al kout industrial projects

الكوت للمشاريع الصناعية

# ANNUAL REPORT 2016

# growing globally

Saudi Arabia
Qatar
Oman
Bahrain
UAE
Pakistan
Sri Lanka
Tanzania
Congo
Ghana
Madagascar
Ethiopia
Cameroon
Algeria
Tunis
Italy
Turkey
Spain
Egypt
Jordan
Kenya
Lebanon
South Africa
Guinea
Iraq

**ESTABLISHED ON DECEMBER 28, 1993**
The authorized share capital and paid up KD **10,090,080** divided into **100,900,800** shares of 100 fils each.

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Abdul Aziz Sager Street, Kuwait
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Fax: +965 2228 4006

**SALT AND CHLORINE PLANT**
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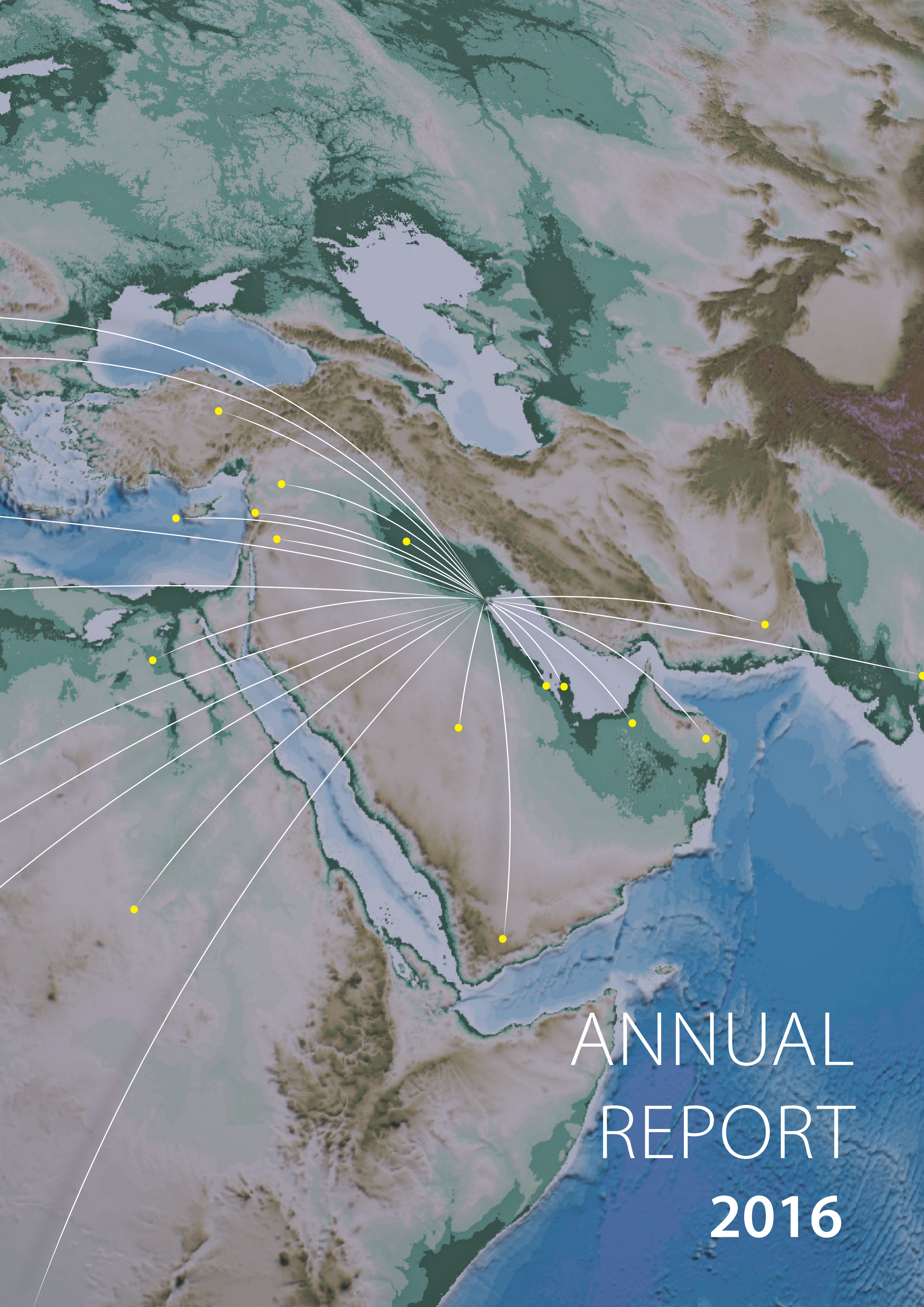
Fax: +965 2228 4041
P. O. Box: 10277, Shuaiba 65453, Kuwait

info@alkoutprojects.com
www.alkoutprojects.com

KOUT
al kout industrial projects
الكوت للمشاريع الصناعية



# ANNUAL REPORT 2016

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His Highness
the Amir of Kuwait

**SHEIKH SABAH AL-AHMAD AL-JABER AL-SABAH**

His Highness
the Crown Prince of Kuwait

**SHEIKH NAWAF AL-AHMAD AL-JABER AL-SABAH**

His Highness
Prime Minister of the State of Kuwait

**SHEIKH JABER AL-MUBARAK AL-HAMAD AL-SABAH**


KOUT
al kout industrial projects co.
الكوت للمشاريع الصناعية
TK-430E
KOUT
al kout industrial projects co.
الكوت للمشاريع الصناعية
TK-430F

# MISSION STATEMENT

Al Kout Industrial Projects has now been operating the Salt and Chlorine Plant for the past 16 years since its acquisition from Petrochemical Industries Company (PIC). During these years under new management the plant was expanded gradually by adding new machinery and equipment increasing its capacity to more than triple its original output.

The Company is constantly endeavouring to achieve its strategic objectives which are:

- To be the preferred chlor-alkali partner in the Middle East covering the MENA region and beyond.
- Operate a state of the art manufacturing facilities with impeccable record on health, safety and environment.
- Professional customer service with emphasis on training and reliability.
- Optimized operations to deliver sustainable returns to our shareholders.
- Equal opportunity employer with no discriminatory practices.
- To promote and support environmentally responsible behaviour and fulfil our obligation and responsibilities towards society.

# BOARD OF DIRECTORS

**Mr. Fahed Yacoub Al Jouan**
CHAIRMAN

**Mr. Mohammad Bader Musaed Al Sayer**
DEPUTY CHAIRMAN

**Mr. Hamad Abdulaziz Al Saqer**
BOARD MEMBER

**Mr. Othman Zahim Al Zahim**
BOARD MEMBER - INDEPENDENT

**Mr. Mohammad Ahmad Shamesaldeen**
BOARD MEMBER

**Mr. Salah Nasser Al Saqabi**
BOARD MEMBER

# CHAIRMAN'S MESSAGE

**Our esteemed Shareholders,**

It is my pleasure and privilege to present to you the Annual Report for the fiscal year 2016, where we highlight another year of continued success and growth in our company. This success has reflected positively on our financial statements for the year, where the net profit reached a record KD 5.8 million equivalent to 58 fils per share compared to KD 5.3 million or 53 fils per share for 2015 (on a diluted basis). Gross profit (excluding investment) for 2016 was KD 7.6 million compared to KD 8.5 million for 2015.

Despite the negative repercussions on the regional economies from the decline in oil prices and the slowdown in new projects implementation, our performance exceeded our expectations in most industrial investments. Unfortunately, the contribution of Safewater Chemicals, our subsidiary in the United Arab Emirates, deteriorated noticeably due to volume and price erosions reflecting the slowdown in the oil sector. However, as planned, the capacity expansion of the plant was completed on budget and as scheduled. This will allow us to benefit fully from the rebound in market demand.

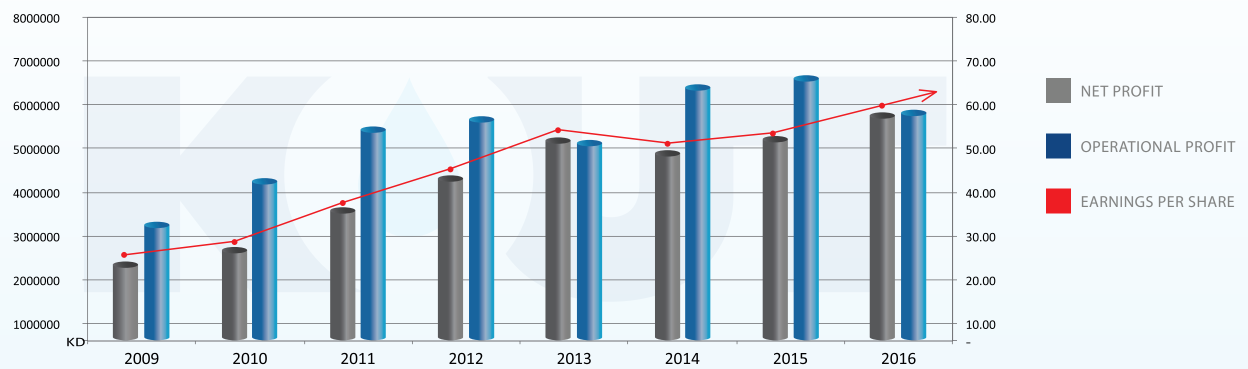
The performance of our investment in Al Dorra Oil Services Company where we hold 38% of the outstanding shares showed a significant turnaround. The core businesses of its operating subsidiaries performed reasonably well with the exception of its contracting business. Furthermore, its portfolio of financial investments did not generate positive results due to the depressed market environment following the dramatic decline in oil prices. This investment is held on our books at well below its own value on Al-Dorra's books. We continue to take a positive view on this investment and we expect further improvement in 2017.

I would like to conclude by thanking our Shareholders for their confidence in our future and the long term growth potential of our region. I would like also to express my gratitude to our customers and business partners for their trust, my appreciation to the Board of Directors for their valuable support, and my congratulations to our staff and management for achieving this year's record performance.

Best Regards

Chairman of the Board of Directors
Fahed Yacoub Al Jouan

## OPERATING PROFIT, NET PROFIT AND EARNINGS PER SHARE



# MANAGEMENT REPORT

**Dear Board Members, Shareholders and Colleagues,**

We are proud to highlight our performance in 2016, reflecting our focus on business fundamentals, continuous repositioning of our business model in the right profit zones, excellence in execution and the building of a performance based culture. The emphasis we have placed on operational efficiency in recent years has led to the sustainable profitability as seen in this financial report. Our performance demonstrates our capability to respond to challenges with speed and agility and that is a key strategic differentiator moving forward in the current difficult economic environment. As reflected in our capital expenditures totaling KD 3.86 million in 2016 we remain committed to our objective to be the supplier of choice for chlor-alkali products in the GCC by continuously upgrading our facilities and raising our service level.

The Kuwait based Chlor-Alkali business had a successful year, despite the softening global market. Although sales were down by 1%, costs reductions and continuous improvement programs helped increase net operating profit by 1%.

In 2016, Safewater Chemical LLC, our UAE subsidiary saw a decline in its revenue compared to 2015. As planned the plant capacity was doubled in early 2016 and we are continuing to integrate Safewater with our Kuwait based Chlor-Alkali operation both at the operational and management levels.

Al Kout Logistics and Transport Company (ALTC), the transport subsidiary, performed as per our expectations. The EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) outperformed the precious year by 11% although its operating expenses such as fuel costs and border fees increased significantly in 2016. The Company remains committed to ALTC's growth plans and continued to invest in 2016 to grow and modernize its fleet and facilities both in Kuwait and in the UAE.

Al Kout Petrochemical Products, the oilfield chemical subsidiary performed well with a 10% increase in net profit over the previous year. We plan to continue implementing strategic steps to expand our growth in this business area.

Management continuously monitors market and technology trends and places a high priority on anticipating future demand. We will continue to incorporate these lessons into the way in which we design, develop, produce and deliver our products and services. Our best investment, though, is in the people who work for us and those who reside in the communities we serve. I thank all the staff for their high work standards & congratulate them on surpassing our goals.

I express my sincere appreciation for the trust and guidance of our Board. We look to the future with confidence.

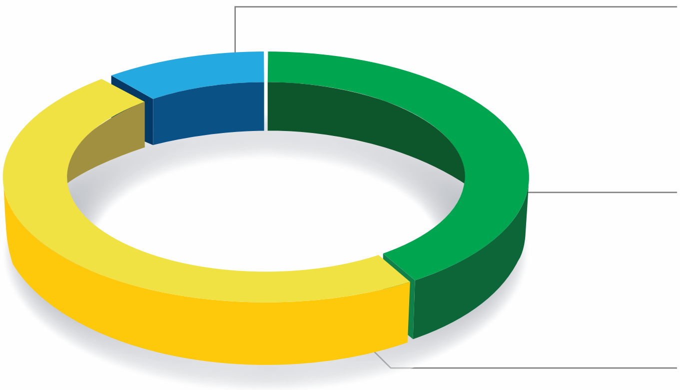
Chief Executive Officer
Basile Toutoungi

# SALES AND MARKETING

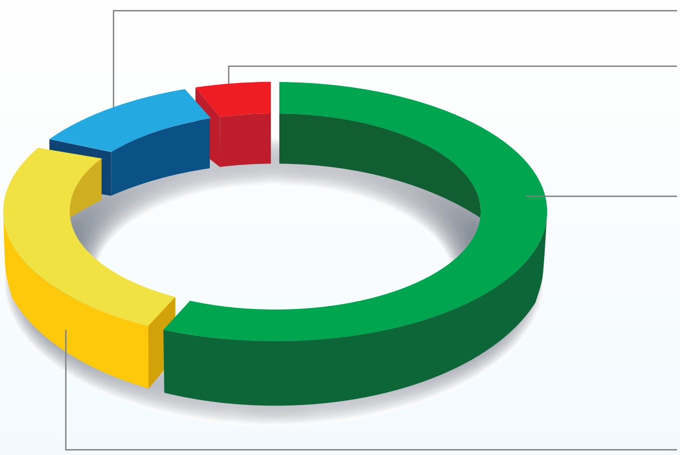
Even though the market was lackluster in 2016 due to the continued decrease in oil price and excess availability of material in the market, especially for Caustic Soda, AIP managed to maintain its sales at almost the same level as 2015. The target was achieved by firmer pricing and establishing new markets without fully moving out of existing customers in order to remain profitable and retain our competitive edge.

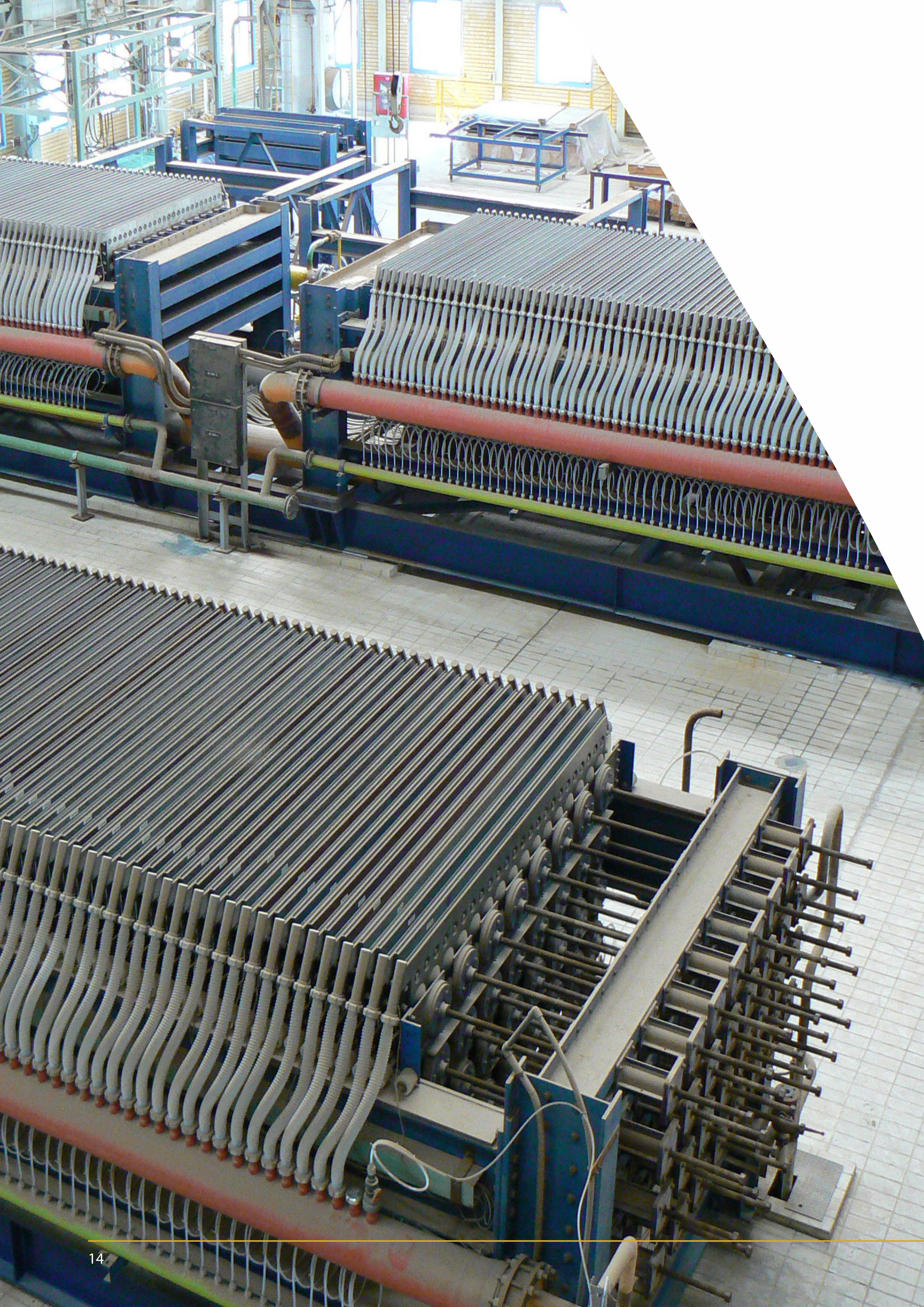
In 2016 Al Kout maintained its share of the Asian market by competing with other suppliers using its professional and value driven approach. Also AIP was successful in renewing two long term contracts during the year 2016.

## PRODUCT WISE SALES




## GEOGRAPHY WISE SALES



# MANUFACTURING OPERATIONS

- Our Kuwait and our Abu Dhabi plants achieved a similar output level as in the previous year which was the highest ever output per year for our main products chlorine, caustic soda.
- Our Kuwait plant is expected to be stopped in 2017 for a short period to implement some upgrades so an increase in output is anticipated due to all these improvement programs.
- Following the first phase of its upgrade, the Safewater plant in Abu Dhabi has doubled its capacity at the beginning of 2016.
- Both plants are accredited for ISO 9001, ISO 14001 and OHSAS 18000 for the Quality, Environment, Occupational Health and Safety Management System. Furthermore, our Kuwait plant is now accredited for ISO 22000, Food Safety Management System covering our Food Grade Salt manufacturing and sales. Furthermore APP was accredited for ISO 9001, ISO 14001 and OHSAS18000 too to develop its blending activity.
- To improve our competitiveness, reliability and quick turnaround, a program of Manufacturing Excellence was implemented, in 2016, supported by the Lean Six Sigma approach.

# OUR PRODUCTS

## Chlorine ($Cl_2$)

One of our main products, Chlorine gas, is widely used to disinfect water. This is achieved by destroying harmful pathogens or rendering them inert. Disinfection with Chlorine has a dual benefit at the primary and secondary stages. The primary stage ensures effective treatment at the potable water production stage. The secondary stage ensures effective treatment during storage and distribution through the network. Disinfection containing free Chlorine is the only method suitable for both stages. Many governments and municipalities across the Middle East depend on AIP provide them with this commodity that is essential to delivering safe drinking water to protect public health.

Chlorine is a basic chemical also used in the manufacture of many industrial and consumer products such as solvents, paints and plastics, especially PVC. It is also used to produce bleach, and for the production of bromine.

## Sodium Hydroxide ($NaOH$)

Sodium Hydroxide (Caustic Soda) Lye is one of the most widely used chemicals in the industry. Caustic soda is a solution of Sodium Hydroxide ($NaOH$) in water. It is a strong base with a wide range of applications in various industries. AIP produces caustic soda as flakes and liquid with a concentration of 32% and 50%.

The major users of caustic soda are chemical and petrochemical industries, oil refineries, oil drilling, aluminium production, pulp and paper mills and soap and detergent manufacturing. Other applications are water treatment and purification. As a strong alkaline solution it is used for Ph correction in various chemical treatments and as cleaning agent.

## Hydrochloric Acid ($HCl$)

Hydrochloric acid is a strong, inorganic acid used in almost all sectors of industry. In the Gulf region, Hydrochloric acid is used both to remove rust, scale and undesirable carbonate deposits in oil wells and to encourage the flow of crude oil or gas to the well. Other large end uses for hydrochloric acid are steel pickling, food manufacturing, producing calcium chloride, and ore processing. Hydrochloric acid is also used in many other production processes for organic chemicals.

## Sodium Hypochlorite (Hypo)

Sodium hypochlorite is a bleaching agent which is used for domestic and industrial purposes. This is an inexpensive, strong oxidizing agent that is used as disinfectant and bleaching agent. Our product is sold in two grades with 6% and 12% hypo concentrations used primarily in water treatment and water cooling systems, to control bacteria formation.

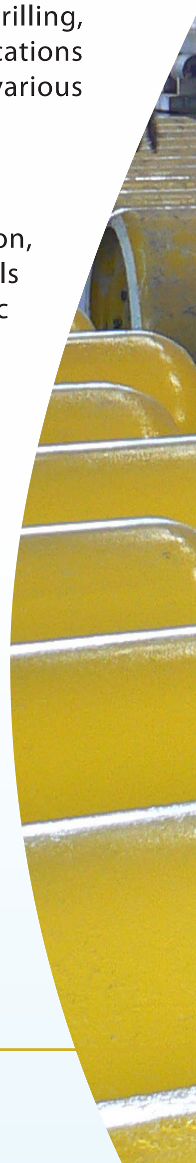
## Sodium Chloride (Salt, $NaCl$)

Our Salt production is ISO 22000:2005 certified for food grade usage. It is used as table salt as well as in other food processing applications.

Salt is the basic raw material for Chlor-alkali products. To supplement our production requirements, we import salt from various countries such as India, Australia & Saudi Arabia.

## Hydrogen ($H_2$)

AIP produces hydrogen gas with a high purity of 99.999% and provides it to customers in the GCC in cylinders and hydrogen tube trailers.



# OUR OPERATING SUBSIDIARIES

## Al Kout Logistics & Transport Company (ALTC)

Established in 2004 and headquartered in Kuwait, Al Kout Logistics & Transport Company is a full-fledged logistics provider offering Air Freight, Ocean Freight, Land Freight, Project Cargo and Customs Clearance. It has an operation in Abu Dhabi, UAE to support its Kuwait base. From its hub in the UAE it attends to deliveries across the country and neighbouring Oman and Qatar. Whereas, Kuwait operation serves clients in Jordan, KSA, Bahrain, Qatar and the United Arab Emirates.

With the continuous increase in price of fuel, visa charges and lack of qualified man power; trucking business faced another challenging year in 2016. Despite the challenges, ALTC fleet covered more than 4 million KM, 8% more than 2015.

ALTC's Ocean Freight businesses grew from 2015, despite the continued congestion at local ports and regional slow down. In 2016, ALTC handled more than 850 TEU, with the majority heading to Europe and Africa. Through its strong direct relationship with shipping lines; it managed to secure excellent ocean freight rates when compared to 2015 .

Al Kout Logistics & Transport Company 3RD party business (None AIP) grew significantly, its contribution to the bottom line increased by more than 140% on 2015.

Due to the dangers that could arise from transporting various chemicals, ALTC places great emphasis on training it staff and upgrading its fleet.

Employees are regularly trained, drivers are closely monitored, tankers regularly inspected and head units are fitted with Fleet Board Management system, (www.fleetboard.com ) a state of the art global tracking system manufactured by Daimler Benz. ALTC was honoured when chosen as the 'Best Fleet Operator' in the Middle East & North America (MENA) ALTC was selected by Mercedes Benz from its many operators in the MENA region. Selection is based on a number of parameters which include safety record, maintenance activity, fuel consumption, and efficiency in operation.

ALTC is proud of this award and will strive to continue being a regional leader.

With the continued regional slow down and forecasted increase in various expenses, 2017 will be a challenging year. However, Al Kout Logistics & Transport Company will serve its client to its best abilities, while continuously optimizing its operations. It aims to further diversify it sources of revenue and further grow its none AIP business

# OUR OPERATING SUBSIDIARIES

## Safewater Chemicals L.L.C.

Safewater Chemicals is a wholly owned subsidiary of Al Kout Industrial Projects Company which was acquired in November 2011. It is strategically situated to supply the UAE and GCC markets by being integrated into the heart of the Abu Dhabi Industrial City located in ICAD 1 in the industrial area of Mussafah, Abu Dhabi. It produces a range of high grade basic chemicals including caustic soda (liquid), hydrochloric acid and sodium hypochlorite.

The Safewater plant which was partially restarted in December of 2011 became fully operational in 2013, and as expected, Safewater had a eightfold increase in capacity since the acquisition and has developed plans for further expansions, de-bottlenecking and upgrades.

With its office building on-site, Safewater is self sufficient and operates independently in terms of its logistics and transportation requirements as its fleet handles deliveries to customers in the UAE and Oman.

Safewater fifth year of operations below expectations due to increased competition in UAE . The sales were down by 40% compare to 2015.

In line with the parent and sister companies, Safewater is dedicated to international health, safety and environmental standards and ethics. It uses the latest version of the membrane technology in its production process. It also carries a variety of certifications including: ISO 9001 for quality assurance, ISO 14001 for environmental standards and OHSAS 18001 for health and safety.

Safewater is conscious and proud of its domicile in Abu Dhabi and strives to generate economic diversification in the country. It is also set on providing outstanding career and business opportunities in the UAE.

## Al Kout Petrochemical Products (APP)

Al Kout Petrochemical products division has a strategic alliance with Nalco Champion, the second largest global oilfield production chemical company based in the USA to manufacture and supply a wide range of oil field chemicals. Considering the many Oil fields in the Gulf region it is advantageous for Nalco Champion to have a local base. This alliance provides Nalco Champion with a platform for a reliable service to its customers in Kuwait and its neighboring countries.

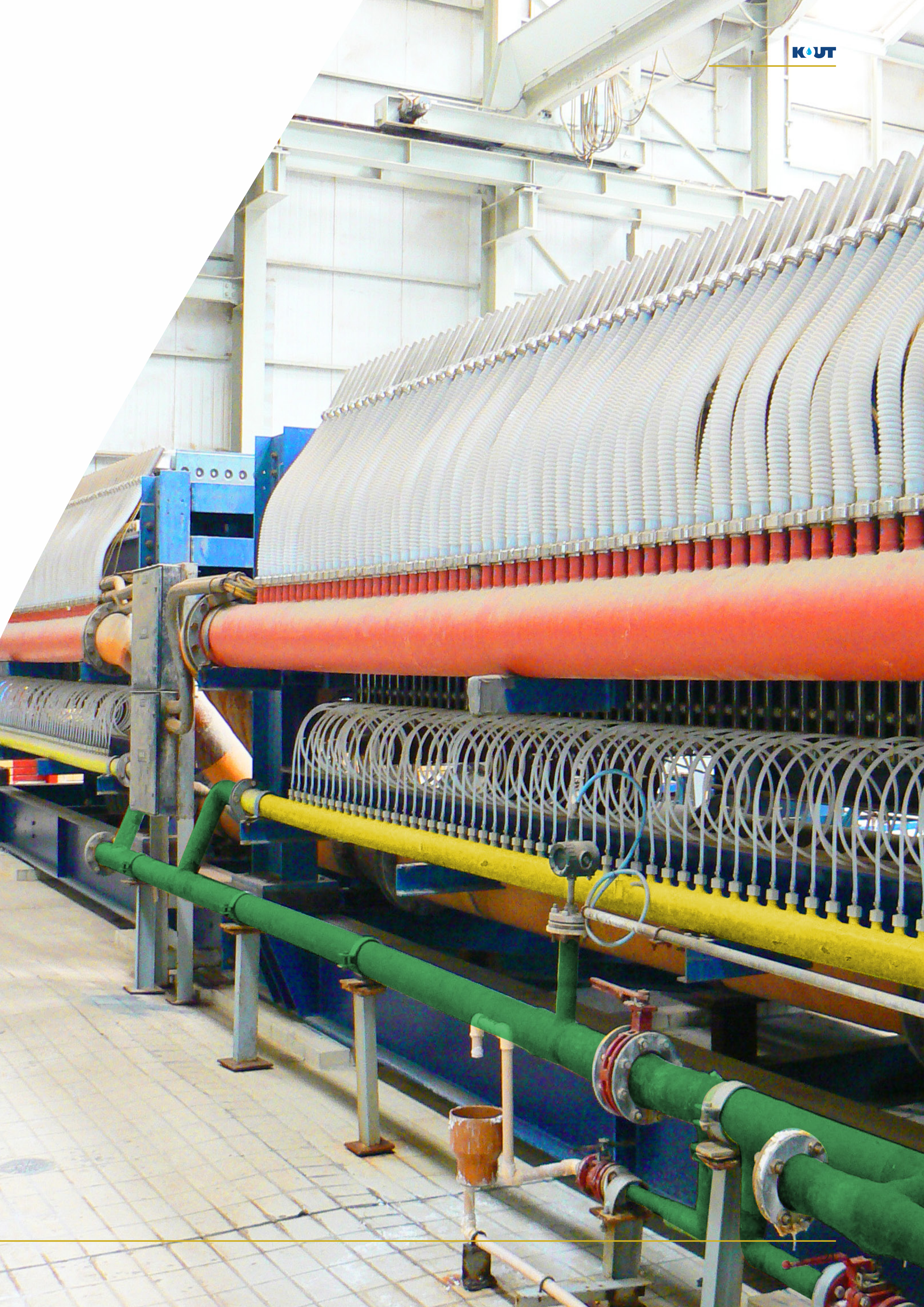
The products supplied from the blending facilities of APP include Scale Inhibitors, Corrosion Inhibitors, Biocides, Demulsifiers, Oxygen Scavengers, Gas Corrosion Inhibitors, Anti-Foam, etc. to meet various requirements in the oil fields.

# HEALTH, SAFETY AND ENVIRONMENTAL MANAGEMENT

Our commitment to Quality, Health, Safety and Environment, is unwavering and we continue to strive to maintain the highest standards at our main chlor-alkali facility and also at our subsidiaries. All surveillance and certification audits for international standards like ISO 9001:2008 on Quality Management System, ISO 14001:2004 on Environmental Management System and OHSAS 18001: 2007 on Occupational Health and Safety Management System, were passed with success in 2015. We further strengthened our IMS (Integrated Management System) through continual improvement, in 2016. We succeeded in the implementation of the international standard, ISO 22000:2005 for Food Safety Management System covering our Food Grade Salt manufacturing and sales. And so we are proud to say that we are one of the first companies in Kuwait receiving this certification.

We promote a health, safety and occupational health culture at work through risk assessment procedures, training and awareness programs, regular job inspections and plant audits, programs like BBS (Behavioral Based Safety) and HSE Points Award Scheme. Reporting and investigation of incidents is promptly done, as this is crucial in accident prevention. Incident investigation to identify the root cause helps to eliminate recurrence of similar incidents in future. We also promote occupational safety health on our customers' premises through site visits, training and awareness programs which we conduct for our customers' staff. Our Health and Safety records indicate that we surpassed one million man-hours with no time-loss accidents for our Kuwait plant.

In 2016, a program of Manufacturing Excellence was implemented, supported by the Lean Six Sigma approach. The focus is on competitiveness, reliability and agility. The program will reinforce the satisfaction of our Customers. The principle of permanent improvement will be firmly implemented in our company and will guarantee that all the staff is ready for the upcoming challenges to be faced.



# CORPORATE GOVERNANCE, INTERNAL AUDIT COMMITTEE & INTERNAL CONTROL SYSTEM REVIEW REPORTS

## Dear Shareholders of the Company,

It's our pleasure to present the Corporate Governance Report for the fiscal year ended 31 December 2016, which includes the following:

## Board of Directors

The Board of Directors of Al Kout Industrial Projects Company were elected on 21 April 2014. The Board of Directors are:

| Name / Designation | Member classification (Executive/non-executive / independent) Secretary of the Board | Date of election/ Secretary of the Board |
|---|---|---|
| Fahed Yacoub Al Jouan<br>Chairman | non-executive | 21 April 2014 |
| Mohammed Bader Al Sayer<br>Deputy Chairman | non-executive | 21 April 2014 |
| Hamad Abdelaziz Alsaqer<br>Board Member | non-executive | 21 April 2014 |
| Othman Zahim Al Zahim<br>Board Member | independent | 21 April 2014 |
| * Bader Musaed Bader Al Sayer<br>Board Member | non-executive | 21 April 2014 |
| Salah Nasser Al Saqabi<br>Board Member | non-executive | 21 April 2014 |
| Mohammad Ahmed Shamesaldain<br>Board Member | non-executive | 21 April 2014 |
| Ali Abdel Aziz Behbehani | Secretary of the Board | 21 April 2014 |

*Jiblah Holding Company, represented by Mr. Bader Musaed Bader Al Sayer in the Board of Directors, announced their willingness to sell its stake in Al Kout. In order to prevent conflicts of interests, Mr. Bader Musaed Bader Al-Sayer submitted his resignation from the Board of Directors. The Board decided to accept his resignation in meeting No. 4/2016 dated 21/7/2016. That was disclosed to the Capital Markets Authority on July 25, 2016; and the reserve Board member who apologized for the participation and the seat became vacant until the next election by the end of the fiscal year 2016.

## QUALIFICATIONS AND EXPERIENCE OF THE BOARD MEMBERS OF AL KOUT INDUSTRIAL PROJECTS COMPANY:

### Mr. Fahed Yacoub Al Jouan - Chairman

Mr. Fahed Al Jouan has been a member of the Board of Directors since 2001 and has been Chairman of the Board since 2006 till date and currently holds the membership of the Nomination and Remuneration committee.

He holds a Bachelor’s degree in Business Administration from University Eastern Washington- USA

and holds an accounting diploma from the Institute of Commercial of Business Studies.He is currently Vice Chairman of Al Dorra Petroleum Services Company, Board Member of the Financial Center Company, and Board Member of the National Petroleum Services Company (NAPESCO).

He is a member of Kuwait Chamber of Commerce and Industry since 2014 till date.

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### Mr. Mohammed Bader Musaed Al Sayer - Vice Chairman.

Mr. Mohammed Al Sayer has been the Vice Chairman of the Board since 2015 and currently holds the Chairmanship of Risk Management Committee and membership of Audit committee.

He holds a Bachelor of Science in Mechanical Engineering and Economics from Polytechnic Ren University – USA

He worked for the world’s leading banks such as Morgan Stanley, JP Morgan Chase.
Worked at National Bank of Kuwait for five years.
Founder and Chairman of MS Holding and MS Retail since 2004 till date.

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### Mr. Hamad Abdel Aziz Al Saqer- Board Member

Mr. Hamad Al Saqer is a member of the Board of Directors of Al Kout Industrial Projects Company since 2003.
He holds Bachelor of Economics from Ireland.
He is a member of the Board of Directors of the National Bank of Kuwait Group from 1975 to 1976 and from 1983 till date, He is also the member of the Credit and Governance Committees of the Board of Directors of Kuwait National Bank.

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### Mr. Othman Zahim Al Zahim - Board Member

Mr. Othman Al Zahim is a member of the Board of Directors of Al Kout Industrial Projects Company since 2006 and currently holding the membership of Risk Management Committee, Nomination and Remuneration committee and Audit committee.

He holds a Bachelor of Business Administration - Marketing - in 1991 from University of Miami - USA
He is the Chairman of Petra Food Industries Company since 2008 till date
He served as General Manager of Petra Food Company from 1991 to 2012.
He is the member of the Board of Directors of National Company for Pharmaceutical Industries - 3 years
He was the member of the Board of Directors of the Metal Distribution Company.
He was the member of the board of the Real Estate Climate Company for a period of 3 years.
He has been an active member of a number of public benefit organizations such as the Federation of Food Suppliers and Producers from 1994 to 1996 and the Kuwait Industries Federation from 1999 to 2008.

### Mr. Salah Nasser Al Saqabi - Board Member

Mr. Salah Al Saqabi is a member of the Board of Directors of Al-Kout Industrial Projects Company since 2010 and currently holding the Chairmanship of the Nominations and Remuneration Committee of the Company.

He holds a Bachelor of Engineering degree (1988) from University of Miami - USA

He is currently the Chief Executive Officer of Afkar Holding since 2010.

He is the member of the Board of Directors of Al Dorra Petroleum Company since 2015 and Chairman of the Internal Audit Committee

Member of the Board of Directors of the Soft Food Company since 2008.

He has served as Assistant Director of Projects Management at the Industrial Bank from 1989 until 2007.

He is the member of the Board of Directors of Al-Difaa Real Estate Company since 2007

He is the Vice Chairman of Gulf Industrial Development Company in Saudi Arabia since 2007

He is the member of the Board of Directors of the Al Fayez-Baytak Fund in Kuala Lumpur, Malaysia since 2008.

### Mr. Mohammad Ahmed Shamesaldain - Board Member

Mr. Mohammad Shamesaldain is a member of the Board of Directors of Al Kout Industrial Projects Company since 2015 and currently holding the Chairmanship of Audit committee, and membership of Risk Management Committee.

He holds a Bachelor's degree from the University of Reserve Western Case - USA

He holds a Master's degree in Business Administration from INSEAD University in Paris.

He is an Investment Manager at Boubyan Petrochemical Company - responsible for the company's external investments

He has worked with Boubyan Bank in Investment Management.

He has worked with Ernst & Young in the Advisory Services.

### Mr. Ali Abdulaziz Behbehani - Secretary of the Board

Mr. Ali Behbehani joined the company in 2001 in the position of Finance & Administration Manager and currently holds the position of Vice President for HR & Administrative Affairs and Secretary of the Board of Directors and the company committees.

He holds a bachelor's degree in accounting from Kuwait University (1971) and became an Assistant Teacher at the University of Kuwait.

He received his master's degree in accounting in 1974 from the University of Arizona - USA

He served as Deputy General Manager of the Real Estate Investment Consortium from 1975 to 1980 and as General Manager of the Kuwaiti-Bahraini Investment Consortium from 1981 to 1989.

He served as General Manager of Boubyan Aqua Culture Company from 1993 to 1999.

## Attendance of Board Members

The Board of Directors of Al Kout Industrial Projects Company held five meetings during 2016. The table below shows the number of meetings attended by each member

| Member Name | Meeting No. 1 Dated | Meeting No. 2 Dated | Meeting No. 3 Dated | Meeting No. 4 Dated | Meeting No. 5 Dated |
|---|---|---|---|---|---|
| | 23/3/2016 | 10/4/2016 | 16/5/2016 | 21/7/2016 | 14/11/2016 |
| Fahd Yacoub Al Jouan<br>Chairman | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mohammed Bader Al Sayer<br>Deputy Chairman | ✓ | ✓ | ✓ | ✓ | ✓ |
| Hamad Abdelaziz Al Saqer<br>Board Member | ------------ | ------------ | ✓ | ✓ | ✓ |
| Othman Zahim Al Zahim<br>Board Member | ✓ | ✓ | ✓ | ✓ | ✓ |
| Bader Musaed Bader Al Sayer<br>Board Member | ✓ | ✓ | ✓ | ------------ | ------------ |
| Salah Nasser Al Saqabi<br>Board Member | ✓ | ✓ | ------------ | ✓ | ✓ |
| Mohammed Ahmed ShamsAldin<br>Board Member | ✓ | ✓ | ✓ | ✓ | ✓ |

## Recording and coordinating minutes of Board meetings

The Secretary of the Board of Directors prepares a special register for the minutes of the approved Board meetings and documents the minutes of the approved Audit and Risk Management Committees and of the Nomination and Remuneration committees. Each minutes shall include information on the agenda, date and place and time of the meeting. The Secretary sends the agenda to the members of the Board with sufficient time frame with all documents related to the agenda. At each meeting, board of directors shall follow up on the decisions taken at the previous meeting and then discuss the previous minutes. In case of addition or amendment to the minutes, it shall be deliberated, agreed upon, approved and signed by those present. In the case of minutes of the board meeting are held bypassing the board meeting, all board members have to sign the minutes. The secretary of the Board of directors shall then coordinate and distribute information among Board members and other stakeholders.

## Policies of the Board of Directors:

The Board of Directors directly supervises the activities of Al-Kout Industrial Projects Company, where it adopts the organizational structure of the company, by laying down the company strategic objectives, the application of internal control systems, the development of the risk strategy and the standards of the governance. The Board of Directors are responsible for directly supervising the work of the executive management and ensuring that they are working within the plans and objectives set by the Executive Management Commitment to the board and the Company's by-laws, regulations and policies.

**Achievements of the Board of Directors during 2016:**

The Board of Directors of Al Kout Industrial Projects Company held five meetings during 2016, as it was focused to apply the criteria of corporate governance within the company. The most important achievements are the appointment of the Internal Audit and Risk Management Committee, and the Nominations and Remuneration Committee; Committees are complementary to the work of the Board of Directors. The Board also approved the appointment of the Internal Auditor, where the task was assigned to an independent office for the development of internal control systems. The board has approved an another independent office to review and evaluate the performance of the internal control system, as well as another independent office to prepare reports on the determining and measuring the company risks to which the company may be exposed to. The board has also made important decisions during 2016 regarding the company's investments, developments, monitoring and evaluation of the performance of the executive management.

**Board of Directors committees:**

**(1) Internal Audit and Risk Management Committee**

After obtaining the approval of the Capital Markets Authority, the Internal Audit Committee and the Risk Management Committee were merged into one committee the committee's duties and responsibilities, in line with the Company's risk appetite and the preparation of periodic reports on the nature of these risks to which the Company may be exposed. This is to consolidate the commitment culture within the company by ensuring the integrity of the company's financial reports and verifying the adequacy and effectiveness of the internal control system and reviewing the auditor's observations. The Board of Directors at its meeting No. 20162 dated 10 April 2016 formed the Internal Audit and Risk Management Committee as follows:

| | |
|---|---|
| Chairman of Risk Management Committe | Mr. Mohammad Bader Al Sayer<br>Deputy Chairman of Al Kout Industrial Projects Company /Non-Executive |
| Chairman of the Internal Audit Committee | Mr. Mohammad Ahmed Shamesaldain<br>Board Member of Al Kout Industrial Projects / Non-Executive |
| Member of Risk Management and Internal Audit Committee | Mr. Ali Abdul Aziz Behbehani - Vice President / HR & Admin. |
| Member of Risk Management and Internal Audit Committee | Mr. Othman Zahim Al Zahim - Board Member of Al Kout Industrial Projects / Independent |
| Secretary of the Risk Management and Internal Audit Committee | Mr. Ali Abdul Aziz Behbehani - Vice President / HR & Admin. |

The Internal Audit and Risk Management Committee held two meetings during 2016 and highlight its achievements:

**Approve the proposed annual audit plan for 2016.**

Recommend to the Board of Directors to appoint an independent office (KPMG) to establish internal control systems and to appoint an independent office (Al Bziea RSM) to prepare these reports on the nature of risks to which the Company may be exposed.

Review the internal auditor's report on the internal departments of the company and request the executive management to work on the observations.Review the Quarter and annual financial statements of the company and discuss with the external auditor. Prepare the annual report of the internal control procedures and presentation to the shareholders at the AGM.

**(2) Nomination and Remuneration Committee**

The purpose of this committee is to prepare a recommendation on nominations for the positions of directors and executive management, policies and regulations governing the awarding of compensation and remuneration to the Board, bonuses to the Executive Management, and to assist the Board in evaluating the performance of the Executive Management and coordinating the periodic evaluation process of the Board.

The Board of Directors approved the formation of the Nomination and Remuneration Committee at the meeting no. 2/2016 on 12 April 2016, as it defined its missions & responsibilities.

| | |
|---|---|
| Chairman of the Committee | Mr. Salah Nasser Al-Saqabi<br>Board Member of Al-Kout Industrial Projects / Non-Executive |
| Committee member | Mr. Othman Zahim Al-Zahim<br>Board Member of Al Kout Industrial Projects / Independent |
| Committee member | Mr. Fahed Yacoub Al Jouan<br>Chairman Al Kout Industrial Projects / Non-Executive |
| Secretary of the Committee | Mr. Ali Abdul Aziz Behbehani<br>Vice President – Administration & HR |

The Committee held one meeting during 2016 and highlights its achievements:
Review the policy of rewards and promotions in the company
Review of the Nomination Policy for Board Membership and Executive Management.
Review the training and development procedures of the company's employees.
Preparation of the annual report of all bonuses granted within the company to the members of the Board of Directors, the Executive Management and the employees.
The mechanism for timely access of members of the Board of Directors to information and data:

The company provided the tools that allow the board members to obtain the required information and data in a timely manner through direct contact with the CEO, the secretary of the Board of Directors and the Board of Directors, as well as providing reports and discussion topics for Board meetings well in advance for discussion and decision-making.

**Report on bonuses awarded at Al Kout Industrial Projects**

The remuneration policy adopted by the Board of Directors reflects the desire to retain competencies within the Board of Directors, the Executive Management and the various departments of the Company as well as being an attractive element for joining the Company. The Nomination and Remuneration Committee operates under this policy, recommending bonuses to Board members, Executive Management and other segments of the staff.

**Disclosure of the granted remuneration:**

The Nomination and Remuneration Committee shall prepare a detailed report of all the remunerations, benefits and allowances granted to the Chairman of the Board of Directors, the members of the Board of Directors, the members of the Committees as well as the Executive Management of the Company and the remaining segments of the employees according to the performance reports submitted by the Company's management. The remuneration report shall be informed to the general Assembly by the Board of Directors and Executive Management during May 2017.

**Undertaking for the Soundness and integrity of the prepared financial statements:**

The Executive Management provides written assurance to the Board of Directors of the Company's limited report integrity. It covers all financial aspects of operating data and results and is prepared in accordance with International Accounting Standards. The Board of Directors also provides the Company's shareholders with a guarantee of integrity of the financial statements. The Internal Audit Committee is entitled to review all data, information and reports from the Company's reports and submit its report to the Board of Directors.

**Independent and impartial auditor:**

On 25 April 2016, the Ordinary General Assembly of the Company approved the appointment of the External Auditor, Price Waterhouse Coopers (Al Shatti & Co.) and the External Auditor, Al Waha Audit Office, both of whom are registered in the special register with the Capital Market Authority and are fully independent from the Company and its Board of Directors

**Code of Conduct and Ethical Values:**

Integrity comes first in the values of the company and serves as a goal that guides its employees in everything they do. This behaviour supports the decisions that management relies on when serving customers. Company Policies and Procedures means to reduce Conflicts of Interest as part of the corporate governance system, the Board of Directors and its committees are responsible for following individual methods and procedures to reduce any or similar behaviours that overlap the personal interests of the Board of Directors, Executive Management and other employees of the Company.

**Disclosure and transparency**

The Company has committed itself to the required instructions for the disclosure of the essential information and the mechanism for advertising through the Kuwait Stock Exchange website and also to address the Capital Markets Authority. As well as providing information on the company's website. The Company maintains a special record that contains all required disclosures for the Board of Directors and the Executive Management.

**Investor Affairs**

The Company is committed to informing current and prospective investors about investment decisions where information and reports are available. The Company is committed to informing current and potential investors about the investment decisions, as it provides information and information through conventional means of disclosure.

### Information technology infrastructure

The Company has updated its website and through this website, the Company provides all information about the Company and its subsidiaries and associates. Their projects and also provide information and financial data and keep them up to date.

### General rights of shareholders

All shareholders of the Company enjoy clear rights in terms of ownership of the shares, transfer of ownership, receipt of profits, annual reports, participation in meetings of the General Assembly of Shareholders and their right to nominate and participate in the election of the Board of Directors. A special register of the Company shall be kept with the Kuwait Clearing Company, in which the names of all shareholders and the number of shares they own , each share holders has the right to ask about the stock data he owns.

### General Assembly Meeting

The Company is keen to organize ordinary and extraordinary meetings of the General Assembly at the times set by the Ministry of Commerce and Industry. The Company is committed to submit its financial statements, the General Assembly's agenda and all requirements to the Ministry of Commerce and Industry, the Capital Markets Authority and the Kuwait Stock Exchange during the three months following the financial year. The AGM's agenda and information are provided in sufficient time to allow shareholders to participate effectively in the General Assembly meetings and the Company is keen to exercise all the right to vote without prejudice.

### Rights of stakeholders

The Company provides the information required of stakeholders and allows them to obtain compensation in case of violation of any of their rights.

### Training Programs and courses

The Company is keen to hold training courses for all members of the Board of Directors, the Executive Management and for the Company's employees in order to achieve a better level of efficiency in the work.

### Employees values

The company is committed to creating values for employees that reflect the company's reputation by adhering to the highest ethical standards. The company has prepared a manual for employees to demonstrate their rights and duties.

### Social responsibility

The Company is committed to its continued commitment to the employees through initiatives to improve the living conditions of employees and their families. The company is also committed to social responsibility towards society and has participated in environmental activities and participation in exhibitions and contribution to some educational and environmental institutions inside Kuwait.

**Fahed Yacoub Al Jouan**
Chairman

الكـوت للمـشـاريـع الصنـاعـيـة ش.م.ك.ع.
al kout industrial projects k.p.s.c.

## Report of the Internal Audit Committee

**Dear Shareholders**

I am pleased to present the Internal Audit Committee report for the fiscal year ended 31 December 2016. The Internal Audit and Risk Management Committee were formed during meeting of the Board of Directors of Al-Kout Industrial Projects Company No. 2/2016 held on 10 April 2016. Committee members elected are:

1) Mohammed Bader Al-Sayer Vice-Chairman, non executive.
2) Othman Zahem Al-Zahem Independent Board member, non executive.
3) Mohamed Ahmed Shamesaldain Board member, non executive

To take into account the duties and responsibilities assigned to each committee in accordance with the provisions of Article 15 (Corporate Governance) of the Executive Regulations of Law No. 7 of 2010 with regards to the establishment of the Capital Market Authority and the regulation of securities activity and its amendments. Mr. Mohammed Bader Al Sayer- Vice Chairman has been appointed as Chairman of the Risk Management Committee and Mr. Mohammed Shamesaldain as Chairman of the Internal Audit Committee, provided each committee will meet separately.

The Internal Audit Committee held two meetings during 2016, during which it discussed the general policies and procedures of the internal control and audit systems and followed up the reports submitted to the Committee by the Internal Audit Office that was appointed to conduct the internal audit and discuss the results with the company's management. In addition to that the internal audit office will review the External Auditor's reports on the quarterly financial statements. An independent external audit office was also appointed to review and evaluate the internal control systems (ICR) for the year ended 31 December 2016. During the first quarter of 2017, the Internal Audit Committee met and reviewed the financial statements for the year ended 31 December 2016 and discussed with The External Auditor their observations and recommendation to the Board of Directors for approval

The Committee also recommended the reappointment of Price water house Coopers Shatti & Co. as the Company's auditor for the financial year ended 31 December 2017. The Board approved this recommendation to the General Assembly to be held later.

The Committee and the Board of Directors are committed to provide written commitments to the validity and integrity of the annual financial statements relating to the Company's activities covering all financial aspects and operating results, which are prepared in accordance with International Accounting Standards.
The Committee believes that the audit, supervision and audit of internal and external auditors' reports indicate that Al Kout Industrial Projects Company enjoys good internal control systems and that the company's management follows and complies with the laws and regulations issued by the supervisory authorities in the State of Kuwait.

**Chairman Internal Audit Committee**
**Mohamed Ahmed Shamesaldain**

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# Independent Auditor's Report

## On the review and evaluation of Internal Control Systems of the company

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M/s. Board of Directors
Al Kout Industrial Projects Company K.P.S.C.
Kuwait

In accordance with the terms of our engagement letter dated 22 January 2017, we have examined and evaluated the internal control systems at your company which were applied during the year ended 31 December 2016 with regard to all the following major business and operational activities of your company:

- Finance & Information Technology Department.
- Operations, Maintenance & Projects Department.
- Engineering & Maintenance Section.
- Materials Section
- Information Technology Section.
- Administration & HR Department.
- Sales & Marketing Department.
- Production Section.
- Inspection & Corrosion, HSE, and Quality Control Sections
- Projects Management Section

The examination was conducted in accordance with the guidelines published by the Kuwait Capital Markets Authority, Fifth Rule: Implementation of Sound Systems of Risk Management and Internal Control, of Sixth Part of Chapter Fifteen "Corporate Governances" of the Executive Regulations issued under decision number 72 for year 2015 of the law number 7 for year 2013.

As members of the Board of Directors of Al Kout Industrial Projects Company (KPSC), you are responsible for establishing and maintaining adequate internal control systems. In fulfilling that responsibility, estimates and judgments must be made to assess the expected benefits and related costs of such control elements. The objective is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, risks are evaluated and monitored, that transactions are executed in accordance with established authorization procedures and are recorded properly, and to enable you to conduct the business in a prudent and efficient manner.

Because of inherent limitations in any internal control system, errors or irregularities may nevertheless occur and not be detected. Also projection of any evaluation of the systems to future periods is subject to the risk that management information and control procedures may become inadequate because of changes in conditions or that the degree of compliance with those procedures may deteriorate.

In our opinion, having regard to the nature and scale of the company's business during the year ended 31 December 2016, the internal control systems examined by us were established and maintained in accordance with the requirements of corporate governance published by Kuwait Capital Markets Authority within the Executive Regulations issued under decision number 72 for year 2015 of the law number 7 for year 2013.

Yours Faithfully,

Abdullatif M. Al-Aiban (CPA)
(License No. 94-A)
of Grant Thornton – Al-Qatami, Al-Aiban & Partners
Kuwait

**28 March 2017**


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# CONTENTS

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# INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL KOUT INDUSTRIAL PROJECTS COMPANY K.P.S.C. AND ITS SUBSIDIARIES

## Report on audit of the consolidated financial statements

### Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects,the consolidated financial position of Al Kout Industrial Projects Company K.P.S.C. (the "Parent Company") and its subsidiaries (together the "Group") as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

### What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the State of Kuwait. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

### Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

PwC

Al-Waha Auditing Office
Since 1988

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
AL KOUT INDUSTRIAL PROJECTS COMPANY K.P.S.C. AND ITS SUBSIDIARIES

## Key Audit Matters

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

| Key audit matter | How our audit addressed the Key audit matter |
|---|---|
| **Impairment testing of investment in associate**<br><br>The carrying value of investment in associate amounted to KD 8,936,918 as of 31 December 2016. Management performs an impairment testing at the end of each reporting period to determine whether an impairment exists. The annual impairment testing of investment in associate is considered to be a key audit matter due to the complexity of the accounting requirements and the significant judgment and estimates involved in the assessment of the assumptions used to determine the recoverable amount. The recoverable amount has been derived based on value in use using the discounted forecast cash flow model.<br><br>As disclosed in Note 6 to the consolidated financial statements, there are a number of key sensitive judgments made in determining the inputs into the impairment models which, among other, include:<br>• Revenue growth<br>• Pre-tax rate used to discount cash flow projections<br>• Growth rate used to arrive at the terminal value<br>• Weighted average cost of capital (WAAC)<br><br>Management has performed the impairment test. The associate's recoverable amount was determined to be KD 8,990,150 which is above the carrying value at the reporting date. | **Our audit procedures included carrying out the following among others:**<br><br>1. involving our own internal valuation expert to assist in evaluating the appropriateness of the discount rate and terminal growth rate parameters;<br>2. evaluating the appropriateness of the assumptions applied to key inputs such as revenue growth rates, operating costs, which included comparing these inputs with externally derived data as well as our own assessment based on our knowledge of the client and industry;<br>3. performing our own sensitivity analysis, which included assessing the effect of reasonably possible reductions in growth rates and forecast cash flows to evaluate the impact on the currently estimated headroom; and<br>4. evaluating the adequacy of the financial statements disclosures, including disclosures of key assumptions, judgments and sensitivities. |

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL KOUT INDUSTRIAL PROJECTS COMPANY K.P.S.C. AND ITS SUBSIDIARIES

### Other Information

Management is responsible for the other information. The other information comprises the report of the Board of Directors but does not include the consolidated financial statements and our auditors' report thereon, which we obtained prior to the date of this auditors' report, and the Parent Company's complete Annual Report, which is 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 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.

When we read the Parent Company's complete Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

### Auditors' responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
AL KOUT INDUSTRIAL PROJECTS COMPANY K.P.S.C. AND ITS SUBSIDIARIES

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on other legal and regulatory requirements

Furthermore, in our opinion, proper books of accounts have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies' Law no. 1 of 2016, its executive regulation and by the Parent Company'smemorandum and articles of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies' Law no. 1 of 2016, its executive regulations, nor of the Parent Company's memorandum and articles of association have occurred during the year ended 31 December 2016that might have had a material effect on the business of the Group or on its consolidated financial position.

| | |
|---|---|
| **Khalid Ebrahim Al-Shatti**<br>**Licence No. 175-A**<br>**PricewaterhouseCoopers (Al-Shatti& Co.)** | **D. Ali OwaidRukheyes**<br>**Public Accountant 72-A**<br>**Member of Nexia International (England)** |

28 March 2017
**Kuwait**

# AL KOUT INDUSTRIAL PROJECTS COMPANY K.P.S.C. AND ITS SUBSIDIARIES KUWAIT

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts in Kuwaiti Dinars unless otherwise stated)

| | Notes | As at 31 December 2016 | 2015 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 5 | 17,469,807 | 16,714,649 |
| Investment in an associate | 6 | 8,936,918 | 8,620,497 |
| Available-for-sale financial asset | 7 | 1,765,394 | - |
| | | 28,172,119 | 25,335,146 |
| **Current assets** | | | |
| Inventories | 8 | 1,672,649 | 1,630,841 |
| Trade and other receivables | 9 | 6,796,943 | 5,694,973 |
| Time deposit | | - | 500,000 |
| Cash and cash equivalents | 10 | 775,279 | 866,446 |
| | | 9,244,871 | 8,692,260 |
| **Total assets** | | 37,416,990 | 34,027,406 |
| **Liabilities and equity** | | | |
| **Liabilities** | | | |
| **Non-current liability** | | | |
| Post-employment benefits | 11 | 1,772,051 | 1,627,332 |
| **Current liabilities** | | | |
| Trade and other payables | 12 | 2,926,670 | 2,742,453 |
| Short term loan | 13 | 1,000,000 | - |
| | | 3,926,670 | 2,742,453 |
| **Total liabilities** | | 5,698,721 | 4,369,785 |
| **Equity** | | | |
| Share capital | 14 | 10,090,080 | 9,702,000 |
| Statutory reserve | 15 | 5,186,422 | 5,186,422 |
| Voluntary reserve | 16 | 5,148,415 | 5,148,415 |
| Share of an associate's reserves | | 283,009 | 283,555 |
| Foreign currency translation reserve | | 601,721 | 532,068 |
| Fair value reserve | | 33,950 | - |
| Retained earnings | | 10,374,672 | 8,805,161 |
| **Total equity** | | 31,718,269 | 29,657,621 |
| **Total liabilities and equity** | | 37,416,990 | 34,027,406 |

**Fahed Y. Al-Jouan**
Chairman



The notes set out on pages 45 to 70 form an integral part of these consolidated financial statements.

# AL KOUT INDUSTRIAL PROJECTS COMPANY K.P.S.C. AND ITS SUBSIDIARIES KUWAIT

## CONSOLIDATED STATEMENT OF INCOME

(All amounts in Kuwaiti Dinars unless otherwise stated)

| | Notes | Year ended 31 December 2016 | 2015 |
|---|---|---|---|
| Revenue | | **17,131,383** | 18,118,201 |
| Cost of sales of goods | | **(9,538,336)** | (9,662,650) |
| **Gross profit** | | **7,593,047** | 8,455,551 |
| Selling and distribution expenses | | **(695,183)** | (669,678) |
| General and administrative expenses | 17 | **(1,542,476)** | (1,475,861) |
| Other income | | **370,012** | 145,460 |
| **Operating profit** | | **5,725,400** | 6,455,472 |
| Finance costs | | **(18,552)** | (18,529) |
| Foreign exchange gain | | **165,417** | 217,298 |
| Share of results of an associate | 6 | **316,967** | (1,040,380) |
| **Profit before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST), Zakat and Board of Directors' remuneration** | | **6,189,232** | 5,613,861 |
| Contribution to KFAS | | **(58,723)** | (44,830) |
| NLST | | **(158,348)** | (143,244) |
| Zakat | | **(60,170)** | (57,298) |
| Board of Directors' remuneration | | **(73,600)** | (70,000) |
| **Profit for the year** | | **5,838,391** | 5,298,489 |
| **Earnings per share (Basic and diluted) (fils)** | 18 | **57.86** | 52.51 |

The notes set out on pages 45 to 70 form an integral part of these consolidated financial statements.

# AL KOUT INDUSTRIAL PROJECTS COMPANY K.P.S.C. AND ITS SUBSIDIARIES KUWAIT

## CONSOLIDATED STATEMENT OF INCOME

(All amounts in Kuwaiti Dinars unless otherwise stated)

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Profit for the year | **5,838,391** | 5,298,489 |
| **Other comprehensive income** | | |
| *Items that may be reclassified subsequently to the consolidated statement of income* | | |
| Share of associate's reserves | **(546)** | 283,555 |
| Foreign exchange translation adjustments | **69,653** | 200,361 |
| Change in fair value of available-for-sale financial asset | **33,950** | - |
| **Other comprehensive income for the year** | **103,057** | 483,916 |
| **Total comprehensive income for the year** | **5,941,448** | 5,782,405 |



The notes set out on pages 45 to 70 form an integral part of these consolidated financial statements.

# AL KOUT INDUSTRIAL PROJECTS COMPANY K.P.S.C. AND ITS SUBSIDIARIES KUWAIT

## CONSOLIDATED STATEMENT OF INCOME

(All amounts in Kuwaiti Dinars unless otherwise stated)

| | Share capital | Statutory reserve | Voluntary reserve | Share of an associate's reserves | Foreign currency translation reserve | Fair value reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2015** | 8,820,000 | 4,625,036 | 4,587,029 | - | 331,707 | - | 9,039,444 | 27,403,216 |
| Profit for the year | - | - | - | - | - | - | 5,298,489 | 5,298,489 |
| Other comprehensive income for the year | - | - | - | 283,555 | 200,361 | - | - | 483,916 |
| **Total comprehensive income for the year** | - | - | - | 283,555 | 200,361 | - | 5,298,489 | 5,782,405 |
| Transfer to reserves | - | 561,386 | 561,386 | - | - | - | (1,122,772) | - |
| Issue of bonus shares (note 20) | 882,000 | - | - | - | - | - | (882,000) | - |
| Dividends paid during the year (note 20) | - | - | - | - | - | - | (3,528,000) | (3,528,000) |
| **Balance at 31 December 2015** | 9,702,000 | 5,186,422 | 5,148,415 | 283,555 | 532,068 | - | 8,805,161 | 29,657,621 |
| **Balance at 1 January 2016** | **9,702,000** | **5,186,422** | **5,148,415** | **283,555** | **532,068** | - | **8,805,161** | **29,657,621** |
| Profit for the year | - | - | - | - | - | - | 5,838,391 | 5,838,391 |
| Other comprehensive income for the year | - | - | - | (546) | 69,653 | 33,950 | - | 103,057 |
| **Total comprehensive income for the year** | **-** | **-** | **-** | (546) | **69,653** | **33,950** | **5,838,391** | **5,941,448** |
| Issue of bonus shares (note 20) | 388,080 | - | - | - | - | - | (388,080) | - |
| Dividends paid during the year (note 20) | - | - | - | - | - | - | (3,880,800) | (3,880,800) |
| **Balance at 31 December 2016** | **10,090,080** | **5,186,422** | **5,148,415** | **283,009** | **601,721** | **33,950** | **10,374,672** | **31,718,269** |

The notes set out on pages 45 to 70 form an integral part of these consolidated financial statements.

# AL KOUT INDUSTRIAL PROJECTS COMPANY K.P.S.C. AND ITS SUBSIDIARIES KUWAIT

## CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in Kuwaiti Dinars unless otherwise stated)

| | Notes | Year ended 31 December 2016 | 2015 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before KFAS, NLST, Zakat and Board of Directors' remuneration | | 6,189,232 | 5,613,861 |
| **Adjustments for:** | | | |
| Depreciation | 5 | 3,143,502 | 2,878,458 |
| Loss / (Gain) on sale of property, plant and equipment | | 20 | (2,664) |
| Share of results of an associate | 6 | (316,967) | 1,040,380 |
| Post-employment benefits | 11 | 262,843 | 230,647 |
| Finance costs | | 18,552 | 18,529 |
| | | 9,297,182 | 9,779,211 |
| **Changes in working capital:** | | | |
| Inventories | | (41,808) | 424,101 |
| Trade and other receivables | | (1,101,970) | (1,795,566) |
| Trade and other payables | | 233,907 | 73,951 |
| **Cash generated from operations** | | 8,387,311 | 8,481,697 |
| KFAS, NLST and Zakat paid during the year | | (330,531) | (184,671) |
| Board of directors' remuneration paid during the year | | (70,000) | (70,000) |
| Post-employment benefits paid during the year | 11 | (118,124) | (114,735) |
| **Net cash generated from operating activities** | | 7,868,656 | 8,112,291 |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | 5 | (3,862,734) | (3,336,486) |
| Proceeds from disposal of property, plant and equipment | | 21,119 | 3,752 |
| Purchase of available-for-sale financial asset | | (1,731,444) | - |
| Time deposit | | 500,000 | (500,000) |
| **Net cash flows used in investing activities** | | (5,073,059) | (3,832,734) |
| **Cash flows from financing activities** | | | |
| Proceeds from short term loan | | 1,000,000 | - |
| Finance costs paid during the year | | (18,552) | (18,529) |
| Dividends paid during the year | | (3,880,800) | (3,528,000) |
| **Net cash used in financing activities** | | (2,899,352) | (3,546,529) |
| Effect of foreign currency translation | | 12,588 | 53,222 |
| **Net (decrease) /increase in cash and cash equivalents** | | (91,167) | 786,250 |
| Cash and cash equivalents at beginning of year | | 866,446 | 80,196 |
| **Cash and cash equivalentsat end of year** | 10 | 775,279 | 866,446 |



The notes set out on pages 45 to 70 form an integral part of these consolidated financial statements.

# AL KOUT INDUSTRIAL PROJECTS COMPANY K.P.S.C. AND ITS SUBSIDIARIES KUWAIT

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
(All amounts in Kuwaiti Dinars unless otherwise stated)

## 1 GENERAL INFORMATION

Al Kout Industrial Projects Company K.P.S.C. ("the Parent Company") is a public shareholding company incorporated in the State of Kuwait on 28 December 1993, under the laws of the State of Kuwait, and is listed on the Kuwait Stock Exchange.

The objectives for which the Parent Company and its subsidiaries (together referred to as "the Group") was incorporated are as follows:

- Production of chlorine and salt, steel drums to fill soda solid and other petrochemical products (after approval of Public Authority for Industry).
- Transport Company's products inside and outside the State of Kuwait according to Company's objectives.
- Acquisition of industrial rights and related intellectual properties or any other industrial trademarks or drawings and any other rights thereto, and renting thereof to other companies whether inside or outside Kuwait.
- Acquisition of movables and properties necessary for the Company to practice its activities pursuant to the limits prescribed by law.
- Investing surplus funds in portfolios managed by specialized financial companies.
- The Parent Company may have interests or participate in any suitable way with entities that engage in similar business activities or that may help the Parent Company achieve its objectives inside Kuwait and abroad. The Parent Company may also purchase such entities or affiliate them.

The group had 337 employees as at 31 December 2016 (2015: 329 employees).
The address of the Parent-company's registered office is P.O. Box, 10277, Shuaiba 65453, State of Kuwait.

These consolidated financial statements of the Group for the year ended 31 December 2016 were authorized for issue in accordance with a resolution of the Parent-company's Board of Directors on26 March 2017and are subject to the approval of the Annual General Assembly of the Parent-company's shareholders. The Annual General Assembly of the Parent-company's shareholders has the power to amend these consolidated financial statements after issuance.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements are for the Group consisting of the Parent Company and its subsidiaries.

### 2.1 Basis of preparation

(i) Compliance with IFRS
The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The consolidated financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

(ii) Historical cost convention
The consolidated financial statements have been prepared on a historical cost basis except for the measurement at fair value of available for sale financial assets.

# AL KOUT INDUSTRIAL PROJECTS COMPANY K.P.S.C. AND ITS SUBSIDIARIES KUWAIT

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
(All amounts in Kuwaiti Dinars unless otherwise stated)

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.1 Basis of preparation (continued)**

**2.1.1 Changes in accounting policies and disclosures**

*(a) New and amended standards adopted by the Group:*

The group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2016:

- *Clarification of acceptable methods of depreciation and amortisation – Amendments to IAS 16 and IAS 38*
- *Annual improvements to IFRSs 2012 – 2014 cycle, and*
- *Disclosure initiative – amendments to IAS 1.*

*(b) New standards and interpretations issued but not yet adopted by the Group:*

'IFRS 9 - Financial instruments'
IFRS 9, 'Financial instruments', replaces the multiple classification and measurement models in IAS 39 Financial instruments: Recognition and measurement with a single model that has initially only two classification categories: amortised cost and fair value. Classification of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest. All other debt and equity instruments, including investments in complex debt instruments and equity investments, must be recognised at fair value.

All fair value movements on financial assets are taken through the consolidated statement of income, except for equity investments that are not held for trading, which may be recorded in the consolidated statement of comprehensive income or in reserves (without subsequent recycling to profit or loss).

For financial liabilities that are measured under the fair value option entities will need to recognise the part of the fair value change that is due to changes in the their own credit risk in other comprehensive income rather than statement of income.

The new hedge accounting rules (released in December 2013) align hedge accounting more closely with common risk management practices. As a general rule, it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation.

In July 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. With these amendments, IFRS 9 is now complete. The changes introduce:

- a third measurement category (FVOCI) for certain financial assets that are debt instruments
- a new expected credit loss (ECL) model which involves a three-stage approach whereby financial assets move through the three stages as their credit quality changes. The stage dictates how an entity measures impairment losses and applies the effective interest rate method. A simplified approach is permitted for financial assets that do not have a significant financing component (eg trade receivables). On initial recognition, entities will record a day-1 loss equal to the 12 month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired.

For financial years commencing before 1 February 2015, entities could elect to apply IFRS 9 early for any of the following:

- the own credit risk requirements for financial liabilities
- classification and measurement (C&M) requirements for financial assets
- C&M requirements for financial assets and financial liabilities, or
- C&M requirements for financial assets and liabilities and hedge accounting.

After 1 February 2015, the new rules must be adopted in their entirety.

The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess IFRS 9's full impact.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.1 Basis of preparation (continued)

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

*(b) New standards and interpretations issued but not yet adopted by the Group(continued):*

*IFRS 15 – Revenue from contracts with customers'*

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

A new five-step process must be applied before revenue can be recognised:
- identify contracts with customers
- identify the separate performance obligation
- determine the transaction price of the contract
- allocate the transaction price to each of the separate performance obligations, and
- recognise the revenue as each performance obligation is satisfied.

Key changes to current practice are:
- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- Revenue may be recognised earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, success of an outcome etc) – minimum amounts must be recognised if they are not at significant risk of reversal.
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees and, consignment arrangements, to name a few.
- As with any new standard, there are also increased disclosures.

These accounting changes may have flow-on effects on the entity's business practices regarding systems, processes and controls, compensation and bonus plans, contracts, tax planning and investor communications.
Entities will have a choice of full retrospective application, or prospective application with additional disclosures.

The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess IFRS 15's full impact.

'IFRS 16 – Leases'

'IFRS 16, Leases' will affect primarily the accounting by lessees and will result in the recognition of almost all leases on the consolidated statement of financial position. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

The consolidated statement of income will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use ofan identified asset for a period of time in exchange for consideration.

The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permittedonly if IFRS 15 is adopted at the same time. The Group is yet to assess the impact of IFRS 16.

# AL KOUT INDUSTRIAL PROJECTS COMPANY K.P.S.C. AND ITS SUBSIDIARIES KUWAIT

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
(All amounts in Kuwaiti Dinars unless otherwise stated)

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.1 Basis of preparation (continued)**
**2.1.1 Changes in accounting policies and disclosures (continued)**

'Disclosure Initiative – Amendments to IAS 7'

'Amendments to IAS 7', addresses that going forward, entities will be required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (e.g. drawdowns and repayments of borrowings) and non-cash changes such as acquisitions, disposals, accretion of interest and unrealised exchange differences. Changes in financial assets must be included in this disclosure if the cash flows were, or will be, included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities. Entities may include changes in other items as part of this disclosure, for example by providing a 'net debt' reconciliation. However, in this case the changes in the other items must be disclosed separately from the changes in liabilities arising from financing activities. The information may be disclosed in tabular format as a reconciliation from opening and closing balances, but a specific format is not mandated. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Group is yet to assess the impact of IAS 7.

**2.2 Principles of consolidation and equity accounting**

*(a) Subsidiaries*

(b) Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- Fair values of the assets transferred
- Liabilities incurred to the former owners of the acquired business
- Equity interests issued by the Group
- Fair value of any asset or liability resulting from a contingent consideration arrangement, and
- Fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Acquisition-related costs are expensed as incurred.

The excess of the following itemsover the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognized directly in comprehensive income as a bargain purchase:

- Consideration transferred,
- Amount of any non-controlling interest in the acquired entity, and
- Acquisition-date fair value of any previous equity interest in the acquired entity.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently re-measured to fair value with changes in fair value recognized in theconsolidated statement of income.

# AL KOUT INDUSTRIAL PROJECTS COMPANY K.P.S.C. AND ITS SUBSIDIARIES KUWAIT

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
(All amounts in Kuwaiti Dinars unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Principles of consolidation and equity accounting (continued)

*(a) Subsidiaries (continued)*

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquire is re-measured to fair value at the acquisition date. Any gains or losses arising from such re-measurement are recognized in the consolidated statement of income.

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statements of income, comprehensive income, changes in equity and financial position respectively.

The subsidiaries of the ParentCompany, all of which have been included in these consolidated financial statements, are as follows:

| Name of subsidiary | Ownership interest % | | Country of incorporation | Principle activities |
|---|---|---|---|---|
| | **2016** | 2015 | | |
| * Al Kout Logistics and Transport Company W.L.L. | **99.5 %** | 99.5 % | Kuwait | Transportation services |
| * Al Kout Petrochemical Products Company W.L.L. | **80 %** | 80 % | Kuwait | Blending of chemical products |
| * Al Kout Industrial Projects Holding Company L.L.C. | **100 %** | 100 % | Bahrain | Investment activities |
| * Safewater Chemicals L.L.C. | **99 %** | 99 % | United Arab Emirates | Manufacture of Chlor Alkali products |

* The remaining ownership interest in the above subsidiaries are held within the Group.

*(b Associates*

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see below) after initially being recognized at cost.

*(C) Equity method*

Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investee in the consolidated statement of income, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognized as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Groupdoes not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.
The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 2.6.

# AL KOUT INDUSTRIAL PROJECTS COMPANY K.P.S.C. AND ITS SUBSIDIARIES KUWAIT

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
(All amounts in Kuwaiti Dinars unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
### 2.2 Principles of consolidation and equity accounting (continued)

(d) Changes in ownership interests
The group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Parent Company.

When the group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

### 2.3 Foreign currencies translation

*(a) Functional and presentation currency*
Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Group operates ("the functional currency"). The consolidated financial statements are presented in Kuwaiti Dinars (KD) which is the Group's functional currency.

*(b) Transactions and balances*
Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income. Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of income within 'finance costs'. All other foreign exchange gains and losses are presented in the consolidated statement of income within other income.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example,translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

*(c) Group companies*
The results and financial position of foreign operations (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that financial position;
- Income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income.

### 2.4 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and any accumulated impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the consolidated statement of income during the reporting period in which they are incurred.

# AL KOUT INDUSTRIAL PROJECTS COMPANY K.P.S.C. AND ITS SUBSIDIARIES KUWAIT

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
(All amounts in Kuwaiti Dinars unless otherwise stated)

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**
**2.4 Property, plant and equipment ( continued )**

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 5-20 years |
| Plant and machinery | 5-10 years |
| Electrolyser and ED membrane | 4-10 years |
| Office Furniture and equipment | 1-3 years |
| Motor Vehicles | 5-10 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at least at the end of each reporting period.

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.
Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the consolidated statement of income.

**2.5 Inventories**

Raw materials,spare parts and finished goods are stated at the lower of cost and net realizable value. Cost comprises direct materials, direct labor and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity.

Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**2.6 Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the consolidated statement of income for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

**2.7 Financial assets**
**2.7.1 Classification**

The Group classifies its financial assets in the following categories:

- Available for sale financial asset, and
- Loans and receivables.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

*(a) Available-for-sale financial asset*
Available-for-sale financial asset consists of equity securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

*(b) Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables", "term deposits" and "cash and cash equivalents".

# AL KOUT INDUSTRIAL PROJECTS COMPANY K.P.S.C. AND ITS SUBSIDIARIES KUWAIT

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
(All amounts in Kuwaiti Dinars unless otherwise stated)

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**
**2.7 Financial assets (continued)**
**2.7.1 Classification (continued)**

*(c) Trade and other receivables*
Trade receivable are amounts due from customers within the ordinary course of business. If collection is expected to be within one year or less (or in the normal operating cycle of the business, if longer), they are classified as current assets. If not, they are presented as non-current assets.

*(d) Term deposit*
Term deposit comprise of bank balance account held with a local financial institution with a maturity of more than three months from the date of purchase.

*(e) Cash and cash equivalents*
In the statement of cash flows, cash and cash equivalents include cash on hand, deposits with original maturity less than three months, call accounts held with financial institutions net of bank overdrafts. In the consolidated statement of financial position, bank overdrafts are shown within current liabilities.

**2.7.2 Recognition and derecognition**

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to statement of income as gains and losses from investment securities.

**2.7.3 Measurement**

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated statement of income.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial asset and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised as follows:

- For 'financial assets at fair value through profit or loss' – in the consolidated statement of income within other income or other expenses
- For available-for-sale – in other comprehensive income.

Dividends on financial assets at fair value through profit or loss and available-for-sale equity instruments are recognised in the consolidated statement of income as part of revenue from continuing operations when the group's right to receive payments is established.

**2.7.4 Impairment of financial assets**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

*Assets carried at amortised cost*
For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

# AL KOUT INDUSTRIAL PROJECTS COMPANY K.P.S.C. AND ITS SUBSIDIARIES KUWAIT

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
(All amounts in Kuwaiti Dinars unless otherwise stated)

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**
**2.7 Financial assets (continued)**
**2.7.4 Impairment of financial assets (continued)**
*Assets carried at amortised cost ( continued )*

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of income.

*Assets classified as available for sale*

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in consolidated statement of income.

Impairment losses on equity instruments that were recognised in consolidated statement of income are not reversed through the consolidated statement of income in a subsequent period.

**2.8 Post-employment benefits**

The Group is liable under Kuwaiti Labour Lawto make payments to the employees for post-employment benefits through a defined benefits plan. Such payment is made on a lump sum basis at the end of an employee's service. This liability is unfunded and has been computed as the amount payable as a result of involuntary termination of the Group's employees on the reporting date. The Group expects this method to produce a reliable approximation of the present value of this obligation.

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

**2.9 Financial liabilities**

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group.

All financial liabilities are initially recognised at fair value less directly attributable transaction costs. After initial recognition, financial liabilities are measured at amortised cost using the effective interest method. The Group classifies its financial liabilities as "trade and other payables" and "borrowings".

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

*Trade and other payables*
Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are classified as non-current liabilities.

*Borrowings*

Borrowings include term loan. Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of income over the period of the notes using the effective interest method. Borrowings are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are classified as non-current liabilities.

Fees paid on the establishment of facilities are recognised as transaction costs of the facilities to the extent that it is probable that some or all of the facilities will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facilities will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facilities to which it relates.

**2.10 Provisions**

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

# AL KOUT INDUSTRIAL PROJECTS COMPANY K.P.S.C. AND ITS SUBSIDIARIES KUWAIT

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**
**2.10 Provisions (continued)**

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

**2.11 Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

**2.12 Revenue recognition**

Revenue is measured at fair value of the consideration received or receivable and represents amounts receivable for good supplies, stated net of discounts for the sale of services in the ordinary course of the Group's activities. The Group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from service activities is generally recognised in the period the services are provided, using a straight-line basis over the term of the contract. Interest income is recognised as the interest accrues using the effective interest rate method, under which the rate used exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

**2.13 Leases**

*Where the Parent Company is the lessee- operating lease*
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

**2.14 Finance costs**

Finance 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, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other finance costs are recognised in the consolidated statement of income in the period in which they are incurred.

**2.15 Dividend distribution**

Dividend distribution to the parent company's shareholders is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the parent company's shareholders.

**2.16 Earnings per share**

*(a) Basic earnings per share*

Basic earnings per share is calculated by dividing:
- the profit attributable to owners of the Parent Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**
**2.16 Earnings per share ( continued )**

(b) *Diluted earnings per share*
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:
- The after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares if any, and
- The weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares if any.

**3 FINANCIAL RISK MANAGEMENT**
**3.1 Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the Group's finance department as approved by the Group's Board of Directors.

*(a) Market risk*
(1) Foreign currency risk

The Group is exposed to foreign currency risk arising from various currency exposures, primarily with respect to the US dollar and AED. Foreign currency risk arises from future commercial transactions, recognised assets and liabilities. Foreign currency risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not theGroup's functional currency. The Group manages its foreign currency risk by regularly assessing current and expected foreign currency rate movements and the Group's foreign currency exposure.

The Group had the following significant net exposures denominated in foreign currencies:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| US dollar | **981,768** | 777,641 |
| AED | **12,550** | 550,244 |

The table below indicates the Group's foreign exchange exposure as at 31 December, as a result of its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the KD currency rate against the US Dollar and AEDwith all other variables held constant, on the profit for the year.

| | ***Change in currency rate*** | ***Effect on profit and equity*** |
|---|---|---|
| ***At 31 December 2016*** | | |
| **US dollar** | **+5%** | **49,088** |
| **AED** | **+5%** | **628** |
| | | **49,716** |
| *At 31 December 2015* | | |
| US dollar | +5% | 38,882 |
| AED | +5% | 27,512 |
| | | 66,394 |

The decrease in currency rate will have the opposite effect on profit for the year and equity.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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**3 FINANCIAL RISK MANAGEMENT (CONTINUED)**
**3.1 Financial risk factors (continued)**
*(a) Market risk (continued)*

(2) Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates. Instruments issued at variable rates expose the Group to cash flow interest rates, while instruments issued at fixed rates expose the Group to fair value interest rate risk. Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on consolidated statement of income of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

The Group is exposed to interest rate risk on all interest bearing financial instruments such as term deposit and short term loan. Positions are monitored on a regular basis to ensure positions are maintained within established limits.

The risk is managed by maintaining an appropriate mix between interest bearing assets and liabilities, floating and fixed interest rates. If interest rates had been higher/lower by 100 basis points with all other variables held constant, profit for the year and equity would not have been significantly changed.

The Group does not have any off balance sheet financial instruments or derivatives which are used to manage the interest rate risk.

(3) Price risk
The group's exposure to equity securities price risk arises from investments held by the group and classified in the consolidated statement of financial position as available-for-sale financial asset.

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

The effect on profit for the year and equity (as a result of a change in the fair value of equity investmentsclassified as available for sale financial assets) atthe year-end due to an assumed 5% change in equity indices or share prices, with all other variables heldconstant, is not significant.

*(b) Credit risk*
Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation and arises principally from trade and other receivables, time deposit and cash and cash equivalents. The Group seeks to limit its credit risk with respect to bank balances by dealing with reputable banks and with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables.
Normal credit terms for customers range up to three months. Management has established a credit policy under which each new customer is analyzed individually for creditworthiness before the payment and delivery terms and conditions are offered. Credit exposure is controlled by counter party limits that are reviewed and approved by the management. The Group seeks to avoid undue concentrations of risks with individuals or groups of customers in specific locations or business through diversification of its activities.

(1) Exposure to credit risk
The carrying amount of financial assets represents the maximum credit exposure. The maximum net exposure to credit risk by class of assets at the reporting date is as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| **Loans and receivables** | | |
| Trade and other receivables | **6,312,191** | 4,999,845 |
| Time deposit | **-** | 500,000 |
| Cash and cash equivalents | **764,714** | 854,183 |
| | **7,076,905** | 6,354,028 |

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Kuwaiti Dinars unless otherwise stated)

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Financial risk factors (continued)

(2) Concentration of credit risk

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

The Group's credit risk bearing assets can be analyzed by the geographic region and the industry sector as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| ***Geographic region:*** | | |
| Kuwait and Middle East | **7,001,298** | 6,157,524 |
| Europe and Africa | **75,607** | 196,504 |
| | **7,076,905** | 6,354,028 |

| | As at 31 December | |
|---|---|---|
| ***Industry sector:*** | **2016** | 2015 |
| Trading and individual | **6,312,191** | 4,999,845 |
| Banks and other financial institutions | **764,714** | 1,354,183 |
| | **7,076,905** | 6,354,028 |

# AL KOUT INDUSTRIAL PROJECTS COMPANY K.P.S.C. AND ITS SUBSIDIARIES KUWAIT

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**3 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**3.1 Financial risk factors (continued)**

(3) Credit quality of financial instruments

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

Credit exposures classified as 'rated' quality are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low.

These include facilities to corporate entities with financial condition, risk indicators and capacity to repay which are considered to be good. Credit exposures defined as "not rated" and classified under 'standard' quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not 'impaired'. The ultimate risk of possible financial loss on "not rated" or" standard' quality is assessed to be higher than that for the exposures classified within the 'rated' quality range.

The table below shows the credit risk exposure by credit quality of financial assets by class, grade and status. Not rated assets are classified according to internal credit ratings of the counterparties. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

| | **Neither past due nor impaired** | | |
|---|---|---|---|
| | **Rated** | **Not rated** | |
| | **A+** | **Standard Grade** | **Total** |
| **At 31 December2016** | | | |
| Trade and other receivable | **-** | **3,610,557** | **3,610,557** |
| Cash and cash equivalents | **764,714** | **-** | **764,714** |
| **Total** | **764,714** | **3,610,557** | **4,375,271** |

| | Neither past due nor impaired | | |
|---|---|---|---|
| | Rated | Not rated | |
| | A+ | Standard Grade | Total |
| *At 31 December 2015* | | | |
| Trade and other receivable | - | 3,664,628 | 3,664,628 |
| Time deposit | 500,000 | - | 500,000 |
| Cash and cash equivalents | 854,183 | - | 854,183 |
| Total | 1,354,183 | 3,664,628 | 5,018,811 |

# AL KOUT INDUSTRIAL PROJECTS COMPANY K.P.S.C. AND ITS SUBSIDIARIES KUWAIT

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in Kuwaiti Dinars unless otherwise stated)

**3 FINANCIAL RISK MANAGEMENT (CONTINUED)**
**3.1 Financial risk factors (continued)**
(3) Credit quality of financial instruments (continued )

Analysis by credit quality of financial assets is as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| **Trade and other receivables (gross)** | | |
| Neither past due nor impaired: | | |
| - Trade and other receivables from customers | **3,610,557** | 3,644,628 |
| **Total neither past due nor impaired** | **3,610,557** | 3,644,628 |
| **Past due but not impaired** | | |
| - 0 to 30 days overdue | **496,918** | 472,214 |
| - More than 30 days overdue | **2,204,716** | 883,003 |
| **Total past due but not impaired** | **2,701,634** | 1,355,217 |
| **Total trade and other receivables** | **6,312,191** | 4,999,845 |
| **Time deposit neither past due nor impaired** | **-** | 500,000 |
| **Cash and cash equivalents neither past due nor impaired** | **764,714** | 854,183 |

Most of the receivables that are past due but not impaired are receivables due from governmental entities and no doubt regarding the collection of these amounts.

*(c) Liquidity risk*

Liquidity risk is the risk that the Group will encounter difficulty in meeting commitments associated with financial liabilities, arises because of the possibility (which may often be remote) that the entity could be required to pay its liabilities earlier than expected.

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain the support from the shareholders and related parties.

A summary table with maturity of liabilities presented below is used by Group's management to manage liquidity risks and is derived from managerial reports at Group level. The amounts disclosed in the below tables are the contractual undiscounted cash flows. Undiscounted cash flows in respect of balances due within 12 months are not significantly different than their carrying amounts in the consolidated statement of financial position.

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**3 FINANCIAL RISK MANAGEMENT (CONTINUED)**
**3.1 Financial risk factors (continued)**
*(c) Liquidity risk ( continued )*

| At 31 December 2016 | Within 3 months | 3 to 6 Months | Above 6 Months | Total |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Accounts payable and other liabilities | 1,684,699 | 813,926 | 428,045 | 2,926,670 |
| Short term loan | 1,000,000 | - | - | 1,000,000 |
| **Total liabilities** | **2,684,699** | **813,926** | **428,045** | **3,926,670** |
| **Contingencies (note 20)** | **1,806,404** | **622,903** | **2,036,483** | **4,465,790** |

| At 31 December 2015 | Within 3 months | 3 to 6 Months | Above 6 Months | Total |
|---|---|---|---|---|
| Liabilities | | | | |
| Accounts payable and other liabilities | 1,537,853 | 1,123,200 | 81,400 | 2,742,453 |
| Total liabilities | 1,537,853 | 1,123,200 | 81,400 | 2,742,453 |
| Contingencies (note 20) | 649,092 | 2,046,217 | 742,869 | 3,438,178 |

**3.2 Capital risk management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholder, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of distributions paid to shareholders, increase capital or sell assets to reduce debt.

Consistent with others in the industry, the shareholders monitor capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated by the Group as borrowings less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt.

As at 31 December 2016 the Group has no significant outstanding borrowings (2015: Nil).

**3.3 Fair value estimate**

The table below analyses assets carried at fair value, by valuation method. The different levels have been defined as follows:

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

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

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)
### 3.3 Fair value estimate ( continued )

| 2016 | Level 1<br>KD | Level 2<br>KD | Level 3<br>KD | Total<br>KD |
|---|---|---|---|---|
| **Available for sale financial assets:** | | | | |
| Investment in quoted equity shares | 1,765,394 | - | - | 1,765,394 |
| **Total** | 1,765,394 | - | - | 1,765,394 |

### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of the Group's accounting policies, which are described in note 2, the Group'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.

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 consolidated financial statements.

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:

*(a) Useful lives and impairment of property, plant and equipment*

The Group determines the estimated useful lives and residual values of property, plant and equipment. Management reviews the residual value over their estimated useful lives. The Group uses the straight line method to compute depreciation, to reduce the cost of assets to their estimated residual values over their expected useful lives. The useful lives of property, plant and equipment carried by the group are estimated to be between 1 and 10 years.

At the reporting date, the Group's management assesses, whether there is any indication that property, plant and equipment may be impaired. The recoverable amount of an asset is determined based on the "value-in-use" method. This method uses estimated cash flow projections over the estimated useful life of the asset.

*(b)Impairment of investment in anassociate*

After application of the equity method, the Group determines whether it is necessary to recognize any impairment loss on the Group's investment in its associated companies at each reporting date based on the existence of any objective evidence that the investment in an associateis impaired. If this is the case, the Group calculates the amount of additional impairment as the difference between the recoverable amount of the investment in the associate and its carrying value and recognizes the amount in the consolidated statement of income for the year. At the reporting date, theGroup has not taken an impairment provision against its investment in an associate (2015: Nil).

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## 5 PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Plant and machinery | Electrolyser and ED membrane | Office furniture and equipment | Motor vehicles | Capital work in progress | Total |
|---|---|---|---|---|---|---|---|
| **At 1 January 2015** | | | | | | | |
| Cost | 8,530,738 | 22,604,109 | 6,116,821 | 810,669 | 3,723,844 | 1,065,647 | 42,851,828 |
| Foreign exchange differences related to cost | 50,689 | 163,181 | - | 1,631 | 18,213 | 953 | 234,667 |
| Accumulated depreciation | (5,577,005) | (14,281,524) | (4,627,690) | (682,192) | (1,753,312) | - | (26,921,723) |
| Foreign exchange differences related to accumulated depreciation | (5,089) | (43,705) | - | (733) | (4,675) | - | (54,202) |
| **Net book amount** | **2,999,333** | **8,442,061** | **1,489,131** | **129,375** | **1,984,070** | **1,066,600** | **16,110,570** |
| **Year ended 31 December 2015** | | | | | | | |
| Opening net book amount | 2,999,333 | 8,442,061 | 1,489,131 | 129,375 | 1,984,070 | 1,066,600 | 16,110,570 |
| Additions | 23,929 | 207,204 | 1,091 | 14,399 | 306,791 | 2,783,072 | 3,336,486 |
| Disposals | - | - | - | - | (7,910) | - | (7,910) |
| Transfers | 170,677 | 1,051,589 | 280,845 | - | - | (1,503,111) | - |
| Foreign exchange difference | 37,698 | 88,377 | - | 829 | 10,640 | 9,595 | 147,139 |
| Depreciation charge for the year | (467,881) | (1,648,345) | (302,094) | (65,961) | (394,177) | - | (2,878,458) |
| Relating to disposals | - | - | - | - | 6,822 | - | 6,822 |
| **Closing net book amount** | **2,763,756** | **8,140,886** | **1,468,973** | **78,642** | **1,906,236** | **2,356,156** | **16,714,649** |
| **At 31 December 2015** | | | | | | | |
| Cost | 8,776,033 | 24,026,083 | 6,398,757 | 826,699 | 4,040,938 | 2,346,561 | 46,415,071 |
| Foreign exchange differences related to cost | 62,285 | 155,553 | - | 1,817 | 17,588 | 9,595 | 246,838 |
| Accumulated depreciation | (6,049,975) | (15,973,574) | (4,929,784) | (748,886) | (2,145,342) | - | (29,847,561) |
| Foreign exchange differences related to accumulated depreciation | (24,587) | (67,176) | - | (988) | (6,948) | - | (99,699) |
| **Net book amount** | **2,763,756** | **8,140,886** | **1,468,973** | **78,642** | **1,906,236** | **2,356,156** | **16,714,649** |

## 5 PROPERTY, PLANT AND EQUIPMENT (Continued)

| | Buildings | Plant and machinery | Electrolyser and ED membrane | Office furniture and equipment | Motor vehicles | Capital work in progress | Total |
|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2016** | | | | | | | |
| Opening net book amount | 2,763,756 | 8,140,886 | 1,468,973 | 78,642 | 1,906,236 | 2,356,156 | 16,714,649 |
| Additions | 15,857 | 123,436 | 287,367 | 13,452 | 317,664 | 3,104,958 | 3,862,734 |
| Disposal | - | (80,481) | (3,802,931) | - | (31,855) | - | (3,915,267) |
| Transfers | 1,237,211 | 2,708,881 | - | - | - | (3,946,092) | - |
| Foreign exchange difference | 10,395 | 22,479 | - | (27) | 3,605 | 20,613 | 57,065 |
| Depreciation charge for the year | (502,469) | (1,690,313) | (431,441) | (61,541) | (457,738) | - | (3,143,502) |
| Relating to disposals | - | 80,481 | 3,802,930 | - | 10,717 | - | 3,894,128 |
| **Closing net book amount** | **3,524,750** | **9,305,369** | **1,324,898** | **30,526** | **1,748,629** | **1,535,635** | **17,469,807** |
| **At 31 December 2016** | | | | | | | |
| Cost | 10,091,386 | 26,933,472 | 2,883,193 | 841,968 | 4,344,335 | 1,515,022 | 46,609,376 |
| Foreign exchange differences related to cost | 21,879 | 51,221 | - | 516 | 8,928 | 20,613 | 103,157 |
| Accumulated depreciation | (6,577,031) | (17,650,582) | (1,558,295) | (811,415) | (2,599,311) | - | (29,196,634) |
| Foreign exchange differences related to accumulated depreciation | (11,484) | (28,742) | - | (543) | (5,323) | - | (46,092) |
| **Net book amount** | **3,524,750** | **9,305,369** | **1,324,898** | **30,526** | **1,748,629** | **1,535,635** | **17,469,807** |

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
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## 5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation expense for the year is included in the consolidated statement of income as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Cost of sales of goods | **2,936,892** | 2,694,349 |
| Selling, general and administrative expenses | **206,610** | 184,109 |
| | **3,143,502** | 2,878,458 |

## 6 INVESTMENT INAN ASSOCIATE

| Name of associate | Principal activity | Place of inrporation | Ownership interest % | | Carrying Amount | |
|---|---|---|---|---|---|---|
| | | | **2016** | **2015** | **2016** | **2015** |
| Al Dorra Petroleum Services Company K.S.C. (Closed) (Al Dorra) | Petroleum services to oil and gas sector | Kuwait | **37.99%** | 37.99% | **8,936,918** | 8,620,497 |

Summarised financial information in respect of the Group's investment in its associate is set out below:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Total assets | **48,933,789** | 42,677,496 |
| Total liabilities | **23,600,048** | 18,176,661 |
| Net assets | **25,333,741** | 24,500,835 |

Reconciliation to carrying amounts:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Opening net assets 1 January | **24,500,835** | 24,683,659 |
| Profit / (Loss) for the year | **834,344** | (929,218) |
| Other comprehensive income | **(1,438)** | 746,394 |
| **Closing net assets** | **25,333,741** | 24,500,835 |
| Group share in % | 37.99% | 37.99% |
| Share of associate's net assets | **9,624,288** | 9,307,867 |
| Impairment losses recognised in prior years | **(687,370)** | (687,370) |
| Carrying amount as of 31 December | **8,936,918** | 8,620,497 |

# AL KOUT INDUSTRIAL PROJECTS COMPANY K.P.S.C. AND ITS SUBSIDIARIES KUWAIT

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Kuwaiti Dinars unless otherwise stated)

### 6 INVESTMENT INAN ASSOCIATE ( CONTINUED )

During the year, the Group has recorded share of result gain of KD 316,967 (2015: loss of KD 1,040,380). The carrying value of the Group's investment in the associate is determined to be its recoverable amount, which is determined based on the value in use using discount rate of 11.25 % and terminal growth rate of 2%. If the estimated discount rate had been 0.75% higher than management's estimate (for example, 12% instead of 11.25%), the recoverable amount of the associate will be lower by KD 773 thousands, resulting in impairment loss.

### 7 AVAILABLE-FOR-SALE FINANCIAL ASSET

Available- for-sale financial asset represents investment in quoted equity security. The fair value of this security is based on year end bid price in an active market.

### 8 INVENTORIES

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Finished goods | **315,987** | 257,143 |
| Raw materials | **315,311** | 422,902 |
| Spare parts | **1,041,351** | 950,796 |
| | **1,672,649** | 1,630,841 |

### 9 TRADE AND OTHER RECEIVABLES

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Trade receivables | **6,144,782** | 4,917,022 |
| Advances | **354,561** | 489,684 |
| Prepayments | **130,191** | 205,444 |
| Other receivables | **167,409** | 82,823 |
| **Total** | **6,796,943** | 5,694,973 |

As of 31 December 2016, the carrying value of trade and other receivables approximates their fair values. During the year, trade receivables with an amount of KD 50,738 have been written off (2015: Nil).

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Kuwaiti Dinars | **6,017,666** | 5,119,981 |
| US dollars | **764,917** | 556,030 |
| United Arab Emirates Dirahms | **14,360** | 18,962 |
| **Total** | **6,796,943** | 5,694,973 |

# AL KOUT INDUSTRIAL PROJECTS COMPANY K.P.S.C. AND ITS SUBSIDIARIES KUWAIT

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Kuwaiti Dinars unless otherwise stated)

### 10 CASH AND CASH EQUIVALENTS

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Cash on hand | **10,565** | 12,263 |
| Cash at banks | **764,714** | 854,136 |
| Cash in portfolio | **-** | 47 |
| **Cash and cash equivalents** | **775,279** | 866,446 |

### 11 Post-employment benefits

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

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Provision as at 1 January | **1,627,332** | 1,511,420 |
| Provided during the year | **262,843** | 230,647 |
| End of service benefits paid | **(118,124)** | (114,735) |
| **Provision as at 31 December** | **1,772,051** | 1,627,332 |

### 12 TRADE AND OTHER PAYABLES

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Trade payables | **1,441,927** | 1,201,122 |
| Advance from customers | **71,863** | 136,222 |
| Accrual expenses | **987,571** | 926,510 |
| Tax payable | **425,309** | 478,599 |
| | **2,926,670** | 2,742,453 |

### 13 SHORT TERM LOAN

Short term loan provided from a local bank andbears a floating interest rate of 0.75% (31 December 2015: Nil) per annum above Central Bank of Kuwait discount rate. The loan is denominated in KD.

The carrying value of short term loan approximates its fair value.

# AL KOUT INDUSTRIAL PROJECTS COMPANY K.P.S.C. AND ITS SUBSIDIARIES KUWAIT

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
(All amounts in Kuwaiti Dinars unless otherwise stated)

## 14 SHARE CAPITAL

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Authorised, issued and fully paid 100,900,800 (December 31, 2015: 97,020,000) shares of nominal value of 100 fils each paid in cash | **10,090,080** | 9,702,000 |

## 15 STATUTORY RESERVE

In accordance with the Companies' Law No. 1 of 2016, and the ParentCompany's Memorandum and Articles of Association, as amended, 10% of the profit for the year before KFAS, NLST, Zakat and directors' remuneration is required to be transferred to the statutory reserve until the reserve totals 50% of the paid up share capital. Distribution of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when retained earnings are not sufficient for the payment of a dividend of that amount. During the year, an amount of KD nil(2015: KD 561,386) was transferred from the current year profit to the statutory reserve.

## 16 VOLUNTARY RESERVE

In accordance with the ParentCompany's Memorandum and Articles of Association, as amended, 10% of the profit for the year before KFAS, NLST, Zakat and director's remuneration is required to be transferred to the voluntary reserve. This transfer may be discontinued by a resolution adopted by the ordinary assembly of the shareholders as recommendation by the Board of Directors'. There are no restrictions on the distribution of the voluntary reserve. During the year, an amount of KD nil(2015: KD 561,386)was transferred from the current year profit to the voluntary reserve.

## 17 GENERAL AND ADMINISTRATIVE EXPENSES

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Salaries and other direct employee allowances | **1,063,657** | 972,746 |
| Depreciation | **71,809** | 77,956 |
| Rent expense | **49,165** | 48,645 |
| Bad debt expense | **46,475** | - |
| Others | **311,370** | 376,514 |
| | **1,542,476** | 1,475,861 |

## 18 EARNINGS PER SHARE (BASIC AND DILUTED)

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Earnings per share is calculated as follows: | | |
| Profit for the year (KD) | **5,838,391** | 5,298,489 |
| Weighted average number of outstanding shares | **100,900,800** | 100,900,800 |
| **Earnings per share (Basic and diluted) (fils)** | **57.86** | 52.51 |

Earnings per share for the comparative year have been restated to reflect the bonus shares dividend issued during the year.

# AL KOUT INDUSTRIAL PROJECTS COMPANY K.P.S.C. AND ITS SUBSIDIARIES KUWAIT

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
(All amounts in Kuwaiti Dinars unless otherwise stated)

## 19 RELATED PARTY TRANSACTIONS

Related parties consists of shareholders, directors, key management personnel and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management. Related party transactions are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| **Key management compensation** | | |
| Salaries and other short-term benefits | **403,411** | 367,365 |
| Executive committee benefits | **60,000** | 60,000 |
| Post-employment benefits | **43,867** | 40,828 |
| | **507,278** | 468,193 |

## 20 ANNUAL GENERAL ASSEMBLY MEETING

The Board of Directors proposed 50% cash dividends of the paid up share capital for the year ended 31 December 2016. This proposal is subject to the approval of the shareholders in the Annual General Assembly and has not been accounted for in these consolidated financial statements.

The Annual General Assembly meeting of shareholders held on 25 April 2016approved the consolidated financial statements of the Group for the year ended 31 December 2015, and approved a cash dividend equivalent to 40% of the paid up share capital for the year ended 31 December 2015 (2014: 40%) to the shareholders of record as of the date of the Annual General Assembly, and also approved an issue of bonus shares for the year ended 31 December 2015 in the ratio of one share for every twenty five shares held (2014: one share to ten shares held)and to distribute directors' remuneration of KD 70,000 (2014: KD 70,000).

## 21 SEGMENT INFORMATION

The Board of Directors is the Group's chief operating decision maker. Management has determined the operating segments based on the information reviewed by the Board of Directors for the purposes of allocating resources and assessing performance. The management has grouped the Group's products and services into the following operating segments:

- Chlor Alkali
- Petrochemical products
- Logistics and Transport
- Investments

**Segment revenue and results**
The following is an analysis of the Group's revenue and results by reportable segments:

| | Revenue | | Segment result | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Chlor Alkali | **15,831,834** | 17,057,614 | **7,519,873** | 8,388,679 |
| Petrochemical products | **1,050,154** | 841,506 | **67,790** | 62,688 |
| Logistics and transport | **249,395** | 219,081 | **5,384** | 4,184 |
| Investments | **-** | - | **316,967** | (1,040,380) |
| | **17,131,383** | 18,118,201 | **7,910,014** | 7,415,171 |
| Other income | | | **370,012** | 145,460 |
| Finance costs | | | **(18,552)** | (18,529) |
| Unallocated expenses | | | **(2,423,083)** | (2,243,613) |
| Profit for the year | | | **5,838,391** | 5,298,489 |

# AL KOUT INDUSTRIAL PROJECTS COMPANY K.P.S.C. AND ITS SUBSIDIARIES KUWAIT

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Kuwaiti Dinars unless otherwise stated)

### 21 SEGMENT INFORMATION (CONTINUED)

**Segment revenue and results ( continued )**

| | Year end 31 December | |
|---|---|---|
| | **2016** | 2015 |
| **Geographical segments** | | |
| Kuwait and Middle East | **16,072,844** | 17,110,451 |
| Europe and Africa | **806,646** | 839,169 |
| Asia | **251,893** | 168,581 |
| Total consolidated segment revenue | **17,131,383** | 18,118,201 |

**Segment assets and liabilities**

For the purposes of monitoring segment performance and allocating resources between segments:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| **Segment assets** | | |
| Chlor Alkali | **24,343,633** | 23,676,772 |
| Petrochemical products | **819,281** | 163,061 |
| Logistics and transport | **1,551,764** | 1,567,076 |
| Investments | **10,702,312** | 8,620,497 |
| Total consolidated segment assets | **37,416,990** | 34,027,406 |
| **Segment liabilities** | | |
| Chlor Alkali | **5,108,594** | 3,973,351 |
| Petrochemical Products | **321,598** | 143,262 |
| Logistics and transport | **268,529** | 253,172 |
| Total consolidated segment liabilities | **5,698,721** | 4,369,785 |

### 22 COMMITMENTS AND CONTINGENT LIABILITIES

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| **Capital commitments** | | |
| For the acquisition of property, plant and equipment | **539,007** | 998,202 |
| **Contingent liabilities** | | |
| Letters of guarantee | **4,067,565** | 3,261,184 |
| Letters of credit | **398,225** | 176,994 |
| | **4,465,790** | 3,438,178 |

## 22 COMMITMENTS AND CONTINGENT LIABILITIES ( CONTINUED )

**Operating lease commitments**

The minimum operating lease commitments under non-cancellable operating leases are as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Not later than one year | **50,887** | 189,435 |
| Later than one year but not later than five years | **101,826** | 112,648 |