

Interim condensed consolidated financial information and review report
Arzan Financial Group for Financing and Investment – KPSC
and its Subsidiaries

Kuwait

31 March 2017 (Unaudited)

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Al-Qatami, Al-Aiban & Partners

Auditors & Consultants

Souq Al Kabeer Building, Block A, 9th Floor
P.O.Box 2986, Safat 13030, Kuwait
Tel: (965)2244 3900-9
Fax: (965) 2243 8451
E-mail: gt@kw.gt.com
www.grantthornton.com.kw

Rödl

Middle East

Burgan – International Accountants

Ali Al Hassawi & Partners

P.O. Box: 22351 Safat 13084 Kuwait
Sharq – Dasman Complex – Block 2 – 9 Floor
22464574-6 /22426862-3 Fax: Tel 22414956
Email: info-kuwait@rodime.com

Report on review of interim condensed consolidated financial information

To the board of directors of
Arzan Financial Group for Financing and Investment - KPSC
Kuwait

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Arzan Financial Group for Financing and Investment - KPSC (a Kuwaiti Public Shareholding Company) (the “parent company”) and its subsidiaries (together the “group”) as at 31 March 2017 and the related interim condensed consolidated statement of profit or loss, interim condensed consolidated statement of profit or loss and other comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the three-month period then ended. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with the basis of presentation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity.” A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with the basis of presentation set out in Note 2.

Report on review of other legal and regulatory requirements

Based on our review, the interim condensed consolidated financial information is in agreement with the books of the parent company. We further report that, to the best of our knowledge and belief, no violations of the Companies Law No.1 of 2016 and its executive regulations, or of the Articles of Association and Memorandum of Incorporation of the parent company, as amended, have occurred during the three-month period ended 31 March 2017 that might have had a material effect on the business or financial position of the parent company.

We also report that during our review and to the best of our knowledge and belief, nothing has come to our attention that indicates any material violations to Law No. (7) of 2010, as amended, relating to the Capital Markets Authority and the instructions thereto, during the three-month period ended 31 March 2017.

We further report that, during the course of our review, we have not become aware of any material violations during the three-month period ended 31 March 2017 of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations.

Anwar Y. Al-Qatami, F.C.C.A.
(Licence No. 50-A)
of Grant Thornton – Al-Qatami, Al-Aiban & Partners

Ali A. Al-Hasawi
(Licence No. 30-A)
of Rödl Middle East
Burgan – International Accountants

Interim condensed consolidated statement of profit or loss

| | Notes | Three months ended 31 March 2017 (Unaudited) | Three months ended 31 March 2016 (Unaudited) |
|--|-------|---|---|
| | | KD | KD |
| Revenue | | | |
| Income from instalment credit debtors | | 375,935 | 545,819 |
| Rental income | | 38,444 | 79,168 |
| Interest income | | 158,205 | 108,816 |
| Profit/(loss) on sale of investments at fair value through profit or loss | | 110,890 | (38,548) |
| Change in fair value of investments at fair value through profit or loss | | 420,340 | (454,470) |
| Profit/(loss) on sale of available for sale investments | | 21,582 | (813) |
| Share of results of associates | 10 | (213,279) | 763,008 |
| Dividend income | | 1,030,916 | 1,021,865 |
| Brokerage income | | 63,364 | 94,263 |
| Advisory fees | | 217,318 | 590,246 |
| Foreign exchange gain/(loss) | | 15,016 | (92,465) |
| Other income | | 49,037 | 136,432 |
| | | 2,287,768 | 2,753,321 |
| Expenses and other charges | | | |
| Staff costs | | (536,748) | (727,041) |
| General and administrative expenses | | (532,946) | (461,160) |
| Finance costs | | (378,944) | (245,957) |
| Provision for instalment credit debtors | | (51,859) | (48,337) |
| Depreciation | | (116,147) | (74,193) |
| Impairment of available for sale investments | | (68,355) | - |
| | | (1,684,999) | (1,556,688) |
| Profit for the period before provisions for contribution to KFAS, National Labour Support Tax and Zakat | | | |
| | | 602,769 | 1,196,633 |
| Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) | | (1,476) | - |
| Provision for National Labour Support Tax (NLST) | | (2,734) | (26,140) |
| Provision for Zakat | | - | (1,277) |
| Profit for the period | | 598,559 | 1,169,216 |
| Attributable to: | | | |
| Shareholders of the parent company | | 608,242 | 631,806 |
| Non-controlling interests | | (9,683) | 537,410 |
| Profit for the period | | 598,559 | 1,169,216 |
| Basic and diluted earnings per share attributable to the shareholders of the parent company (Fils) | | | |
| | 5 | 0.763 | 0.793 |

The notes set out on pages 8 to 24 form an integral part of this interim condensed consolidated financial information.

Interim condensed consolidated statement of profit or loss and other comprehensive income

| | Three months ended 31 March 2017 (Unaudited) KD | Three months ended 31 March 2016 (Unaudited) KD |
|--|---|---|
| Profit for the period | 598,559 | 1,169,216 |
| Other comprehensive income/(loss): | | |
| <i>Items that will be reclassified subsequently to interim condensed consolidated statement of profit or loss:</i> | | |
| Exchange differences arising on translation of foreign operations | 321,307 | (334,393) |
| Available for sale investments: | | |
| - Net change in fair value arising during the period | 1,210,335 | (1,527,462) |
| - Transferred to interim condensed consolidated statement of profit or loss on impairment | 68,355 | - |
| Total other comprehensive income/(loss) for the period | 1,599,997 | (1,861,855) |
| Total comprehensive income/(loss) for the period | 2,198,556 | (692,639) |
| Attributable to: | | |
| Shareholders of the parent company | 1,926,339 | (962,765) |
| Non-controlling interests | 272,217 | 270,126 |
| | 2,198,556 | (692,639) |

The notes set out on pages 8 to 24 form an integral part of this interim condensed consolidated financial information.

Interim condensed consolidated statement of financial position

| | Notes | 31 March 2017 (Unaudited) KD | 31 Dec. 2016 (Audited) KD | 31 March 2016 (Unaudited) KD |
|--|-------|---------------------------------------|------------------------------------|---------------------------------------|
| Assets | | | | |
| Cash and cash equivalents | 6 | 7,639,730 | 10,103,929 | 7,443,721 |
| Instalment credit debtors | 7 | 10,464,798 | 11,118,653 | 12,930,376 |
| Investments at fair value through profit or loss | 8 | 7,511,091 | 6,814,873 | 6,164,647 |
| Accounts receivable and other assets | | 5,608,171 | 5,821,949 | 4,860,505 |
| Due from related parties | 18 | 1,315,811 | 1,104,711 | 741,882 |
| Properties held for trading | | 1,313,947 | 1,313,947 | 1,313,947 |
| Available for sale investments | 9 | 103,382,962 | 98,812,690 | 94,072,668 |
| Investment in associates | 10 | 46,860,325 | 47,347,791 | 50,739,380 |
| Investment in real estate under development | | 4,180,940 | 4,180,940 | 4,108,650 |
| Investment properties | | 1,757,999 | 1,772,684 | 1,817,821 |
| Property and equipment | | 3,121,389 | 3,217,772 | 3,404,991 |
| Total assets | | 193,157,163 | 191,609,939 | 187,598,588 |
| Liabilities and equity | | | | |
| Liabilities | | | | |
| Due to banks | 11 | 4,384,966 | 3,847,752 | 2,936,541 |
| Accounts payable and other liabilities | | 7,274,050 | 7,092,993 | 7,445,608 |
| Due to related parties | 18 | 84,549 | 191,888 | 209,331 |
| Term loans | 12 | 18,420,000 | 18,730,000 | 13,360,000 |
| Murabaha payable | 13 | 7,115,154 | 8,085,878 | 9,899,135 |
| Provision for employees' end of service benefits | | 944,039 | 925,579 | 802,596 |
| Total liabilities | | 38,222,758 | 38,874,090 | 34,653,211 |
| Equity | | | | |
| Share capital | | 80,288,257 | 80,288,257 | 80,288,257 |
| Share premium | | 23,803,273 | 23,803,273 | 27,142,826 |
| Treasury shares | 14 | (559,233) | (559,233) | (559,233) |
| Legal reserve | | 69,034 | 69,034 | 375,497 |
| Voluntary reserve | | 69,034 | 69,034 | 375,497 |
| Foreign currency translation reserve | | (1,062,299) | (1,101,706) | (249,593) |
| Fair value reserve | | 7,327,047 | 6,048,357 | 4,025,208 |
| Retained earnings/(accumulated losses) | | 1,189,182 | 580,940 | (3,435,086) |
| Total equity attributable to the shareholders of the parent company | | 111,124,295 | 109,197,956 | 107,963,373 |
| Non-controlling interests | | 43,810,110 | 43,537,893 | 44,982,004 |
| Total equity | | 154,934,405 | 152,735,849 | 152,945,377 |
| Total liabilities and equity | | 193,157,163 | 191,609,939 | 187,598,588 |



Jassem Hasan Zainal
Vice chairman and CEO

The notes set out on pages 8 to 24 form an integral part of this interim condensed consolidated financial information.

Interim condensed consolidated statement of changes in equity

Equity attributable to the shareholders of the parent company

| | Share capital KD | Share premium KD | Treasury shares KD | Legal reserve KD | Voluntary reserve KD | Foreign currency translation reserve KD | Fair value reserve KD | Retained earnings KD | Sub-Total KD | Non-controlling interests KD | Total KD |
|---|---------------------|---------------------|-----------------------|---------------------|-------------------------|--|--------------------------|-------------------------|-----------------|---------------------------------|-------------|
| Balance at 1 January 2017 (audited) | 80,288,257 | 23,803,273 | (559,233) | 69,034 | 69,034 | (1,101,706) | 6,048,357 | 580,940 | 109,197,956 | 43,537,893 | 152,735,849 |
| Profit/(loss) for the period | - | - | - | - | - | - | - | 608,242 | 608,242 | (9,683) | 598,559 |
| Other comprehensive income: | | | | | | | | | | | |
| Exchange differences arising on translation of foreign operations | - | - | - | - | - | 39,407 | - | - | 39,407 | 281,900 | 321,307 |
| Available for sale investments: | | | | | | | | | | | |
| - Net change in fair value arising during the period | - | - | - | - | - | - | 1,210,335 | - | 1,210,335 | - | 1,210,335 |
| - Transferred to interim condensed consolidated statement of profit or loss on impairment | - | - | - | - | - | - | 68,355 | - | 68,355 | - | 68,355 |
| Total other comprehensive income for the period | - | - | - | - | - | 39,407 | 1,278,690 | - | 1,318,097 | 281,900 | 1,599,997 |
| Total comprehensive income for the period | - | - | - | - | - | 39,407 | 1,278,690 | 608,242 | 1,926,339 | 272,217 | 2,198,556 |
| Balance at 31 March 2017 (unaudited) | 80,288,257 | 23,803,273 | (559,233) | 69,034 | 69,034 | (1,062,299) | 7,327,047 | 1,189,182 | 111,124,295 | 43,810,110 | 154,934,405 |

The notes set out on pages 8 to 24 form an integral part of this interim condensed consolidated financial information.

Interim condensed consolidated statement of changes in equity (continued)

Equity attributable to the shareholders of the parent company

| | Share capital KD | Share premium KD | Treasury shares KD | Legal reserve KD | Voluntary reserve KD | Foreign currency translation reserve KD | Fair value reserve KD | Retained earnings/ (accumulated losses) KD | Sub-Total KD | Non-controlling interests KD | Total KD |
|---|---------------------|---------------------|-----------------------|---------------------|-------------------------|--|--------------------------|---|-----------------|---------------------------------|-------------|
| Balance at 1 January 2016 (audited) | 80,288,257 | 27,142,826 | (559,233) | 375,497 | 375,497 | (182,484) | 5,552,670 | (4,090,547) | 108,902,483 | 44,735,533 | 153,638,016 |
| Effect of change in ownership percentage of a subsidiary | - | - | - | - | - | - | - | 23,655 | 23,655 | (23,655) | - |
| Transactions with shareholders | - | - | - | - | - | - | - | 23,655 | 23,655 | (23,655) | - |
| Profit for the period | - | - | - | - | - | - | - | 631,806 | 631,806 | 537,410 | 1,169,216 |
| Other comprehensive loss: | | | | | | | | | | | |
| Exchange differences arising on translation of foreign operations Available for sale investments: | - | - | - | - | - | (67,109) | - | - | (67,109) | (267,284) | (334,393) |
| - Net change in fair value arising during the period | - | - | - | - | - | - | (1,527,462) | - | (1,527,462) | - | (1,527,462) |
| Total other comprehensive loss for the period | - | - | - | - | - | (67,109) | (1,527,462) | - | (1,594,571) | (267,284) | (1,861,855) |
| Total comprehensive (loss)/income for the period | - | - | - | - | - | (67,109) | (1,527,462) | 631,806 | (962,765) | 270,126 | (692,639) |
| Balance at 31 March 2016 (unaudited) | 80,288,257 | 27,142,826 | (559,233) | 375,497 | 375,497 | (249,593) | 4,025,208 | (3,435,086) | 107,963,373 | 44,982,004 | 152,945,377 |

The notes set out on pages 8 to 24 form an integral part of this interim condensed consolidated financial information.

Interim condensed consolidated statement of cash flows

| | Note | Three months ended 31 March 2017 (Unaudited) KD | Three months ended 31 March 2016 (Unaudited) KD |
|--|----------|---|---|
| OPERATING ACTIVITIES | | | |
| Profit for the period | | 598,559 | 1,169,216 |
| Adjustments: | | | |
| Interest income | | (158,205) | (108,816) |
| Dividend income | | (1,030,916) | (1,021,865) |
| Impairment of available for sale investments | | 68,355 | - |
| (Profit)/loss on sale of available for sale investments | | (21,582) | 813 |
| Share of results of associates | | 213,279 | (763,008) |
| Provision for instalment credit debtors | | 51,859 | 48,337 |
| Finance costs | | 378,944 | 245,957 |
| Depreciation | | 116,147 | 74,193 |
| Provision for employees' end of service benefits | | 29,606 | 71,235 |
| | | 246,046 | (283,938) |
| Changes in operating assets and liabilities: | | | |
| Instalment credit debtors | | 601,996 | 516,028 |
| Investments at fair value through profit or loss | | (696,218) | 555,627 |
| Accounts receivable and other assets | | 213,778 | 1,919,666 |
| Due from / to related parties | | (318,439) | (151,007) |
| Accounts payable and other liabilities | | 181,056 | (368,993) |
| Employees' end of service benefits paid | | (11,146) | (73,653) |
| Net cash from operating activities | | 217,073 | 2,113,730 |
| INVESTING ACTIVITIES | | | |
| Purchase of available for sale investments | | (3,359,939) | (5,177,020) |
| Proceeds from sale of available for sale investments | | 21,582 | 1,149,206 |
| Dividend income received | | 1,030,916 | 1,021,865 |
| Dividend from associate | | 442,355 | 452,586 |
| Interest income received | | 158,205 | 108,816 |
| Net cash used in investing activities | | (1,706,881) | (2,444,547) |
| FINANCING ACTIVITIES | | | |
| Net change in due to banks | | 537,214 | 1,274,640 |
| Net (decrease)/increase in term loans | | (310,000) | 590,000 |
| Repayment of murabaha payable | | (970,724) | (924,403) |
| Payments from acquisition of partial interests in subsidiaries | | - | (188,734) |
| Finance costs paid | | (378,944) | (245,957) |
| Net cash (used in)/from financing activities | | (1,122,454) | 505,546 |
| Net (decrease)/increase in cash and cash equivalents | | (2,612,262) | 174,729 |
| Foreign currency adjustment | | 148,063 | (38,648) |
| Cash and cash equivalents at beginning of the period | 6 | 10,103,929 | 7,307,640 |
| Cash and cash equivalents at end of the period | 6 | 7,639,730 | 7,443,721 |

The notes set out on pages 8 to 24 form an integral part of this interim condensed consolidated financial information.

Notes to the interim condensed consolidated financial information

1 Incorporation and activities

Arzan Financial Group for Financing and Investment – KPSC (the “parent company”) was incorporated in Kuwait on 15 April 1980 in accordance with the Companies Law under the name of International Transport Equipment Company – KSC (Closed). On 14 December 1996 an extraordinary general assembly resolved to change the name of the parent company to International Murabaha Company – KSC (Closed). Later, on 24 April 2002 an extraordinary general assembly resolved to change the name of the parent company to International Finance Company – KPSC and to expand its permitted activities.

The extraordinary general assembly held on 24 July 2013 approved to change the name of the parent company from International Finance Company – KSCC to Arzan Financial Group for Financing and Investment – KPSC which has been registered in the commercial register under No. 29629 on 11 November 2013.

The parent company is listed on the Kuwait Stock Exchange and is governed under the directives of Central Bank of Kuwait and Capital Markets Authority.

The group comprises the parent company and its subsidiaries (together referred as “the group”).

The parent company’s objectives are as follows:

- Invest in various economic sectors through the incorporation or participation in the incorporation of various companies or institutions practicing similar or complementary activities to the company’s objectives for its account and for the account of third parties inside or outside the State of Kuwait.
- Manage local or foreign various companies and institutions and market the investment services and products owned by them or by third parties inside or outside the State of Kuwait.
- Own and acquire the right of disposal of whatever it deems necessary thereto of movable and immovable property or any parts thereof or any franchising rights the company deems they are necessary or appropriate to the nature of its activity or to the development of its funds, excluding trading in goods for its account.
- Conduct all business related to securities trading for its account and for the account of third parties inside or outside the State of Kuwait, including sale, purchase and marketing of securities of shares and sukks and other securities issued by local and foreign government and private companies, institutions and bodies and practice the related financial mediation and brokerage activities.
- Manage the funds of individuals and local or foreign public and private companies, institutions and bodies and invest these funds in various economic sectors through investment and real estate portfolios inside or outside the State of Kuwait.
- Provide economic advice related to investment and hold courses, issue brochures of various investment activities for individuals, local and foreign companies and institutions.
- Prepare and provide technical, economic and assessment studies and consultations and prepare feasibility studies for various investment activities and other studies, examining the technical, financial and administrative aspects related to these activities for its account or for the account of third parties inside or outside the State of Kuwait.

Notes to the interim condensed consolidated financial information (continued)

1 Incorporation and activities (continued)

- Establish and manage the collective investment systems and local and foreign investment funds of all kinds and contribute to their establishment for the account of the company and for the account of third parties in accordance with the regulating laws, rules and conditions specified by the competent regulatory authorities; put its stakes or units to subscription so that the company's contributions to the share capital of the collective investment system or the investment fund shall not be less than the minimum limit specified by the regulatory authorities; sell or purchase stakes or units in the local or foreign collective investment systems or investment funds for its account and for the account of third parties or market same, provided the necessary approvals are obtained from the competent regulatory authorities; act as investment custodian, investment monitor and investment advisor in general for the investment funds inside or outside the State of Kuwait in accordance with the regulating laws.
- Invest funds for its account and for the account of third parties in the various aspects of investment inside or outside the State of Kuwait and acquire movable and immovable assets.
- Act as the issuance manager for the securities issued by the local and foreign government and private companies, institutions and bodies and act as the subscription agent, listing advisor, investment custodian and monitor, including publications management and commitments of subscription operations management, receiving applications and covering subscription thereto.
- Perform all advisory services that help develop and strengthen the ability of financial and monetary market in the State of Kuwait and meet its requirements within the limits of the law and the decisions or instructions issued by the competent regulatory authorities (after obtaining the necessary approvals from those authorities), provided this does not result in granting funding by the company in any way.
- Mediate in financing operations, structure and manage the financing arrangements of the local and international companies, institutions, bodies and projects in the various economic sectors in accordance with the rules and conditions specified by the competent regulatory authorities.
- Carry out all the works related to the activities for the arrangement and management of consolidation, acquisition and separation operations for the local and foreign government and private companies, institutions and bodies.
- Trade in transportation means and related heavy equipment.
- Finance the purchases of capital goods, durable and non-durable goods.
- Lease capital and durable goods.
- Grant short and medium term loans to natural and judicial persons.
- Perform real estate investment operations aiming at the management and development of residential lands and building of residential and commercial units and complexes for the purpose of selling them in cash or on installments or leasing same.
- Manage all kinds of financial portfolios, invest and develop funds by employing them locally and internationally for the account of the company or for the account of its clients, in addition to lending and borrowing operations.

Notes to the interim condensed consolidated financial information (continued)

1 Incorporation and activities (continued)

- Mediate in the operations of lending, borrowing, brokerage and warrantees against commission or pay.
- Finance and mediate in international and local trade operations.
- Manage and create mutual investment funds according to the law and after approval by the competent authorities.
- Mediate in investment in the international instruments and securities.
- Invest in real estate, industrial and agricultural sectors and other economic sectors, whether directly or through contribution to the incorporation of specialized companies or purchase of the shares of these companies.
- Sell and purchase foreign currencies and trade in precious metals only for the account of the company.
- Conduct researches and studies for private and public real estate projects and for the employment of funds for its account or for the account of third parties.
- Trade in securities such as shares and investment certificates and the like.

The company may have an interest or participate in any aspect with the companies, institutions and bodies performing similar works or which might assist it in the achievement of its objectives in Kuwait or abroad. The company may also open branches inside and outside the State of Kuwait in such a way that does not contradict with the company's law and the instructions of the competent regulatory authorities.

The address of the parent company's registered office is PO Box 26442, Safat 13125, State of Kuwait.

The parent company's board of directors approved this interim condensed consolidated financial information for issue on 21 May 2017.

2 Basis of presentation

The interim condensed consolidated financial information of the group for the three-month period ended 31 March 2017 has been prepared in accordance with IAS 34, "Interim Financial Reporting", except for regulations of the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait (CBK) as noted below.

These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the IAS 39 requirement for collective impairment provision, which has been replaced by the CBK's requirement for a minimum general provision. The impairment provision for loans and advances complies in all material respects with the specific provision requirements of the CBK and IFRS. According to the CBK requirements the basis of making general provisions on facilities at the rate of 1% for cash facilities and 0.5% for non cash facilities.

The accounting policies used in the preparation of the interim condensed consolidated financial information are consistent with those used in preparation of audited consolidated financial statements for the year ended 31 December 2016, except for adoption of relevant new standards, amendments to certain standards and interpretations discussed below.

Notes to the interim condensed consolidated financial information (continued)

2 Basis of presentation (continued)

This interim condensed consolidated financial information is presented in Kuwaiti Dinars (KD) which is the functional currency of the parent company.

This interim condensed consolidated financial information does not include all information and disclosures required for complete financial statements prepared in accordance with the International Financial Reporting Standards. In the opinion of management, all adjustments consisting of normal recurring accruals considered necessary for a fair presentation have been included.

Operating results for the interim period are not indicative of the results that may be expected for the year ending 31 December 2017. For further details, refer to the consolidated financial statements and their related disclosures for the year ended 31 December 2016.

3 Changes in accounting policies

3.1 New and amended standards adopted by the Group

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2017 which have been adopted by the Group but did not have any significant impact on the financial position or the results for the period. Information on these new standards is presented below:

| <i>Standard or Interpretation</i> | <i>Effective for annual periods beginning</i> |
|--|---|
| IAS 7 Statement of Cash Flows- Amendments | 1 January 2017 |
| Annual Improvements to IFRSs 2014-2016 Cycle | 1 January 2017 |

IAS 7 Statement of Cash Flows- Amendments

The Amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and noncash changes)

The Amendments:

- require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgement when determining the exact form and content of the disclosures needed to satisfy this requirement
- suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including:
 - changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses
 - a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

Annual Improvements to IFRSs 2014-2016 Cycle

Amendments to IFRS 12 - Clarifies the scope of IFRS 12 by specifying that its disclosure requirements (except for those in IFRS 12. B17) apply to an entity's interests irrespective of whether they are classified (or included in a disposal group that is classified) as held for sale or as discontinued operations in accordance with IFRS 5.

Notes to the interim condensed consolidated financial information (continued)

3 Changes in accounting policies (continued)

3.2 IASB Standards issued but not yet effective

At the date of authorisation of this interim consolidated financial information, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the group.

Management anticipates that all of the relevant pronouncements will be adopted in the group's accounting policies for the first period beginning after the effective date of the pronouncements. Information on new standards, amendments and interpretations that are expected to be relevant to the group's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the group's interim consolidated financial information.

| <i>Standard or Interpretation</i> | <i>Effective for annual periods beginning</i> |
|---|---|
| IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments | No stated date |
| IFRS 9 Financial Instruments: Classification and Measurement | 1 January 2018 |
| IFRS 15 Revenue from Contracts with Customers | 1 January 2018 |
| IFRS 16 Leases | 1 January 2019 |
| IAS 40 Investment Property – Amendments | 1 January 2018 |
| Annual Improvements to IFRSs 2014-2016 Cycle | 1 January 2018 |
| IFRIC 22 Foreign Currency Transactions and Advance Consideration | 1 January 2018 |

IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments

The Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows:

- require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations)
- require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognised only to the extent of the unrelated investors' interests in that associate or joint venture.

These requirements apply regardless of the legal form of the transaction, e.g. whether the sale or contribution of assets occurs by an investor transferring shares in a subsidiary that holds the assets (resulting in loss of control of the subsidiary), or by the direct sale of the assets themselves.

IASB has postponed the effective date indefinitely until other projects are completed. However, early implementation is allowed.

IFRS 9 Financial Instruments

The IASB published IFRS 9 'Financial Instruments' (2014), representing the completion of its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

Notes to the interim condensed consolidated financial information (continued)

3 Changes in accounting policies (continued)

3.2 IASB Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

Management has started to assess the impact of IFRS 9 but is not yet in a position to provide quantified information. At this stage the main areas of expected impact are as follows:

- the classification and measurement of the financial assets will need to be reviewed based on the new criteria that considers the assets' contractual cash flows and the business model in which they are managed.
- an expected credit loss-based impairment will need to be recognised on the trade receivables and investments in debt-type assets currently classified as available for sale and held-to-maturity, unless classified as at fair value through profit or loss in accordance with the new criteria.
- it will no longer be possible to measure equity investments at cost less impairment and all such investments will instead be measured at fair value. Changes in fair value will be presented in profit or loss unless an irrevocable designation is made to present them in other comprehensive income.
- if the fair value option continues to be elected for certain financial liabilities, fair value movements will be presented in other comprehensive income to the extent those changes relate to own credit risk.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaced IAS 18 "Revenues", IAS 11 "Construction Contract" and several revenue – related Interpretations and provides a new control-based revenue recognition model using five-step approach to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

The standard includes important guidance, such as

- Contracts involving the delivery of two or more goods or services – when to account separately for the individual performance obligations in a multiple element arrangement, how to allocate the transaction price, and when to combine contracts
- Timing – whether revenue is required to be recognized over time or at a single point in time
- Variable pricing and credit risk – addressing how to treat arrangements with variable or contingent (e.g. performance-based) pricing, and introducing an overall constraint on revenue

Notes to the interim condensed consolidated financial information (continued)

3 Changes in accounting policies (continued)

3.2 IASB Standards issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

- Time value – when to adjust a contract price for a financing component
- Specific issues, including –
 - non-cash consideration and asset exchanges
 - contract costs
 - rights of return and other customer options
 - supplier repurchase options
 - warranties
 - principal versus agent
 - licencing
 - breakage
 - non-refundable upfront fees, and
 - consignment and bill-and-hold arrangements.

IFRS 16 Leases

IFRS 16 will replace IAS 17 and three related Interpretations. Leases will be recorded on the statement of financial position in the form of a right-of-use asset and a lease liability.

Management is yet to fully assess the impact of the Standard and therefore is unable to provide quantified information. However, in order to determine the impact, management is in the process of:

- performing a full review of all agreements to assess whether any additional contracts will now become a lease under IFRS 16's new definition
- deciding which transitional provision to adopt; either full retrospective application or partial retrospective application (which means comparatives do not need to be restated). The partial application method also provides optional relief from reassessing whether contracts in place are, or contain, a lease, as well as other reliefs. Deciding which of these practical expedients to adopt is important as they are one-off choices
- assessing their current disclosures for finance and operating leases as these are likely to form the basis of the amounts to be capitalised and become right-of-use assets
- determining which optional accounting simplifications apply to their lease portfolio and if they are going to use these exemptions
- assessing the additional disclosures that will be required.

IFRS 40 Investment Property - Amendments

The Amendments to IAS 40 clarifies that transfers to, or from, investment property are required when, and only when, there is a change in use of property supported by evidence. The amendments also re-characterise the list of circumstances appearing in paragraph 57(a)–(d) as a non-exhaustive list of examples of evidence that a change in use has occurred. The Board has also clarified that a change in management's intent, by itself, does not provide sufficient evidence that a change in use has occurred. Evidence of a change in use must be observable.

Notes to the interim condensed consolidated financial information (continued)

3 Changes in accounting policies (continued)

3.2 IASB Standards issued but not yet effective (continued)

Annual Improvements to IFRSs 2014-2016 Cycle

Amendments to LAS 28 - Clarifies that a qualifying entity is able to choose between applying the equity method or measuring an investment in an associate or joint venture at fair value through profit or loss, separately for each associate or joint venture at initial recognition of the associate or joint venture. Amendment is effective for annual periods beginning on or after 1 January 2018.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The Interpretations looks at what exchange rate to use for translation when payments are made or received in advance of the related asset, expense or income. A diversity was observed in practice in circumstances in which an entity recognises a non-monetary liability arising from advance consideration. The diversity resulted from the fact that some entities were recognising revenue using the spot exchange rate at the date of the receipt of the advance consideration while others were using the spot exchange rate at the date that revenue was recognized. IFRIC 22 addresses this issue by clarifying that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

4 Judgement and estimates

The preparation of interim condensed consolidated financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual audited consolidated financial statements as at and for the year ended 31 December 2016.

5 Basic and diluted earnings per share attributable to the shareholders of the parent company

Basic and diluted earnings per share is computed by dividing the profit for the period attributable to the shareholders of the parent company by the weighted average number of shares outstanding during the period less treasury shares.

| | Three months ended 31 March 2017 (Unaudited) | Three months ended 31 March 2016 (Unaudited) |
|---|---|---|
| Profit for the period attributable to the shareholders of the parent company – KD | 608,242 | 631,806 |
| Weighted average number of shares outstanding during the period (excluding treasury shares) | 796,798,664 | 796,798,664 |
| Basic and diluted earnings per share attributable to the shareholders of the parent company (Fils) | 0.763 | 0.793 |