all ships are required to burn fuel oil with Sulphur content of no more than 0.5 % unless fitted with an exhaust gas emissions cleaner(scrubber) capable of reducing sulfur emissions to 0.5 %. The IMO 2020 regulations will likely have a pronounced impact on vessels earnings. Due to changes in the world economies and an increase in geopolitical risks it has been difficult to assess the impact on supply and demand. Diesel demand, however, is expected to grow in 2020 along with Fuel oil to support the switchover from High Sulphur bunker fuels. Once the market settles into the new changeover, we would expect positive changes on the Time Charter rates on both short and long term charters.



Risk Management Team

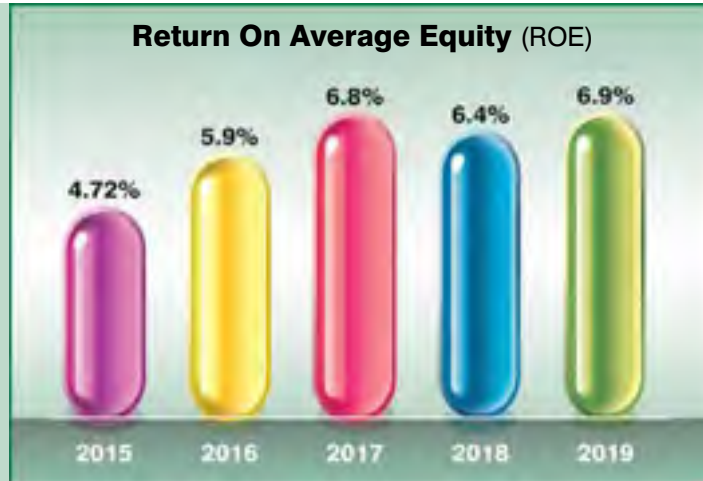
The team plays a key role in assisting Marketing assess and develop new markets or trades as well as examine all the risk and exposures related to it. The desk is actively coordinating all the trades and advises Marketing the potential advantages and associated risks. RMT functions as the risk control and reporting center for all the trading activities of IPG. The team is also engaged in assessing and analyzing oil price movements which includes technical and fundamental evaluations of supply and demand. RMT ensures that the Hedge Policy and Trade Guidelines and Procedure are followed.

Business Development & Projects Department

Heading to IPG’s Corporate Strategy and in its endeavour to support IPG’s trading operations, the Business Development & Projects Department (BD) in 2019 followed up with improvements of existing terminal facilities and the development of new projects in strategic markets. BD is actively involved in the execution of operational improvements of terminal facilities and tank conversion in Yanbu-KSA as well as project management in the construction of new terminal facilities in the Ports of Beira and Matola in Mozambique.

In Yanbu-KSA(ATT), BD managed to fully commission the terminal improvement project in coordination with the ATT’s Management. Enhancement in the existing facilities to provide a chemical storage capacity of 45,000 m³are also underway. In Mozambique, implementation of the projects is ongoing. Based on the current project schedule, the Matola Project (66,000 m³) is expected to be commissioned in Q2 of 2020 and the Beira Project (65,000 m³) is expected to be commissioned in Q4 of 2020.

In addition to the development of projects, BD provided information and analytical support to assist with the project finance process by actively working with international, regional and local financial institutions for securing long term project financing in multiple currencies at competitive terms and conditions. In addition, BD is exploring different cooperation models with its strategic partners to augment its business growth and development of strategic markets.



Finance & Treasury

The finance department continued providing the full support to the group to meet the financial liquidity requirements of its international operations and to support the participation for its international oil bids to supply the group's customers with a competitive and flexible pricing of petroleum products.

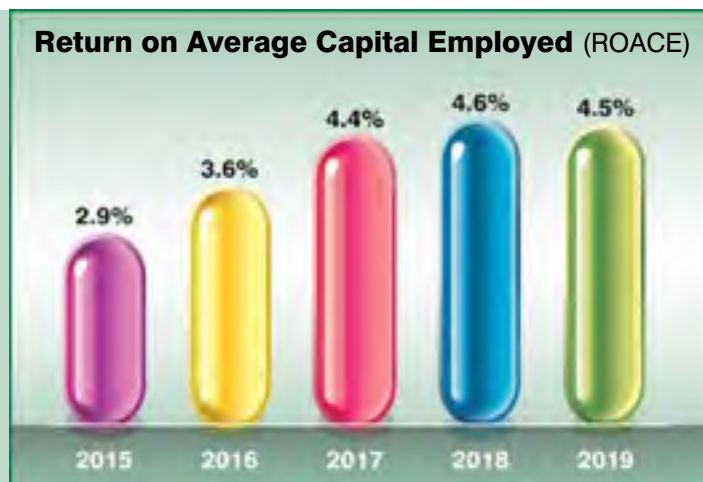
The department continues to establish new relationships with new banks locally and internationally to obtain additional funding required to meet current and future financial needs.

Human Resources

IPG has taken a strategic decision to be an effective competitor in bringing in the largest possible number of young Kuwaitis to train and rehabilitate them and thus achieve the group's long term goals. During 2019, ten (10) new employees were recruited, bringing the total staff to 141. At the end of 2019, the percentage of Kuwaitis reached 17% of the total workforce.

Information Technology

In order to guarantee a 99.9% up-time for our systems and applications, a complete Disaster Recovery solution from Infra-scale worldwide was implemented. This will work whenever any or all our servers fail or in case of complete disaster in our data center or even if the whole country is down. Authorized users may connect from anywhere in the world as per the access determined within Business continuity plan of IPG. Moreover, and to ensure a smooth functioning of our systems, all IPG's infrastructure was upgraded to the latest versions. Starting from Firmware of Servers and storage devices to SW and Windows OS, and Database Servers Upgrades to the latest version with no downtime.





Legal :

IPG confirmed through 2019 its strategy to adopt a commercial approach based both on diligence and sound trading. It is rare in today's business world for a Company to be less legally exposed as IPG. With nearly no law suites submitted against the group, IPG has continued to prosper. The Legal department has retained the services of top tier law firms in the world to assist in safely implementing its Projects.

Moreover, the Department has rendered worldwide legal advice to all IPG's departments, leaving no place for any legal exposure.

The Board of Directors approved the audited financial statements as of 31 December 2019 and decided to recommend the below:

- 1 - Cash dividend of 30 Fils per share in the total amount 5,423,625 (KD Five million Four hundred Twenty three thousand Six hundred Twenty Five) for the year ended 31/12/2019 to the registered shareholders on the date of the GAM set for at least 10 working days after the GAM meeting date, with the distribution of these dividends to begin 5 working days after the end of the due date.
- 2 - Approving the remuneration to the Board of Directors for the financial year ended 31/12/2019 amounting to KD 80,000 (KD Eighty thousand)
- 3 - Election of the Board of Directors for the next three years (2019-2021)

Where these recommendations are subject to approval by the competent official authorities and ordinary General Assembly.

IPG's Subsidiary, Joint Venture and Associate Companies (brief of operating 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&K 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 m³. It has a paid-up capital of US \$16.7 million. By Shareholding IPG's capacity is 37,000 m³.

Other Shareholder is:

- Unihold SAL, Lebanon



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3. Inpetro SARM, 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 288,300 m³ of which 268,500 m³ is for petroleum products and 19,800 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. To improve the operational efficiency and flexibility of the terminal, Phase III Infrastructure Project (for new facilities like new pipelines & pumps, access to the new Berth, etc.) at a total cost of US\$ 14 million was fully commissioned in 2019. Followed by the signature of Development Agreement with Farabi Petrochemical Company of KSA (FPC) for providing Chemical storage of 45K m³ capacity under a 20-year storage commitment, ATT awarded the EPC Contract for the scope of works (tank conversion, pipelines, pumps, MLAs, etc.) and commissioning is expected by Q3 2020. By Shareholding IPG's capacity is 105,230 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 under a Concession Agreement with TMSA (Agence Spéciale Tanger Méditerranée) for 25 years with a total capital cost of € 140.5 million. 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 (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 m³ constructed at a capital cost of US \$100 million. By Shareholding IPG's capacity is 74,200 m³.

Other Shareholders are:

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



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**7. Horizon Singapore Terminals Pty. Ltd. (HSTPL)– Singapore:
(IPG share 15% - Associate Company)**

HSTPL owns and operates an independent petroleum storage terminal with a storage capacity of 1.2 million m³ 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. 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 289,860 m³.

Other Shareholders are:

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





9. 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)



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Financial Highlights

	2015	2016	2017	2018	2019
Sales (KD Million)	582	508	538	756	658
Gross Margin	1.0%	1.5%	1.4%	2.0%	2.3%
Operating Profit (KD Million)	3.0	3.5	1.6	8.8	0.9
Net Profit (KD Million)	3.8	5.0	6.2	6.1	6.6
Earning Per share (Fils)	26.20	34.63	37.32	34.01	36.70
Price Earning (Time)	10.69	10.54	10.69	11.79	12.10
Book value/Share (Fils)	573	593	533	525	543
Cash Dividend	25%	30%	30%	30%	30%
Dividend Yield	8.9%	8.2%	7.5%	7.5%	6.8%
Total Assets (KD Million)	269	285	295	330	299
Shareholders Equity (KD Million)	82.9	85.7	96.4	94.9	98.2
Return on Average Equity	4.7%	5.9%	6.8%	6.4%	6.9%
Return on Average Capital Employed	2.9%	3.6%	4.4%	4.6%	4.5%

Independent Auditors' Report and Consolidated Financial Statements

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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 2019, 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 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). 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 ("the 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.



The Key audit matter

How the matter was addressed in our audit

Investments at fair value through other comprehensive income

Investments in Vopak Horizon Fujairah Limited and Asia Petroleum Limited (“investees”) amounting to KD26.73 million, classified, as investments at fair value through other comprehensive income are fair valued using the discounted cash flow technique. The valuation is carried out by the Parent Company’s internal valuer (“Valuer”). 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 these investments included, but were not limited to, the following:

- Discussions were held with the Valuer on the appropriateness of valuation technique to test the key inputs and assumptions used to determine fair value; and
- Evaluated 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 from the investees’ 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 2019 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.

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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 ISA 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 ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements



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

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

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.

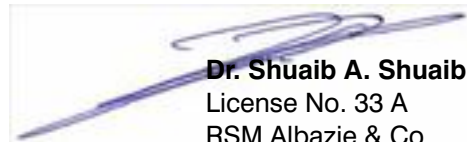
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or 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 as amended, 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, as amended, or of the Parent Company's Memorandum and Articles of Association, as amended, during the year ended 31 December 2019 that might have had a material effect on the business of the Parent Company or on its consolidated financial position.



Dr. Rasheed M. Al - Qenae
License No. 130 - A
of KPMG Safi Al-Mutawa & Partners
Member firm of KPMG International



Dr. Shuaib A. Shuaib
License No. 33 A
RSM Albazie & Co.

State of Kuwait: 10 March 2020

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Consolidated statement of financial position

As at 31 December 2019

	Notes	2019 KD'000	2018 KD'000
ASSETS			
Current assets			
Cash on hand and at banks	4	21,545	66,061
Trade and other receivables	6	87,443	74,325
Inventories		22,234	36,300
Investments at fair value through statement of income	5	60,639	54,201
Investments at fair value through other comprehensive income	5	2,185	2,534
Current portion of other loans	7	6,629	-
Total current assets		200,675	233,421
Non-current assets			
Investments at fair value through other comprehensive income	5	26,732	24,157
Investment in joint venture	8	3,788	4,984
Investment in associates	9	28,456	30,060
Other loans	7	4,779	4,310
Rights of use assets	11	4,225	-
Property and equipment	10	30,076	33,434
Total non-current assets		98,056	96,945
Total assets		298,731	330,366
LIABILITIES AND EQUITY			
Current liabilities			
Due to banks	12	110,124	145,100
Trade and other payables	13	70,474	73,231
Current portion of term loans	14	1,595	1,626
Current portion of Lease liability	16	3,699	-
Directors' fees payable		80	80
Total current liabilities		185,972	220,037
Non-current liabilities			
Non-current portion of term loans	14	12,386	14,073
Non-current portion of Lease liability	16	610	-
Provision for staff indemnity	15	1,604	1,354
Total non-current liabilities		14,600	15,427
Total liabilities		200,572	235,464
Equity			
Share capital	17	18,841	18,841
Share premium		29,665	29,665
Legal reserve	18	9,420	8,912
General reserve	19	606	606
Fair value reserve	5	24,488	22,258
Foreign currency translation adjustments		(2,466)	(2,281)
Treasury shares reserve		1,429	1,429
Treasury shares	20	(2,770)	(2,770)
Retained earnings		18,946	18,242
Total equity		98,159	94,902
Total liabilities and equity		298,731	330,366

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

Ali Mohammed Al-Radwan
Chairman

Ghazi Fahad Al-Nafisi
Vice Chairman

Waleed Jaber Hadeed
Chief Executive Officer

Consolidated statement of income

For the year ended 31 December 2019

	Notes	2019 KD'000	2018 KD'000
Sales	21	658,479	755,517
Cost of sales		(643,089)	(740,439)
Gross profit		15,390	15,078
Net interest relating to oil marketing operations	22	(4,256)	(4,496)
Net results of oil marketing operations		11,134	10,582
Share in results of associates and joint venture	23	3,421	5,529
Dividend income	24	-	1,350
General and administrative expenses		(1,474)	(1,563)
Staff costs		(4,922)	(4,887)
Depreciation	10	(1,858)	(2,249)
Provisions	6(b),10	(5,432)	-
Unrealized gain / (loss) from investments at fair value through statement of income	24	6,732	(2,853)
Net other (expense) / income	25	(642)	545
Profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labor Support Tax (NLST), Zakat and Directors' fees		6,959	6,454
Contribution to KFAS	26	(70)	(65)
Contribution to NLST	27	(174)	(161)
Directors' fees		(80)	(80)
Profit for the year		6,635	6,148
Earnings per share (fils)	28	36.70	34.01

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

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Years
Since 1976



Consolidated statement of comprehensive income

For the year ended 31 December 2019

	2019 KD'000	2018 KD'000
Profit for the year	6,635	6,148
Other comprehensive income/ (loss):		
<i>Items that will not be reclassified subsequently to statement of income</i>		
Changes in fair value of investments at fair value through other comprehensive income	2,230	(3,333)
<i>Items that may be reclassified subsequently to statement of income</i>		
Foreign currency translation adjustments	(185)	(339)
Other comprehensive income / (loss) for the year	2,045	(3,672)
Total comprehensive income for the year	8,680	2,476

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

Consolidated statement of changes in equity

For the year ended 31 December 2019

	Share capital KD'000	Share premium KD'000	Legal reserve KD'000	General reserve KD'000	Fair value 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 2019	18,841	29,665	8,912	606	22,258	(2,281)	1,429	(2,770)	18,242	94,902
Total comprehensive income for the year	-	-	-	-	-	-	-	-	6,635	6,635
Profit for the year	-	-	-	-	-	-	-	-	6,635	6,635
Other comprehensive income / (loss)	-	-	-	-	2,230	(185)	-	-	-	2,045
Total comprehensive income for the year	-	-	-	-	2,230	(185)	-	-	6,635	8,680
Transactions with the shareholders, recognized directly in equity	-	-	-	-	-	-	-	-	-	-
Dividends for 2018 (Note 30)	-	-	-	-	-	-	-	-	(5,423)	(5,423)
Transfer to legal reserve	-	-	508	-	-	-	-	-	(508)	-
Balance at 31 December 2019	18,841	29,665	9,420	606	24,488	(2,466)	1,429	(2,770)	18,946	98,159

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



Consolidated statement of changes in equity

For the year ended 31 December 2019

	Share capital KD'000	Share premium KD'000	Legal reserve KD'000	General reserve KD'000	Fair value 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 2018	18,841	29,665	8,267	606	24,854	(1,942)	1,429	(2,770)	17,457	96,407
Adjustment on initial application of IFRS 9	-	-	-	-	737	-	-	-	705	1,442
Adjusted balance at 1 January 2018	18,841	29,665	8,267	606	25,591	(1,942)	1,429	(2,770)	18,162	97,849
Total comprehensive income for the year	-	-	-	-	-	-	-	-	6,148	6,148
Profit for the year	-	-	-	-	-	-	-	-	-	(3,672)
Other comprehensive loss	-	-	-	-	(3,333)	(339)	-	-	-	-
Total comprehensive income for the year	-	-	-	-	(3,333)	(339)	-	-	6,148	2,476
Transactions with the shareholders, recognized directly in equity	-	-	-	-	-	-	-	-	-	-
Dividends for 2017	-	-	-	-	-	-	-	-	(5,423)	(5,423)
Transfer to legal reserve	-	-	645	-	-	-	-	-	(645)	-
Balance at 31 December 2018	18,841	29,665	8,912	606	22,258	(2,281)	1,429	(2,770)	18,242	94,902

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

Consolidated statement of cash flows

For the year ended 31 December 2019

	Notes	2019 KD'000	2018 KD'000
Cash flows from operating activities			
Profit for the year before provisions for contribution to KFAS, NLST, Zakat and Directors' fees		6,959	6,454
<i>Adjustments for:</i>			
Interest expense	22	5,411	5,422
Share in results of joint venture and associates	23	(3,421)	(5,529)
Dividend income	24	-	(1,350)
Provision	6(b),10	5,432	-
Provision for staff indemnity	15	256	378
Depreciation	10	1,858	2,249
Unrealized (gain) / loss from investments at fair value through statement of income	24	(6,732)	2,853
Interest income	22	(1,155)	(926)
Interest on lease liability		250	-
Amortization of rights of use		3,646	-
		12,504	9,551
<i>Changes in operating assets and liabilities:</i>			
- Trade and other receivables		(16,444)	(9,659)
- Other loans		(7,098)	(3,604)
- Lease liability	2(b)	(3,812)	-
- Inventories		14,066	(2,993)
- Trade and other payables		(2,614)	(12,580)
Cash used in operations		(3,398)	(19,285)
Payment of staff indemnity	15	(6)	(185)
Interest received		1,066	905
Payment to KFAS		(65)	(65)
Directors' fees paid		(80)	(80)
Net cash used in operating activities		(2,483)	(18,710)
Cash flows from investing activities			
Partial repayment of investment		1,330	-
Purchase of property and equipment	10	(556)	(26)
Dividends received		4,529	5,355
Net cash generated from investing activities		5,303	5,329
Cash flows from financing activities			
(Decrease)/increase in due to banks		(34,976)	50,368
Repayment of term loans		(1,718)	(1,520)
Dividends paid	30	(5,423)	(5,423)
Interest paid		(5,733)	(5,087)
Net cash (used in) / generated from financing activities		(47,850)	38,338
Effect of foreign currency translation		514	(473)
Net (decrease) / increase in cash on hand and at banks		(44,516)	24,484
Cash on hand and at banks at beginning of the year		66,061	41,577
Cash on hand and at banks at end of the year	4	21,545	66,061

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



Notes to the consolidated financial statements

For the year ended 31 December 2019

1. Formation and activities

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

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

As of 31 December 2019, the Group has 137 employees (2018: 136 employees).

The consolidated financial statements were authorized for issue by the Parent Company's Board of Directors on 10th March 2020. The Annual General Assembly of the Parent Company's shareholders has the power to amend these consolidated financial statements after issuance.

Notes to the consolidated financial statements

For the year ended 31 December 2019

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 and its Executive Regulations as amended, 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 at fair value through other comprehensive income;
- Derivative financial assets and liabilities; and

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 Parent Company is filing the consolidated financial statements to the Ministry of Commerce and Industry in Kuwaiti Dinar.

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 new and amended International Financial Reporting Standards effective as of January 1, 2019:

b) Changes in accounting policies

The Group applied IFRS 16 for the first time. The nature and effect of the changes as a result of adoption of this new accounting standards is described below. Several other amendments and interpretations apply for the first time in 2019, but do not have a material impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16 Leases

IFRS 16 supersedes 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. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

The Group applied IFRS 16 using the modified retrospective approach as at 1 January 2019 pursuant to which the Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (‘short-term leases’), and lease contracts for which the underlying asset is of low value (‘low-value assets’). Accordingly, the comparative information presented for 2018 is not restated.

The details of the changes in the accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.



Notes to the consolidated financial statements

For the year ended 31 December 2019

Impact on lessee accounting

Former operating leases:

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet. Applying IFRS 16 for all leases (except as noted below), the Group:

- Recognizes right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments;
- Recognizes amortization on right-of-use assets and interest on lease liabilities in the consolidated statement of income; and
- Separates the total amount of cash paid into a principal portion (presented within operating activities) and interest (presented within operating activities) in the Consolidated statement of cash flow.

The Group has initially adopted IFRS 16 – Leases from 1 January 2019.

IFRS 16 – Leases

On adoption of IFRS 16, the Group recognized “lease liabilities” and the associated “right-of-use asset” in relation to leases that were previously classified as operating lease under IAS 17 “Leases”. The Group applied a single recognition and measurement approach for all leases that it is the lessee, except for short term leases and leases of low-value assets. The right-of-use assets and lease liabilities recorded as at 1 January 2019 amounted to KD 7.9 million, with no impact on retained earnings. The Group discounted lease payments using its incremental borrowing rate at 1 January 2019 of 4%.

The carrying value of right-of-use assets and lease liabilities as at 31 December 2019 amounted to KD 4.2 million and KD 4.3 million respectively. The cost of sale in the Consolidated statement of income includes amortization charge for right-of-use assets for the year amounting to KD 3.6 million and the interest expense on lease liabilities for the year amounting to KD 0.25 million which has replaced the storage charges of KD 3.8 million thereby resulting into a decrease in the EPS by 0.47 fils per share. There were no additions to right-of-use assets during the year.

Impact on transition IFRS 16

The table below shows the reconciliation of operating lease commitments under IAS 17 as at December 31, 2018 and the lease liabilities recognized in the consolidated statement of financial position at the date of initial application.

	KD'000
Undiscounted operating lease commitments under IAS 17 as at December 31, 2018	8,297
Less: recognition exemption for short term leases	(65)
Less: recognition exemption for low value leases	-
Less: Other adjustments	-
Undiscounted operating lease commitments transitioned under IFRS 16	<u>8,232</u>
Discounted lease liabilities transitioned under IFRS 16 and recognized in the consolidated statement of financial position as at January 1, 2019	<u>7,871</u>

Notes to the consolidated financial statements

For the year ended 31 December 2019

Amendments to IAS 1 and IAS 8 Definition

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of “obscuring” material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from ‘could influence’ to ‘could reasonably be expected to influence’.

The definition of material in IAS 8 has been replaced by a definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term ‘material’ to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted. This amendment is not expected to have any material impact on the financial statements

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of 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 in line with Group policies.

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:

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



Notes to the consolidated financial statements

For the year ended 31 December 2019

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

Name of subsidiary	Country of incorporation	Principal activities	Percentage of holding (%)	
			2019	2018
Independent Petroleum Group Limited	Bahamas	Trading of crude oil and petroleum products	100%	100%
Independent Petroleum Group of Kuwait Limited.	United Kingdom	Representative office	100%	100%
Independent Petroleum Group (Asia) Pte. Limited.	Singapore	Trading of crude oil and petroleum products	100%	100%
Independent Petroleum Group (Southern Africa) (Pty) Limited.	South Africa	Representative office	100%	100%
D&K Holdings L.L.C. (DKHL)	United Arab Emirates	Holding Company for subsidiaries in shipping	100%	100%

d) 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 a 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 recognized 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 associates.

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.

Notes to the consolidated financial statements

For the year ended 31 December 2019

e) 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.

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 recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investments in associates and is assessed for impairment as part of the investment. If the cost of acquisition is lower than the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities, the difference is recognized immediately in the consolidated statement of profit or loss and other comprehensive income.

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.

f) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Classification and subsequent measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs.



Notes to the consolidated financial statements

For the year ended 31 December 2019

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

All regular way purchases and sales of financial assets are recognized 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.

Business model assessment

The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Financial assets that are managed, held to collect, and whose performance is evaluated on a fair value basis and are measured at FVTPL. Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets – assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features; prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

Initial recognition

Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at FVTPL.

Notes to the consolidated financial statements

For the year ended 31 December 2019

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in following categories:

- Financial assets at amortized cost (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss;

Financial assets at amortized cost

The Group measures financial assets at amortized cost if both of the following conditions are met:

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

Financial assets at amortized cost are subsequently measured using the effective interest rate method and are subject to impairment. Gains and losses are recognized in the consolidated statement of income when the asset is derecognized, modified or impaired. The Group's financial assets at amortized cost includes trade and receivables, other loans to an associate and cash on hand and at banks.

Cash and cash equivalents includes cash in hand and at 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.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not at fair value through profit or loss. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized in the consolidated statement of income when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in FVOCI. Equity instruments designated at FVOCI are not subject to impairment assessment. The Group elected to classify irrevocably its non-listed equity investments under this category.

Financial assets at fair value through profit or loss

The Group classifies financial assets as at fair value through profit or loss when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Financial assets as at fair value through profit or loss are recorded and measured in the statement of financial position at fair value. In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.



Notes to the consolidated financial statements

For the year ended 31 December 2019

Changes in fair value, gain on disposal, interest income and dividends are recorded in consolidated statement of profit or loss according to the terms of the contract, or when the right to payment has been established.

The Group classifies investments in quoted equity and debt investments under financial assets at FVTPL in the consolidated statement of financial position.

Financial liabilities- initial recognition and measurement

Financial liabilities are classified as measured at amortized cost or FVTPL. Financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Interest expense and foreign exchange gains and losses are recognized in the statement of income. This category includes trade and other payables, due to banks, lease liability and term loans.

g) De-recognition of financial assets and liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily de-recognized (i.e., removed from the Group's consolidated statement of financial position) when:

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

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

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

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

h) Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses ("ECL") on financial assets that are measured at amortized cost i.e. trade receivables, cash at bank and other loans. No impairment loss is recognized for investments in equity instruments classified as FVOCI. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

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For the year ended 31 December 2019

The Group applies three-stage approach to measure expected credit losses (ECL) for cash at bank and other loans. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12 months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognized.

Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognized.

Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under IAS 39, the Group's methodology for specific provisions remains largely unchanged.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if the financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes;

- when there is a significant breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.



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For the year ended 31 December 2019

For trade receivables, the Group applies a simplified approach in calculating ECL. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECL. At each reporting date, the Group assesses each customer for lifetime ECL based on Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors, and therefore considers any current and potential future adverse macroeconomic conditions arising from economic scenarios and political factors and the likelihood of their occurrence.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

Measurement and recognition of expected credit losses

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

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

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The Group recognizes an impairment loss or reversal of impairment loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

i) Offsetting

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

j) Derivative financial instrument

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value as at each reporting date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

k) Inventory

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

Notes to the consolidated financial statements

For the year ended 31 December 2019

l) Property and equipment

Property and equipment except freehold land is 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 capitalized.

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 or depreciation methods are reviewed at each reporting date, 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 recognized 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(s)).

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 recognized in the consolidated statement of income.

m) Provision for staff indemnity

Provision is made for amounts payable to employees under the Kuwaiti Labor Law based on the employees' accumulated periods of service and latest entitlements of salaries and allowances. The expected costs of these benefits are accrued over the period of employment, and approximates the present value of the final obligation.

n) Treasury shares

Treasury shares consist of the Parent Company's own shares that have been issued and 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



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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.

o) 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.

p) Revenue recognition

The Group's performance obligations primarily relates to the delivery of the products to customers. Revenue is recognized at the point the customer obtains control of the product. Control is transferred when title has passed to the customer, generally at the loading port.

Certain products in certain markets may be sold with variable pricing arrangements. Such arrangements determine that a preliminary price is charged to the customer at the time of transfer of the control of products, while the price of products can only be determined by reference to a time period ending after that time. In such cases, and irrespective of the formula used for determining preliminary and final prices, revenue is recorded at the time of transfer of control of products at an amount representing the amount of consideration that the Company expects to receive based on preliminary pricing. Where the Company records receivable for the preliminary price, subsequent changes in the estimated final price will not be recorded as revenue until such point in time at which the final price is determined.

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For the year ended 31 December 2019

q) Income

Dividend income is recognized in the consolidated statement of income on the date on which the Group's right to receive payment is established.

Interest income is recognized using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset when the asset is not credit-impaired or to the amortized cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Gain on sale of investments carried at FVTPL and FVOCI is measured by the difference between the sale proceeds and the carrying amount of the investment at the date of disposal, and is recognized in the consolidated statement of income at the time of the sale.

r) 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 recognized in the consolidated statement of income in the period in which it is incurred.

s) 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 recognized 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 recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in consolidated statement of income.



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t) 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.

u) 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.

v) 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.

w) Leases

Policy applicable from 1 January 2019

i. *As a lessee*

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Right of use assets

The Group recognizes right of use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated amortization and impairment losses in accordance with IAS 36 Impairment of Assets, and adjusted for any re-measurement of lease liabilities.

The cost of right of use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment.

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Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees..

In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value (i.e. below KD 1,500). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Group has opted to recognize a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within general and administrative expenses heads in the consolidated statement of income.

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 recognized 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 recognized in the consolidated financial statements.

(i) Performance obligation

The judgments applied in determining what constitutes a performance obligation will impact when control is likely to pass and therefore when revenue is recognised i.e. over time or at a point in time. The Group has determined that only one performance obligation exists in contracts which is the delivery of specified products at loading port. Revenue is therefore recognised at a point in time.

(ii) Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how



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groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

(iii) 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.

(iv) 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.

(v) Residual value of the vessels

The residual value of the vessels is determined based on the estimations performed by the management. 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.

(vi) Allowance for expected credit losses

The determination of expected credit losses and the factors determining the impairment of the receivable involve significant judgment.

(vii) Leases

Critical judgements required in the application of IFRS 16 include, among others, the following:

- Identifying whether a contract (or part of a contract) includes a lease;
- Determining whether it is reasonably certain that an extension or termination option will be exercised;
- Determination of whether variable payments are in-substance fixed;
- Establishing whether there are multiple leases in an arrangement,.
- Determining the stand-alone selling prices of lease and non-lease components.

b) Key sources of estimation uncertainty

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

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For the year ended 31 December 2019

(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) Impairment of financial assets

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

(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.

(iv) Leases

Key sources of estimation uncertainty in the application of IFRS 16 include, among others, the following:

- Estimation of the lease term;
- Determination of the appropriate rate to discount the lease payments;
- Assessment of whether a right-of-use asset is impaired.

(v) Allowance for expected credit losses

The extent of allowance for expected credit losses involves estimation process. Allowance for expected credit losses is based on a forward looking ECL approach as explained in Note 2(h). Bad debts are written off when identified. The ECL allowance and write-down of accounts receivable are subject to management approval.

4. Cash on hand and at banks

	2019 KD'000	2018 KD'000
Cash on hand and at banks	8,012	14,156
Call accounts and time deposits	13,533	51,905
	21,545	66,061

Time deposits earned interest at an average effective interest rate of 2.1% (2018: 0.8%) per annum and mature within 3 months (2018: 3 months) from the date of the placement.



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For the year ended 31 December 2019

5. Investments

	2019 KD'000	2018 KD'000
Investments at fair value through statement of income		
Managed portfolios	60,639	53,981
Quoted securities	-	220
	60,639	54,201
Investments at fair value through other comprehensive income		
Unquoted securities (Non – Current)	26,732	24,157
Unquoted securities (Current)	2,185	2,534
	28,917	26,691

Investments at fair value through statement of income with a carrying amount of KD 60.64 million (2018: KD 53.98 million) are pledged as collateral against amounts due to banks (Note 12).

During the year, the Group has fair valued its investment in Vopak Horizon Fujairah Limited (VHFL) (unquoted equity security), and recognized fair value gain of KD 2.57 million (2018: fair value loss of KD 3.358 million) in fair value reserve in equity. At the reporting date, the fair value of VHFL was KD 24.99 million (2018: KD 22.42 million). The Group's ownership interest in VHFL is 11.1% (2018: 11.1%). The fair value was based on discounted cash flows using a rate based on the risk free rate of 1.92% (2018: 2.69%) and the risk premium of 6.2% (2018: 6.1%) specific to the investment.

The unquoted securities also include Group's investment of 12.5% (2018: 12.5%) in Asia Petroleum Ltd. (APL), carried at fair value of KD 1.74 million (2018: 1.74 million). The fair value was determined based on discounted cash flows using a rate based on the risk free rate of 1.92% (2018: 2.69%) and the risk premium of 14.99% (2018: 14.6%) specific to the investment.

The significant unobservable inputs used in the fair value measurements categorized of unquoted equity securities within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at 31 December 2019 and 2018 are shown below;

	Increase of 50 basis points	
	2019 KD'000	2018 KD'000
Cost of equity	(2,050)	(1,720)
Terminal growth rate	1,513	1,209

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6. Trade and other receivables

	2019 KD'000	2018 KD'000
Net trade receivables (Note (b))	69,826	60,574
Prepaid expenses	912	3,397
Refundable deposits and taxes	31	27
Others	16,674	10,327
	87,443	74,325

- a) The Group's credit period varies from customer to customer. Trade receivables are short term in nature and carry interest on commercial terms in case of delay in payments. 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.
- b) During the year, the Group's management has recognized provision amounting KD 3.41 million (31 December 2018: Nil) towards expected credit losses arising from future adverse market conditions consequent to the prevailing economic and political situation in the region.

7. Other loans

	2019 KD'000	2018 KD'000
Arabtank Terminals Limited	4,779	4,310
Reserve Bank of Zimbabwe	6,629	-
	11,408	4,310

The Group has provided Arabtank Terminals Ltd., Kingdom of Saudi Arabia, an associate of the Group the following loans:

- i. long-term subordinated loan of an amount of KD 709 thousand (2018: KD 710 thousand). The interest rate for the above loans vary from 3% to 8% (2018: 3% to 8%) per annum.
- ii. In August 2015, the Group has agreed to finance the Debottlenecking project of Arabtank Terminals in Yanbu, Kingdom of Saudi Arabia which is currently being utilized 100% by the Group on long term lease. The project will improve the operational flexibility of the terminal, add value to the terminal and enhance the revenue of both ATT and the Group. The loan amount was for KD 4.07 Million (2018: KD 3.6 Million) and carries interest at market rate to be repaid in semi-annual instalments after commissioning of the project.

The Group has converted the deposit amount of KD 6.6 Million held with a commercial bank in Zimbabwe, resulting from trading of petroleum products during the year with the Ministry of Energy and other customers in Zimbabwe, into a term loan with Reserve Bank of Zimbabwe (RBZ) as per the agreement. The loan amount carries interest at market rate and will be repaid in equal instalments commencing from 31st October 2019 and ending by 31st January 2021.



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8. Investment in joint venture

	2019 KD'000	2018 KD'000
Uniterminals S.A.L., Lebanon	3,788	4,984

The Group holds 50% equity shareholding with equivalent voting power in Uniterminals S.A.L, Lebanon. The following table illustrates summarized financial information of the Group's investment in its joint venture:

	2019 KD'000	2018 KD'000
Current assets	26,740	35,684
Non-current assets	7,724	7,468
Current liabilities	(26,560)	(32,876)
Non-current liabilities	(328)	(308)
Net Assets	7,576	9,968
Group's Share of Net Assets	3,788	4,984
Operating profit	1,370	2,980
Loan interest and other expenses	(1,560)	(670)
(Loss) / Profit for the year	(190)	2,310
Group's share of (loss) / profit for the year (Note 23)	(95)	1,155

Dividends received from the Joint Venture during the year amounts to KD 1,095 thousands (2018: KD 906 thousands).

9. Investment in associates

		Percentage of ownership	2019 KD'000	2018 KD'000
Inpetro SARL	Mozambique	40%	834	946
Arabtank Terminals Ltd	Kingdom of Saudi Arabia	36.5%	5,279	5,477
Horizon Djibouti Holdings Ltd.	Djibouti	22.22%	5,635	5,831
Horizon Singapore Terminals Private Ltd	Singapore	15%	7,002	7,528
Horizon Tangiers Terminals SA	Morocco	32.5%	9,706	10,278
			28,456	30,060

Inpetro SARL

The Group's investment in Inpetro SARL represents an investment in a petroleum storage terminal. The Group's share of interest in the associate as of 31 December is summarized as follows:

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	2019 KD'000	2018 KD'000
Total assets	3,417	3,058
Total liabilities	(2,583)	(2,112)
Net assets	834	946
	2019 KD'000	2018 KD'000
Operating income	1,026	1,125
Operating expenses	(390)	(672)
Profit for the year (Note 23)	636	453

Arabtank Terminals Ltd

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. The Group's share of interest in the associate as of 31 December 2019 is summarized as follows:

	2019 KD'000	2018 KD'000
Total assets	9,448	7,760
Total liabilities	(4,169)	(2,283)
Net assets	5,279	5,477
Operating income	750	821
Operating expenses	(943)	(902)
loss for the year (Note 23)	(193)	(81)

Horizon Djibouti Holdings Ltd

The Group's investment in HDHL represents an investment in a petroleum storage terminal. The Group's share of interest in the associate as of 31 December is summarized as follows:

	2019 KD'000	2018 KD'000
Total assets	6,618	6,560
Total liabilities	(983)	(729)
Net assets	5,635	5,831
	2019 KD'000	2018 KD'000
Operating income	2,502	2,452
Operating expenses	(1,179)	(962)
Profit for the year (Note 23)	1,323	1,490



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Horizon Singapore Terminals Private Ltd

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. The Group's share of interest in the associate as of 31 December 2019 is summarized as follows:

	2019 KD'000	2018 KD'000
Total assets	12,810	9,560
Total liabilities	(5,808)	(2,032)
Net assets	7,002	7,528
Operating income	2,677	3,257
Operating expenses	(1,906)	(1,937)
Profit for the year (Note 23)	771	1,320

Horizon Tangiers Terminals SA

The Group's investment in this associate represents an investment in a petroleum storage terminal. The Group's share of interest in the associate as of 31 December is summarized as follows:

	2019 KD'000	2018 KD'000
Total asset	11,007	12,906
Total liabilities	(1,301)	(2,628)
Net assets	9,706	10,278
Operating income	3,020	3,103
Operating expenses	(2,041)	(1,911)
Profit for the year (Note 23)	979	1,192

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

	2019 KD'000	2018 KD'000
Current assets	30,730	30,794
Non-current assets	151,762	131,079
Current liabilities	(20,098)	(19,391)
Non-current liabilities	(44,931)	(16,703)
Net assets	117,463	125,779
Operating income	42,032	47,361
Operating expenses	(27,852)	(27,274)
Profit for the year	14,180	20,087

During the year, the Group received a dividend of KD 3.43 million (2018: KD 3.10 million) from its associates.

Notes to the consolidated financial statements

For the year ended 31 December 2019

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	Total KD'000
Cost							
As at 1 January 2018	544	1,692	49,700	1,208	178	75	53,397
Additions	-	-	11	15	-	-	26
Currency translation effects	-	-	-	(71)	1	(3)	(73)
As at 31 December 2018	544	1,692	49,711	1,152	179	72	53,350
Additions	-	-	493	33	30	-	556
Disposals	-	-	-	-	(31)	-	(31)
Currency translation effects	-	-	-	2	-	2	4
As at 31 December 2019	544	1,692	50,204	1,187	178	74	53,879
Accumulated depreciation							
As at 1 January 2018	-	1,181	15,420	1,140	120	67	17,928
Charge for the year	-	40	2,145	40	23	1	2,249
Disposals	-	2	(198)	(68)	9	(6)	(261)
As at 31 December 2018	-	1,223	17,367	1,112	152	62	19,916
Charge for the year	-	40	1,758	37	22	1	1,858
Disposals	-	-	-	-	(31)	-	(31)
Impairment	-	-	2,017	-	-	-	2,017
Currency translation effects	-	-	39	2	-	2	43
As at 31 December 2019	-	1,263	21,181	1,151	143	65	23,803
Carrying amount							
As at 31 December 2019	544	429	29,023	36	35	9	30,076
As at 31 December 2018	544	469	32,344	40	27	10	33,434

The vessels have been collateralized against term loan (Note 14).

As per the CMA clause (1/c) and (2/c) of Appendix No. (1) (Real Estate Assets Valuation) of Module Eleven (Dealing in Securities) of the Executive Bylaws of Law No. 7 of 2010 as amended, the fair value of land and buildings in Kuwait is KD 2.68 Million being the lower of 2 valuation of which one is a bank and the other is an independent external valuer. The carrying amount of Land and Buildings is KD 0.973 Million and the Group carries its land at cost and building at cost minus depreciation.



Notes to the consolidated financial statements

For the year ended 31 December 2019

During the year, the Group's management conducted a review of its vessels to determine if there are any indicators of impairment and determined that current and projected level of international fleet rates may not allow the Group to fully recover its investments in vessels during their useful lives. Accordingly, the Group reassessed the recoverable value of its vessels. The recoverable amount of each vessel (cash generating unit) was estimated, based on higher of fair value less costs of disposal and value in use. Based on the above assessment, the recoverable amount of Group's vessels was determined to be KD 29.02 million. Consequently, an impairment loss of KD 2.02 million was recognized in the consolidated statement of income.

The fair value less costs of disposal of the vessels is determined based on the information provided by independent brokers, and this information is based on recent transactions in the market and adjusted to reflect the specialized nature of the vessels. Value in use is determined by discounting the future cash flows to be generated from the continuing use of the vessels during their remaining useful lives and residual value. The key assumptions used in the calculations of value in use are pre-tax discount rate of 6.176 % and terminal value growth rate of NIL%.

11. Right of use asset

The Group leases terminals for storage of its products. The average lease term ranges between 24 to 29 months

The movement of right of use assets are as follows:

	KD'000
Balance at initial recognition on January 1, 2019	7,871
Additions during the year	-
Amortization charge for the year	(3,646)
Net carrying amount as at December 31, 2019	4,225

Expenses related to right of use assets recognized in profit or loss for the year were as follows:

	KD'000
Expenses relating to short term leases	457
Expenses related to lease of low value assets	-
Interest expense on lease liability	250

At December 31, 2019, the Group was committed to KD 139 thousands (2018: KD 65 thousands) for short term leases.

12. 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 3.8% (2018: 3.5%) per annum. Due to banks are partially secured by investments at fair value through statement of income with a carrying amount of KD 60.64 million (2018: KD 53.98 million) (Note 5).

13. Trade and other payables

	2019 KD'000	2018 KD'000
Trade payables	36,896	40,131
Accrued expenses	30,386	30,088
Accrued staff leave	263	232
Provision for KFAS	70	65
Others	2,859	2,715
	70,474	73,231

Notes to the consolidated financial statements

For the year ended 31 December 2019

14. Term loans

The term loans relate to the financing of the vessels acquired through DKHL (a subsidiary). The term loans are denominated in USD and are secured by the mortgage of the vessels (Note 10) and carries interest ranging from 1.75% to 5.32% (2018: 1.75% to 5.32%) per annum. The maturity of the loans vary from June 2020 to November 2023.

15. Provision for staff indemnity

	2019 KD'000	2018 KD'000
Balance at 1 January	1,354	1,161
Charge for the year	256	378
Payments made during the year	(6)	(185)
Balance at 31 December	<u>1,604</u>	<u>1,354</u>

16. Lease liabilities

	Minimum lease payments KD'000
<u>Amounts payable relating to leases:</u>	
Within one year	3,804
For second year inclusive	616
	<u>4,420</u>
Less: Unamortized future finance charge	(111)
Present value of minimum lease payments	<u>4,309</u>
Analyzed as:	
	KD'000
Current portion	3,699
Non-current portion	610
Total present value of minimum lease	<u>4,309</u>

17. Share capital

The authorized, issued and fully paid up share capital consists of 188,407,500 shares of 100 fils each (2018: 188,407,500 shares of 100 fils each), fully paid in cash.

18. Legal reserve

As required by the Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year attributable to equity holders of the Parent Company before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labor Support Tax (NLST), Zakat and Board of Directors' remuneration is transferred to legal reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve exceeds 50% of the capital. This reserve is not available for distribution except in cases stipulated by Law and the Parent Company's Articles of Association.



Notes to the consolidated financial statements

For the year ended 31 December 2019

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.

19. General reserve

In accordance with the Parent Company's Articles of Association, 10% of the profit for the year before contribution to KFAS, NLST, Zakat and Board of 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 general reserve.

20. Treasury shares

	<u>2019</u>	<u>2018</u>
Number of shares	7,620,000	7,620,000
Percentage of issued shares	4%	4%
Market value (KD million)	3.67	3.06
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 2019. Such amount will not be available for distribution during treasury shares holding period. Treasury shares are not pledged.

21. Revenue

Revenue from contracts with customers represent revenue from trading in crude oil and petroleum products is disaggregated by major products and reconciled with the amounts disclosed in the segment information (Note 32).

	<u>2019</u> <u>KD'000</u>	<u>2018</u> <u>KD'000</u>
Sale of crude oil and petroleum products	658,479	755,517

22. Net interest relating to oil marketing operations

	<u>2019</u> <u>KD'000</u>	<u>2018</u> <u>KD'000</u>
Interest income	1,155	926
Interest expense	(5,411)	(5,422)
	<u>(4,256)</u>	<u>(4,496)</u>

Notes to the consolidated financial statements

For the year ended 31 December 2019

23. Share in results of associates and joint venture

	2019 KD'000	2018 KD'000
Inpetro SARL (Note 9)	636	453
Arabtank Terminals Ltd. (Note 9)	(193)	(81)
Horizon Djibouti Holdings Ltd (Note 9)	1,323	1,490
Horizon Singapore Terminals Private Ltd., (Note 9)	771	1,320
Horizon Tangiers Terminals (Note 9)	979	1,192
Uniterminals S.A.L. (Note 8)	(95)	1,155
	3,421	5,529

24. Investment income

	2019 KD'000	2018 KD'000
Unrealized gain /(loss) from investments at fair value through statement of income	6,732	(2,853)
Dividend income	-	1,350

During the year ended 31 December 2019, the Group received no dividend from VHFL (2018: KD 1.338 million).

25. Net other (expense) / income

	2019 KD'000	2018 KD'000
Net foreign currency exchange (loss) / gain	(642)	545

26. 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.

In 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 Appeals issued a verdict on 18 November 2018 rejecting the Group's claim for cancellation of the Zakat assessment for years 2008 to 2014. An appeal has been filed against the verdict in the Court of Cassation on 9 December 2018, however, no hearing has been scheduled till date.



Notes to the consolidated financial statements

For the year ended 31 December 2019

27. Provision for NLST

National Labor Support Tax (NLST) is calculated at 2.5% of the profit attributable to the shareholders of the Parent Company before contribution to KFAS, Zakat, and Board of Directors' remuneration, and in accordance with Law No. 19 of 2000 and Ministerial resolution No. 24 of 2006 and their Executive Regulations.

During 2006, the Parent Company had filed a suit against the Ministry of Finance contesting their claim for additional amounts towards NLST for the year from 2001 to 2004 and the Parent Company continued to calculate NLST based on the annual profit for the years from 2005 to 2019.

In October 2017, the Parent Company entered into a settlement agreement with the Ministry of Finance to pay all outstanding claims relating to NLST for the years from 2005 to 2015. The court of first instance has issued a judgement on 26 December 2018, confirming the amicable settlement agreed. According to the terms of settlement agreement, the management determined that sufficient provision existed as of 31 December 2019 to settle NLST obligations on due dates.

28. Earnings per share

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

	2019	2018
Profit for the year (KD'000)	6,635	6,148
Weighted average number of issued shares outstanding	188,407,500	188,407,500
Weighted average number of treasury shares outstanding	(7,620,000)	(7,620,000)
Weighted average number of shares outstanding	180,787,500	180,787,500
Earnings per share (fils)	36.70	34.01

29. Proposed dividends

The Board of Directors proposed a cash dividend of 30 fils per share for the year ended 31 December 2019 (2018: 30 fils per share). This proposal is subject to the approval of the Shareholders' Annual General Assembly.

30. Annual general assembly

The Shareholders' Annual General Assembly held on 20 February 2019 approved the annual audited consolidated financial statements for the year ended 31 December 2018 and payment of a cash dividend of 30 fils per share for the year ended 31 December 2018.

31. 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.

Notes to the consolidated financial statements

For the year ended 31 December 2019

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

	Joint Venture KD'000	Associates KD'000	Total 2019 KD'000	Total 2018 KD'000
1 Revenues:				
Sales	118,836	-	118,836	121,501
Storage expense	-	5,101	5,101	4,866
2 Due from / to related parties:				
Trade and other receivables	2,236	1,208	3,444	-
Trade and other payables	-	134	134	695
Others loans (Note 7)	-	4,779	4,779	4,310
3 Key management compensation				
Salaries and other short-term benefits			987	952
Terminal benefits			108	154
			1,095	1,106



Notes to the consolidated financial statements

For the year ended 31 December 2019

32. 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 summarized as follows:

	2019			2018			
	Africa and Middle East KD'000	Europe KD'000	Asia and Far East KD'000	Africa and Middle East KD'000	Europe KD'000	Asia and Far East KD'000	Total KD'000
Sales	650,630	-	7,849	746,410	-	9,107	755,517
Segment result	13,843	-	712	16,058	-	1,403	17,461
Unallocated corporate expenses							(11,313)
Other information:							
Trade and other receivables	78,309	-	9,134	65,182	-	9,143	74,325
Unallocated corporate assets							256,041
Total assets							330,366
Segment liabilities	13,173	23,723	-	11,263	28,868	-	40,131
Unallocated corporate liabilities							195,333
Total liabilities							235,464

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 and Asia and Far East segments.

Notes to the consolidated financial statements

For the year ended 31 December 2019

33. Financial instruments and risk management

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. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention, or need, to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms. The estimated fair value of financial assets and liabilities that are not carried at fair value at the reporting date is not materially different from their carrying value.

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 optimizing 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 2019, if interest rates on borrowings (due to banks and term loans) and short-term deposits had been 1% (2018:1%) higher / lower with all other variables held constant, profit for the year would have been increased / decreased by KD 1.106 million respectively (2018: profit for the year would have been increased / decreased by KD 1.088 million).

The Group's exposures to interest rates on term deposits, due to banks and term loans are detailed in Notes 4, 12 and 14 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 stocks. The equity price risk exposure arises from the Group's investment in quoted securities and managed portfolios classified as 'Investments at fair value through income statement'. To manage such risks, the Group diversifies its investments in different sectors within its investment portfolio.

As at 31 December 2019, if the net asset value of the managed portfolio would have increased / decreased by 5% (2018: 5%), the profit for the year would have increased / decreased by KD 3.031 million (2018: profit for the year would have increased or decreased by KD 2.69 million).

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge a contractual obligation causing the other party to incur a financial loss. Financial assets which potentially



Notes to the consolidated financial statements

For the year ended 31 December 2019

subject the Group to credit risk consist principally of cash at banks, trade and other receivables and other loans as disclosed in Note 4, Note 6 and Note 7 respectively.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate.

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. At the reporting date, significant portion of the Group's trade receivables are due from entities operating in the oil and gas sector and governmental institutions with high credit ratings.

The Group allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss and applying experienced credit judgement. Loss allowance for trade receivables is measured at an amount equal to lifetime ECL. The lifetime ECL on trade receivables are assessed based on the Group's historical credit loss experience, adjusted for factors that are specific to the customers, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. The letters of credit are considered integral part of ECL calculation. Based on management's assessment, the expected credit loss impact arising from such financial assets are insignificant to the Group as the risk of default has not increased significantly since initial recognition.

Cash at banks

The Group places its cash and time deposits are placed with various reputed financial institutions carrying high credit rating. The Group's cash at banks are considered to have a low credit risk and the loss allowance is based on the 12 months expected credit loss, which is not significant to the Group as at 31 December 2019.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. To manage this risk, the Group periodically assesses the financial viability of customers and invests in bank deposits or other investments that are readily realizable, along with planning and managing the Group's forecasted cash flows by maintaining adequate cash reserves, maintaining valid and available credit lines with banks, and matching the maturity profiles of financial assets and liabilities.

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 1.595 million (2018: KD 1.6 million) is due within one year and KD 12.39 million (2018: KD 14.07 million) is due between one and six 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

Notes to the consolidated financial statements

For the year ended 31 December 2019

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

Receivables, payables and 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, whereas, the fair value of investments classified as FVOCI is measured using DCF techniques as disclosed in Note 5.

Fair value estimation

IFRS 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- 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).

	Fair value hierarchy			
	Level 1 KD'000	Level 2 KD'000	Level 3 KD'000	Total KD'000
2019				
Investments at fair value through other comprehensive income	-	2,185	26,732	28,917
Investments at fair value through statement of income	60,639	-	-	60,639
	<u>60,639</u>	<u>2,185</u>	<u>26,732</u>	<u>89,556</u>
2018				
Investments at fair value through other comprehensive income	-	2,534	24,157	26,691
Investments at fair value through statement of income	54,201	-	-	54,201
	<u>54,201</u>	<u>2,534</u>	<u>24,157</u>	<u>80,892</u>

During the year, there were no transfers between the fair value levels.

The fair value of the financial assets and financial liabilities are subjective in nature and are significantly affected by the assumptions made and the discount rates used.

31 December 2019

	At 1 January 2019 KD'000	Transfer to level 1 KD'000	Additions/ (redemption) KD'000	Change in fair value KD'000	At 31 December 2019 KD'000
<i>Investments at fair value through other comprehensive income</i>	<u>24,157</u>	-	<u>345</u>	<u>2,230</u>	<u>26,732</u>
	<u>24,157</u>	-	<u>345</u>	<u>2,230</u>	<u>26,732</u>



Notes to the consolidated financial statements

For the year ended 31 December 2019

31 December 2018

	At 1 January 2018	Transfer to level 1	Additions/ (redemption)	Change in fair value	At 31 December 2018
	KD'000	KD'000	KD'000	KD'000	KD'000
<i>Investments at fair value through other comprehensive income</i>	27,123	-	367	(3,333)	24,157
	<u>27,123</u>	<u>-</u>	<u>367</u>	<u>(3,333)</u>	<u>24,157</u>

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 2019 KD'000	Notional amount 2018 KD'000	Fair value 2019 KD'000	Fair value 2018 KD'000
Swap contracts Buy	-	27,163	-	24,953
Swap contracts Sell	720	16,051	747	14,960
Future contracts Buy	20,906	11,693	21,505	10,959
Future contracts Sell	22,087	31,340	22,798	29,172

34. Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's strategy remains unchanged from 2018.

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.

	2019 KD'000	2018 KD'000
Due to banks and term loans (Note 12 & 14)	124,105	160,799
Less: cash on hand and at banks (Note 4)	(21,545)	(66,061)
Net debt	102,560	94,738
Total equity	98,159	94,902
Total capital resources	200,719	189,640
Gearing ratio	49%	50%

Notes to the consolidated financial statements

For the year ended 31 December 2019

35. Contingent liabilities and commitments

At December 31, 2019, the Group is contingently liable in respect of the following:

	2019 KD'000	2018 KD'000
<i>Contingent liabilities:</i>		
Letters of guarantee and bid bonds	738	1,387
Letters of credit	61,377	73,897
	62,115	75,284
<i>Commitments:</i>		
Investments in projects	21,058	9,166



Corporate Governance Report

2019

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.

RULE I – CONSTRUCT A BALANCED 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, five are non-executive, including the Chairman. The other Board members are executive members involved in the day-to-day activities of the Company.

Brief on the composition of the Board of Directors, as follows:

Name	Classification of the Member (Executive/ Non-Executive/ Independent), Secretary.	Qualification & experiences	Date of electing/ appointing the Secretary.
Ali M ALRadwan	Chairman, Founder and Board Member of IPG K.S.C.P. Non-executive & non-independent member	<p>Qualification:</p> <ul style="list-style-type: none"> BA in law – Cairo University – 1961. <p>Experience:</p> <ul style="list-style-type: none"> 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). 	Joined IPG Board on September 11, 1976.

Corporate Governance Report

2019

Name	Classification of the Member (Executive/ Non-Executive/ Independent), Secretary.	Qualification & experiences	Date of electing/ appointing the Secretary.
Ghazi F A AlNafisi	Vice-Chairman, Founder and Board Member of IPG K.S.C.P. Non-executive & non-independent member	Qualification: <ul style="list-style-type: none"> Diploma in Aeronautical Engineering – Chelsea College, University of London, June 1965. Special one and half year training session on Aviation Fueling from British Petroleum. Experience: <ul style="list-style-type: none"> 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. 	Joined IPG Board on September 11, 1976.
Waleed M J H M Hadeed	Founder, Board Member and Chief Executive Officer of IPG K.S.C.P. Executive & non-independent member	Qualification: <ul style="list-style-type: none"> B.Sc. Economics and Mathematics, Central Missouri State University, USA 1967. Experience: <ul style="list-style-type: none"> 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. 	Joined IPG Board on September 11, 1976. Acted as Secretary to the BOD till 8 October 2019



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Name	Classification of the Member (Executive/ Non-Executive/ Independent), Secretary.	Qualification & experiences	Date of electing/ appointing the Secretary.
Abdullah M A M Zaman	<p>Founder, Board Member of IPG K.S.C.P.</p> <p>Non-executive & Non-Independent Member.</p>	<p>Qualification:</p> <ul style="list-style-type: none"> BA Mathematics, University of California, Berkeley, USA, 1964. <p>Experience:</p> <ul style="list-style-type: none"> 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. 	<p>Joined IPG Board on September 11, 1976.</p>
Ali A R A AlBader	<p>Board Member of IPG K.S.C.P.</p> <p>Non-executive & Independent member</p>	<p>Qualification:</p> <ul style="list-style-type: none"> Master of Business Administration, Finance – Michigan State University- 1973. Bachelor Degree in Commerce & Accounting – Cairo University -1969. <p>Experience:</p> <ul style="list-style-type: none"> 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, Gulfbank 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. 	<p>Joined IPG Board on March 9, 2003.</p>

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Name	Classification of the Member (Executive/ Non-Executive/ Independent), Secretary.	Qualification & experiences	Date of electing/ appointing the Secretary.
Ali A R A AlBader	Board Member of IPG K.S.C.P. Non-executive & Independent member	<ul style="list-style-type: none"> Ex - Managing Director of the Public Authority for Investment (Kuwait). Ex - President of Arab-African International Bank. Ex - Member of Banking Control Management, Kuwait. 	Joined IPG Board on March 9, 2003.
Abdullah E A M A Al-Kandari	Board Member and Managing Director-Finance of IPG K.S.C.P. Executive & Non-independent Member.	<p>Qualification:</p> <ul style="list-style-type: none"> 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. <p>Experience:</p> <ul style="list-style-type: none"> 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. 	Joined IPG on March 28, 2001 & Board Member since March 03, 2010.
Mohammad A M A Qasim	Board Member and Managing Director - Marketing of IPG K.S.C.P. Executive & non-independent member	<p>Qualification:</p> <ul style="list-style-type: none"> B.Sc. in Economics - Kuwait University -1972. Banking Diploma - Banking Institute of Kuwait. Masters (International Business) - Sophia University, Tokyo, Japan-1981. 	Joined IPG on December 5, 2004 & Board Member since March 24, 2013.



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Name	Classification of the Member (Executive/ Non-Executive/ Independent), Secretary.	Qualification & experiences	Date of electing/ appointing the Secretary.
Mohammad A M A Qasim	<p>Board Member and Managing Director – Marketing of IPG K.S.C.P.</p> <p>Executive & non-independent member</p>	<p>Experience (Contd.):</p> <ul style="list-style-type: none"> • 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 Coordinator, Kuwait Petroleum Corporation. • Ex - Assistant Manager, Tokyo Office, Japan, Kuwait Petroleum Corporation. 	<p>Joined IPG on December 5, 2004 & Board Member since March 24, 2013.</p>

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Name	Classification of the Member (Executive/ Non-Executive/ Independent), Secretary.	Qualification & experiences	Date of electing/ appointing the Secretary.
Mohammad A M A Qasim	Board Member and Managing Director – Marketing of IPG K.S.C.P. Executive & non-independent member	Experience (Contd.): <ul style="list-style-type: none"> 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. 	Joined IPG on December 5, 2004 & Board Member since March 24, 2013.
Hamad S H M AIDalali	Board Member of IPG K.S.C.P. Non-executive & non-independent member.	Qualification: <ul style="list-style-type: none"> Bachelor's Degree in Mechanical Engineering – Pennsylvania State University State College, Pennsylvania 1997-2002. Experience: <ul style="list-style-type: none"> Senior sales Director, Baker House Corporation, General Electric Company, Kuwait, December 2017 to date. Operations Manager, Schlumberger Drilling & Measurement Company, Kuwait, November 2013 – October 2017. Project Manager, Schlumberger Business Consulting (Abu Dhabi, Kuwait, Saudi Arabia, Sudan & Pakistan), September 2009 to November 2013. Field Engineer & Field Service Manager, Schlumberger Drilling & Measurement Company (Venezuela, Libya, USA, Saudi Arabia & Kuwait), December 2002 to August 2009. 	Joined IPG Board on February 20, 2019.

Secretary to the Board of Directors:

Name of the Board Secretary	Classification	Qualification & experiences	Date of appointing the Secretary.
Samir S S Shammas	Deputy Chief Executive Officer & Board Secretary	Qualification: <ul style="list-style-type: none"> Bachelor's degree in Economics, University of California, Los Angeles, USA 1976. Experience: <ul style="list-style-type: none"> Managing Director (Marketing), IPG KSCP and Board Member IPG KSCP (2001 – 2013) Region Coordinator, Kuwait National Petroleum Company Marketing Executive, Middle East Petroleum Company (London Branch) Administrative Manager, Kuwait Real Estate Company 	Joined IPG on July 1, 1992 Appointed as Secretary to the Board of Directors with effect from 9 October 2019



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Brief on the Company's Board of Directors' meetings, through the following statement: Board of Directors Meetings in 2019

Name of Board Member	Meeting No. 216 Dated 09/01/2019	Meeting No. 217 Dated 09/01/2019	Meeting No. 218 Dated 04/02/2019	Meeting No. 219 Dated 21/02/2019	Meeting No. 220 Dated 10/04/2019	Meeting No. 221 Dated 09/07/2019	Meeting No. 222 Dated 09/10/2019	Meeting No. 223 Dated 09/10/2019	Total Meetings Attended
Ali M. Al-Radwan Chairman of the Board	(a)	(a)	(a)	(a)	(a)		(a)	(a)	7
Ghazi F A AlNafisi Vice Chairman of the Board	(a)	(a)	(a)	(a)		(a)			5
Waleed M J H M Hadeed Board Member & Chief Executive Officer	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	8
Abdullah M A M Zaman Board Member	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	8
Ali A R A AlBader Independent Board Member			(a)	(a)	(a)		(a)	(a)	5
Abdullah E A M A A IKandari Board Member & Managing Director, Finance	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	8
Mohammad A M A Qasim Board Member & Managing Director, Marketing	(a)	(a)	(a)				(a)	(a)	5
Hamad S H M AlDalali Board Member				(a)	(a)	(a)	(a)	(a)	5

(a) Denotes attendance at the Board Meeting.

Summary of how to apply the requirements of registration and coordination and keeping the minutes of meetings of the Board of Directors of the company:

The Board's Secretary carried out all such secretarial functions that enabled the Board of Directors gain access to the required information for the performance of their roles.

The minutes of all meetings held by the Board and various Board Committees are documented and signed by the members thereof. The minutes indicate the date, year, venue, commencement & conclusion time of meetings and include discussions, deliberations and the decisions. The Secretary also ensured good delivery and distribution of information and coordination amongst the members of the Board and other departments in the company.

RULE II – ESTABLISH APPROPRIATE ROLES AND RESPONSIBILITIES:

Brief on how the company defines the policy of the tasks, responsibilities, and duties of each of the Members of the Board of Directors and executive management members, as well as the powers and authorities delegated to the executive management.

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.

Duties & Responsibilities of the Board of Directors:

- 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

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- therein.
- Setting of 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.

Achievements of the Board of Directors during 2019:

- The Board reviewed existing charters and carried out the required amendments to comply with statutory laws & regulations.
- On a regular basis, the Board followed up on the progress of the executive management in implementing various policies and procedures.
- Monitoring the activities of Board Committees.
- The Board periodically reviewed the progress of various approved projects.
- The Board monitored the progress of strategy implementation through approved Key Performance Indicators.

Duties, Responsibilities, Powers & Authorities delegated to the Executive Management:

- 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.

Brief about the application of the formation requirements of independent specialized committees by the Board of Directors. The following information shall be mentioned about each committee:

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:



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a. Audit & Risk Management Committee

Tasks and achievements of Audit & Risk Management Committee:

- Reviewed and discussed the periodical financial statements before submission to the Board.
- Reviewed and analyzed the reports submitted by the internal auditors and considered their suggestions/recommendations.
- Reviewed and discussed the risk appetite and exposure levels in the countries in which the Company operates.
- Reviewed the prevailing hedging policy of the Company to ensure its effectiveness based on the current market conditions.
- Internal Control Review Report (ICR) for 2018.
- IFRS 16 implementation.
- Evaluation of internal audit function for the past three years (2016-2018).
- Appointment of internal auditors for 2019.
- Effective liaison with the external auditors.
- The Committee reviewed the existing charters and made recommendations for proposed amendments, deemed as appropriate to the Board for approval.

Date of the committee's formation and its term.

The Audit and Risk Management Committee was established on 11-07-2016. On 13-07-2016, a request was placed to the Capital Market Authority (CMA) to allow the Company to merge the Audit and Risk Management Committees into one committee to be called Audit & Risk Management Committee. This was approved by the CMA on 27-07-2016.

Members of the committee with their Chairman appointed.

- Ghazi F A AlNafisi (Chairman of the Committee)
- Ali A R A AlBader
- Abdullah M A M Zaman

Number of meetings held by the committee during 2019

- 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.
- Details of meetings held by the Committee during 2019 are as given below:

Name of Board Member	Meeting No.10 Dated 04/02/2019	Meeting No.11 Dated 10/04/2019	Meeting No.12 Dated 09/10/2019	Meeting No.13 Dated 18/12/2019	Total Meetings Attended
Ghazi F A AlNafisi (Chairman)	(a)			(a)	2
Ali M ALRadwan	(a)	(a)			2
Abdullah M A M Zaman			(a)	(a)	2
Ali A R A AlBader (Independent Member)	(a)	(a)	(a)	(a)	4

Notes:

1. Mr. Ali M. ALRadwan ceased to be a member effective from October 09, 2019.
2. Mr. Abdullah M A M Zaman became a member in the Committee effective from October 09, 2019.
3. (a) Denotes attendance at the Board Meeting.

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A summary of how to apply the requirements that allow the Members of the Board of Directors to obtain accurate and timely information and data.

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. The Company has a policy to provide accurate and timely/need based information to the Committee on a periodic basis for evaluation, review and submission of its recommendations to the Board of Directors.

When there is any inconsistency between the Committee and the Board's decisions regarding the recommendations of the internal auditor/ external auditor, the company shall incorporate the summarized details listing the reasons for the same in the corporate governance report of the Company.

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.
- Evaluation of adequacy and efficiency of Internal Control System & prepare a report with opinion and recommendation.
- 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.

b. Nomination & Remuneration Committee:

Brief about the application of the formation requirements of the Nominations and Remunerations committee.

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.



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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:

- Ghazi F A AlNafisi
- Waleed M J H M Hadeed
- Ali A R A AlBader

Meetings of Nomination & Remuneration Committee:

The Committee was established on 11-07-2016. The Committee meets regularly, at least once in a year and the secretary records/documents the minutes of these meetings. The fourth meeting of the Committee was held on March 10, 2020 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 2019.

RULE III – RECRUIT HIGHLY QUALIFIED CANDIDATES FOR MEMBERS OF BOARD OF DIRECTORS AND THE EXECUTIVE MANAGEMENT:

Brief about the application of the formation requirements of the Nominations and Remunerations committee.

The Nomination and Remuneration Committee aims to assist the Board of Directors to carry out its supervisory responsibilities and duties to ensure that necessary competencies are nominated for membership of the Board of Directors and executive and administrative positions in the company, and to verify that they are carried out in a framework characterized by efficiency and full transparency and mainly in the interest of the company and then achieve the goals of shareholders. In addition to supervisory tasks, to ensure the integrity and correctness of the policy of calculating the rewards and allocations that the company pursues for members of the board of directors and executive management and to verify that they are fair and contribute mainly to attracting human cadres with professional competence and global technical capabilities, as well as consolidating the principle of belonging to the company.

Report on the remunerations to the Members of the Board of Directors and Executive Management.

The company has prepared a remuneration report including a detailed statement on all types of incentives granted to the Board of Directors and Executive Management for the financial year ended

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31st December 2019 that will be submitted at the Annual General Assembly meeting for shareholders' approval. The shareholders will have the rights to access the remuneration report.

RULE IV - SAFEGUARD THE INTEGRITY OF FINANCIAL REPORTING:

Written undertakings by both the Board of Directors and the Executive Management of the soundness and integrity of the prepared financial reports.

The executive management provided the Company's Board of Directors with a written undertaking on March 10, 2020 (date of the Board Meeting) that the Company's financial statements and reports for the year ended 31st December 2019 reflected a sound and fair representation of all financial aspects of the entity and that they were prepared in accordance with the applicable International Financial Reporting Standards (IFRS).

Similarly, the Board of Directors also affirms to the shareholders the soundness and integrity of all financial statements and reports related to the Company's activity.

Verification of the independence and neutrality of the external Auditor

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

The Company accords top priority to the integrity and independence of the auditors by appointing reputed global firms which are known for their sound professional practices and ethics. Based on the above, the Audit & Risk Management Committee recommended to the Board the reappointment of RSM Al-Bazie & Co and KPMG Safi Al-Mutawa & Partners as the company's external auditors for the financial year 2019 which was approved at the Annual General Meeting held on February 20, 2019.

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.

RULE V – APPLY SOUND SYSTEMS OF RISK MANAGEMENT & INTERNAL AUDIT:

A brief statement on the application of the formation requirements of a department/ an office/ an independent unit of risk management.

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.

Summary clarifying the control and internal audit systems:

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.



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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 completed the review of the Internal Controls and submitted their report (ICR) for the year 2018 ; the ICR report was submitted to CMA before 31 March 2019.

A brief statement on the application of the formation requirements of internal audit department/ office/unit.:

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.

During the year the Internal audit was performed as per the Internal audit plan and the reports were finalized and submitted to the Audit & Risk Management committee periodically. As required by CMA regulations, quality assessment of Internal Audit Function which has to be carried out at the end of every three years, was carried out by a registered independent external firm and the report was submitted to the Board of Directors.

RULE VI – PROMOTE CODE OF CONDUCT AND ETHICAL STANDARDS:

A summary of the business charter including standards and determinants of code of conduct and ethical standards:

The Company has a comprehensive policy on 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.

Summary of the policies and mechanisms on reducing the conflicts of interest:

The Company has framed a comprehensive 'Conflict of Interest Policy' to address and manage cases of potential conflict of interest effectively to ensure implementation of all operational and administrative process to resolve and deal with all cases of conflict of interest in a timely manner.

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 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.

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RULE VII – ENSURE TIMELY AND HIGH QUALITY DISCLOSURE AND TRANSPERANCY:

Summary of the application of mechanisms for presentation and accurate and transparent disclosure that define aspects, areas and characteristics of disclosure:

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.

Brief about the application of the requirements of the Board of Directors disclosure and executive management disclosures.

The "Group" maintains a special record for members of the Board of Directors and Executive Management that contains all the data and information required to be disclosed in accordance with the laws, instructions and company policies in this regard, and it is the right of stakeholders to view this record during working hours.

The Regulation addresses the following main aspects in relation to the Company's disclosure and 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.

A brief statement on the application of the formation requirements of a unit of investors affairs:

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.

Brief on how to develop the infrastructure for the information technology on which it shall significantly rely on in the disclosure processes:

The Company's website contains information on activities carried out by the Company, details of various investments in addition to quarterly and annual financial statements.

RULE VIII – RESPECT THE RIGHTS OF SHAREHOLDERS:

A summary of the application of the requirements for the identification and protection of the general rights of shareholders, in order to ensure fairness and equality amongst all shareholders:

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 provide strict guidelines to the Company as a whole, Board of Directors, executive management, and employees in order to protect the shareholders' rights. The Compliance Department in coordination with the Secretary of the Board of Directors is responsible to apply this policy.



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A summary of the creation of a special record at the Clearing Agency as part of the requirements for on-going monitoring of shareholders' data:

The shareholders' register is maintained by the Kuwait Clearing Company that provides accurate information on the shareholding structure at any given point of time enabling continuous follow-up of shareholding data.

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

The Company endeavors to maintain close relationship with its shareholders and encourages them to attend and participate constructively in all discussions at the shareholders' meeting. Agenda for Annual General Meeting is communicated to the Shareholders through insertions in major local dailies.

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.

The major shareholder(s) who own or have control of 5% or more of the Company's share capital as at 31st December 2019 are:

Full Name	Percentage %
Markaz Energy Fund	8.487
Ghazi F A AlNafisi	7.152
Al Ahlia Insurance	6.755
Ali M ALRadwan & Group (Ali Al-Radwan & Sons General Trading Co.)	6.239
Kuwait Financial Center K.P.S.C., Customer 1.	5.927

RULE IX - RECOGNIZE THE ROLES OF STAKEHOLDERS:

Brief about conditions and policies that ensure protection and recognition of the rights 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

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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 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 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 to be remedied on a timely basis. It also provides confidentiality and ensures full protection to the whistle blower.

Brief on how to encourage stakeholders to keep track of the company's various activities:

This policy seeks to acknowledge and protect the rights of stakeholders through various rules and measures and applies to the Company, Board of Directors, Executive Management and all employees who have a role in protecting stakeholders' rights in the Company. The Company ensures that the management & employees are aware of the requirements of this policy and the relevant laws and regulations for effective compliance.

RULE X – ENCOURAGE AND ENHANCE PERFORMANCE:

Summary of the application of the requirements for the development of mechanisms that allow Members of the Board of Directors and Executive Management to attend the training programs and courses regularly:

The Company endeavors to arrange meetings with international banks and all major counterparties besides encouraging participation in all important summits and conferences to ensure that the Directors and the Executive Management are kept abreast of all developments in various facets of business and markets.



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Brief on how to evaluate the performance of the Board as a whole, and the performance of each Member of the Board of Directors and the Executive Management.

The Company has developed Key Performance Indicators for evaluating the performance of the Board of Directors 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.

An overview of the Board of Director's efforts in asserting the importance of corporate value creation with the employees at the company through achieving the company's strategic goals and improving key performance indicators:

The Board of Directors strongly believes that the employees are the real pillars of the Company's growth and places a lot of emphasis on investment in employees in the form of training, skill development and participation in educative seminars and conferences to promote employee development, increased job satisfaction and commitment towards Company for achieving strategic corporate goals and Key Performance Indicators.

RULE XI – FOCUS ON THE IMPORTANCE OF CORPORATE SOCIAL RESPONSIBILITY:

Summary of the development of a policy to ensure a balance between each of the company goals and society goals:

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.

Brief about the programs and mechanisms helping to highlight the company's efforts exerted in the field of social work.

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.

Waleed J Hadeed
Chief Executive Officer