

**THE ENERGY HOUSE HOLDING
COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Consolidated Financial Statements and Independent
Auditors' Report for the year ended 31 December 2016**

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

Index	Page
Independent Auditors' Report	1 – 5
Consolidated statement of financial position	6
Consolidated statement of profit or loss	7
Consolidated statement of comprehensive income	8
Consolidated statement of cash flows	9
Consolidated statement of changes in equity	10
Notes to the consolidated financial statements	11 - 53



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Independent Auditors' Report

The Shareholders

The Energy House Holding Company K.S.C.P.
State of Kuwait

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of The Energy House Holding Company K.S.C.P. ("the Company") and subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss, comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("the IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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



Fair valuation of unquoted investments

The fair value of unquoted investments is determined by the Group through application of valuation techniques which involved the exercise of significant judgment by the Group and use of assumptions and estimates. Due to the significance of unquoted investments and the related estimation uncertainty, this is considered as a key audit matter. Estimation uncertainty is particularly high for those instruments where significant valuation inputs are unobservable (refer notes 7 and 8 of the consolidated financial statements).

Our audit procedures included evaluating the methodologies, inputs and assumptions used by the Group in determining fair values. We used our own valuation specialists to assist us in evaluating the valuation techniques, assumptions and methodologies used by the Group, in particular, those relating to the cash flow projections, growth rates, terminal values and discount rates and reperformed an independent valuation assessment, considering alternative methods available and sensitivities to key factors.

Recoverability of a component of property and equipment, together with associated goodwill balance

There is a risk of recoverability of the Group's goodwill balance and carrying value of rig equipment, which forms part of the same cash generating unit, due to subdued daily rig rates and reduction in volume of business with a key client. Due to the inherent uncertainty involved in forecasting and discounting future cash flows associated with the cash generating unit, which are the basis of the assessment of recoverability, this is one of the key judgmental area our audit is concentrated on (refer notes 4, 5 and 18 of the consolidated financial statements).

Our audit procedures included testing of the Group's forecasting procedures and the principles and integrity of the discounted cash flow models. We used our own valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group, in particular, those relating to forecast revenue growth and profit margin. We compared the Group's assumptions to latest independent estimates. This included consideration of future cash flows and discount rates for reasonableness by reference to publicly available market data and comparison of future cost estimates with actual cost levels and budgets.

Hyperinflation adjustment

We have considered hyperinflation adjustments accounted in respect of a subsidiary of the Group operating in Sudan, since 2013, in accordance with consumer price index stated by International Monetary Fund as an hyperinflationary economy, as a key audit matter due to the complex calculations and disclosures involved in re-statement of financial statements to conform to the requirements of International Accounting Standard ("IAS") 29, *Financial Reporting in Hyperinflationary Economies* (refer note 23 of the consolidated financial statements)

Our audit procedures included understanding and confirming the working provided by the management by verifying the Consumer Price Index ("CPI") rate provided by the Central Bank of Sudan and tested the inflation rate based on average quarterly changes in CPI comparing to the base year.

We also assessed whether the relevant disclosures are appropriately reflected in the consolidated financial statements.



Hyperinflation adjustment

We have considered hyperinflation adjustments accounted in respect of a subsidiary of the Group operating in Sudan, since 2013 in accordance with consumer price index stated by International Monetary Fund ('IMF') as an hyperinflationary economy, as a key audit matter due to the complex calculations and disclosures involved in re-statement of financial statements to conform to the requirements of *International Accounting Standard ('IAS') 29 – Financial Reporting in Hyperinflationary Economies* (refer note 23 of the consolidated financial statements).

Our audit procedures included understanding and confirming the working provided by the management by verifying the Consumer Price Index ('CPI') rate provided by the Central Bank of Sudan ('CBOS') and tested the inflation rate based on average quarterly changes in CPI comparing to the base year. We also assessed whether the relevant disclosures are appropriately reflected in the consolidated financial statements.

Other information

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

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

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

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditor's 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.

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



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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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



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


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

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

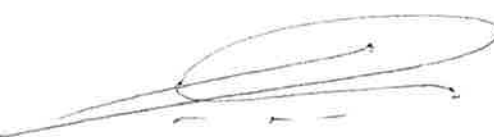
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law 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

We further report that we have obtained the information and explanations that we required for the purpose of our audit and consolidated financial statements include the information required by the Companies Law No. 1 of 2016 and its Executive Regulations and the Company's Memorandum of Incorporation and Articles of Association. In our opinion, proper books of account have been kept by the Company, an inventory count was carried out in accordance with recognized procedures and the accounting information given in the board of directors' report agrees with the books of accounts of the Company. We have not become aware of any violations of the provisions of the Companies Law No. 1 of 2016 and its Executive Regulations or of the Company's Memorandum of Incorporation and Articles of Association during the year ended 31 December 2016 that might have had a material effect on the business of the Group or on its consolidated financial position.


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

Kuwait: 8 February 2017


Yahia Abdullah Al-Foudari & Partners
Chartered Accountant Category (A), No. 83
Member of Kuwait Association of
Accountants and Auditors
Member of jhi

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

Consolidated statement of financial position
for the year ended 31 December 2016

	Notes	31 December 2016 KD	31 December 2015 KD
ASSETS			
Non-current assets			
Property and equipment	4	7,065,417	10,219,471
Intangible assets and goodwill	5	-	16,600
Investment property	6	3,736,749	5,652,030
Investment in associates	7	1,762,855	2,489,024
Financial assets available for sale	8	14,346,212	26,255,417
Financial assets at fair value through profit or loss	9	7,964,538	6,783,834
Other assets		64,693	195,714
		<u>34,940,464</u>	<u>51,612,090</u>
Current assets			
Inventories		1,473,369	1,580,114
Accounts receivable and other assets	10	9,438,724	10,521,846
Bank balances, cash and term deposits	11	5,316,618	5,108,900
		<u>16,228,711</u>	<u>17,210,860</u>
Total assets		<u>51,169,175</u>	<u>68,822,950</u>
EQUITY			
Share capital	12	75,000,000	75,000,000
Share premium	12	193,550	193,550
Statutory reserve	12	472,723	472,723
Voluntary reserve	12	314,957	314,957
Other reserves	12	(812,986)	(812,986)
Foreign currency translation reserve		(823,653)	(564,724)
Fair value reserve		46,112	20,931
Accumulated losses		(41,752,960)	(21,204,371)
Equity attributable to shareholders of the Company		<u>32,637,743</u>	<u>53,420,080</u>
Non-controlling interests	13	3,535,988	5,336,181
Total equity		<u>36,173,731</u>	<u>58,756,261</u>
LIABILITIES			
Non-current liability			
Provision for staff indemnity		660,870	565,802
		<u>660,870</u>	<u>565,802</u>
Current liabilities			
Accounts payable and other liabilities	14	8,072,920	7,942,570
Murabaha payables	15	6,261,654	1,558,317
		<u>14,334,574</u>	<u>9,500,887</u>
Total liabilities		<u>14,995,444</u>	<u>10,066,689</u>
Total equity and liabilities		<u>51,169,175</u>	<u>68,822,950</u>



Ahmed Issa Al-Sumait
Chairman



Bader Khaled Al-Zamami
Vice Chairman

The accompanying notes set out on pages 11 to 53 form an integral part of these consolidated financial statements.

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Consolidated statement of profit or loss
for the year ended 31 December 2016**

	Notes	2016 KD	2015 KD
Revenue			
Contract revenue		9,350,047	13,483,117
Rendering of services		3,757,972	2,651,222
		<u>13,108,019</u>	<u>16,134,339</u>
Cost of revenue			
Contract costs		(15,234,551)	(11,786,119)
Cost of rendering of services		(3,169,819)	(2,328,248)
		<u>(18,404,370)</u>	<u>(14,114,367)</u>
Gross profit		(5,296,351)	2,019,972
Other income	17	435,124	723,498
Unrealised gain / (loss) on financial assets at fair value through profit or loss	9	1,036,138	(490,149)
Realised loss on sale of financial assets at fair value through profit or loss		(3,635)	-
Rental income from investment property	6	94,376	157,994
Staff costs		(2,002,155)	(1,833,858)
General and administrative expenses		(1,816,649)	(1,816,359)
Net impairment loss	18	(16,860,909)	(7,233,730)
Foreign exchange gain	19	3,503,814	1,270,139
Amortization of intangible assets	5	-	(90,030)
Operating loss		(20,910,247)	(7,292,523)
Finance costs		(122,867)	(35,967)
Finance income		13,735	26,011
Share of results from associates	7	(148,140)	(462,361)
Monetary gain from hyperinflation	23	292,799	707,925
Loss for the year before taxation and Board of Directors' remuneration		(20,874,720)	(7,056,915)
Taxation on foreign operations		(141,106)	(523,565)
Loss for the year before Board of Directors' remuneration		(21,015,826)	(7,580,480)
Board of Directors' remuneration		(25,000)	-
Net loss for the year		(21,040,826)	(7,580,480)
Attributable to:			
Shareholders of the Company		(19,993,323)	(7,910,436)
Non-controlling interests	13	(1,047,503)	329,956
		<u>(21,040,826)</u>	<u>(7,580,480)</u>
Basic and diluted loss per share attributable to shareholders of the Company (fils)	20	(26.66)	(10.55)

The accompanying notes set out on pages 11 to 53 form an integral part of these consolidated financial statements.

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

Consolidated statement of comprehensive income
for the year ended 31 December 2016

	2016 KD	2015 KD
Net loss for the year	<u>(21,040,826)</u>	<u>(7,580,480)</u>
Other comprehensive income		
<i>Items that are or may be reclassified subsequently to the consolidated statement of profit or loss</i>		
Share of foreign currency translation reserve of associates	(15,309)	(62,306)
Exchange differences arising on translation of foreign operations	(402,956)	290,405
Change in fair value of financial assets available for sale	<u>39,194</u>	<u>(11,180)</u>
<i>Total items that are or may be reclassified subsequently to the consolidated statement of profit or loss</i>	<u>(379,071)</u>	<u>216,919</u>
Total other comprehensive (loss) / income for the year	<u>(379,071)</u>	<u>216,919</u>
Total comprehensive loss for the year	<u>(21,419,897)</u>	<u>(7,363,561)</u>
Attributable to:		
Shareholders of the Company	(20,227,071)	(7,579,294)
Non-controlling interests	<u>(1,192,826)</u>	<u>215,733</u>
	<u>(21,419,897)</u>	<u>(7,363,561)</u>

The accompanying notes set out on pages 11 to 53 form an integral part of these consolidated financial statements.

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

Consolidated statement of cash flows
for the year ended 31 December 2016

	Notes	2016 KD	2015 KD
Cash flows from operating activities			
Net loss for the year		(21,040,826)	(7,580,480)
<i>Adjustments for:</i>			
Rental income from investment property	6	(94,376)	(157,994)
Share of results from associates	7	148,140	462,361
Gain on disposal of property and equipment		(33,956)	(257,949)
Depreciation and amortization	4 & 5	1,213,032	1,015,654
Net impairment loss	18	16,860,909	7,233,730
Unrealised (gain) / loss on financial assets at fair value through profit or loss	9	(1,036,138)	490,149
Loss on sale of financial assets at fair value through profit or loss		3,635	-
Monetary gain from hyperinflation	23	(292,799)	(707,925)
Taxation		141,106	523,565
Finance costs		122,867	35,967
Provision for staff indemnity		190,138	132,857
		(3,818,268)	1,189,935
<i>Changes in:</i>			
Inventories		(332,626)	566,906
Accounts receivable and other assets		235,121	(1,181,720)
Accounts payable and other liabilities		(10,750)	231,749
Cash (used in) / generated from operations		(3,926,523)	806,870
Provision for staff indemnity paid		(98,748)	(221,455)
Net cash (used in) / generated from operating activities		(4,025,271)	585,415
Cash flows from investing activities			
Net movement in restricted bank balances and deposits		195,330	(26,562)
Investment in financial assets available for sale		-	(731,256)
Purchase of investments at fair value through profit or loss	9	(127,273)	(60,486)
Purchase of property and equipment	4	(1,143,050)	(1,802,263)
Proceeds from disposal of property and equipment		122,442	344,229
Dividend income received from an associate	7	9,605	-
Rental income received	6	94,376	157,994
Net cash used in investing activities		(848,570)	(2,118,344)
Cash flows from financing activities			
Finance costs paid		(66,094)	(35,967)
Net movement in murabaha payables		4,659,443	1,558,317
Dividend paid		(298,407)	-
Net movement in finance lease liabilities		-	(74,797)
Net cash generated from financing activities		4,294,942	1,447,553
Effect of foreign currency translation		981,947	(542,993)
Net change in cash and cash equivalents		403,048	(628,369)
Cash and cash equivalents at beginning of the year		2,662,996	3,291,365
Cash and cash equivalents at end of the year	11	3,066,044	2,662,996

The accompanying notes set out on pages 11 to 53 form an integral part of these consolidated financial statements.

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Consolidated statement of changes in equity
for the year ended 31 December 2016**

	Share capital KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	Other reserves KD	Foreign currency translation reserve KD	Fair value reserve KD	Accumulated losses KD	Equity attributable to shareholders of the Company KD	Non- controlling interests KD	Total equity KD
Balance at 1 January 2016	75,000,000	193,550	472,723	314,957	(812,986)	(564,724)	20,931	(21,204,371)	53,420,080	5,336,181	58,756,261
Net loss for the year	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive loss for the year	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	-	-	-	-	-	-	-	-
Hyperinflation adjustment (note 23)	-	-	-	-	-	-	-	-	-	-	-
Dividend distributed	-	-	-	-	-	-	-	-	-	-	-
Balance at 31 December 2016	75,000,000	193,550	472,723	314,957	(812,986)	(823,653)	46,112	(41,752,960)	32,637,743	3,535,988	36,173,731
Balance at 1 January 2015	75,000,000	193,550	472,723	314,957	(812,986)	(903,050)	28,115	(11,577,180)	62,716,129	6,075,685	68,791,814
Net loss for the year	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	-	-	-	-	-	-	-	-
Hyperinflation adjustment (note 23)	-	-	-	-	-	-	-	-	-	-	-
Balance at 31 December 2015	75,000,000	193,550	472,723	314,957	(812,986)	(564,724)	20,931	(21,204,371)	53,420,080	5,336,181	58,756,261

The accompanying notes set out on pages 11 to 53 form an integral part of these consolidated financial statements.

THE ENERGY HOUSE HOLDING COMPANY K.S.C.P. AND SUBSIDIARIES

Notes to the consolidated financial statements for the year ended 31 December 2016

1. Incorporation and activities

The Energy House Holding Company K.S.C.P. ("the Company") is a Kuwaiti shareholding company registered in the State of Kuwait under commercial registration number 68770 dated 30 July 1996 and its shares are listed on the Boursa Kuwait .

The principal activities of the Company are:

- Ownership of shares of Kuwaiti or foreign shareholding companies or companies with limited liability, or establishing, managing, lending and sponsoring such companies;
- Financing and sponsoring entities in which the Company has an ownership interest of not less than 20%;
- Owning industrial rights such as patents, industrial trademarks, sponsoring foreign companies or any other related industrial rights and leasing such as rights for the benefit of the Company inside or outside the State of Kuwait;
- Owning portables and real-estates to promote its activities in permissible limits according to the law; and
- Utilizing available financial surplus of the Company by investing them in portfolios managed by specialized companies.

The above activities of the Company and its subsidiaries (together "the Group") are organized in business units as explained in note 21.

The Group carries out its activities as per Islamic Shari'ah.

The Company is a subsidiary of Development Enterprise Holding Company K.S.C. (Closed) ("DEH") ("the Parent Company"), which in turn is a subsidiary of Kuwait Finance House K.S.C. ("the Ultimate Parent Company"), a company whose shares are listed on the Boursa Kuwait .

The address of the Company's registered office is Arraya Tower 2, Sharq Area, 25th floor, Kuwait City and the postal address is P.O. Box 21909, Safat 13080, State of Kuwait.

The Annual General Assembly of the Company held on 15 March 2016, approved the following:

- consolidated financial statements of the Group for the year ended 31 December 2015; and
- no dividends for the year ended 31 December 2015.

These consolidated financial statements were approved for issue by the Board of Directors of the Company on 2 February 2017 and are subject to the approval of the Annual General Assembly of the shareholders.

The new Companies Law Number 1 of 2016 was issued on 24 January 2016 and was published in the Official Gazette on 1 February 2016, cancelled the Companies Law Number 25 of 2012, and its amendments. According to Article Number 5, the new Law will be effective retrospectively from 26 of November 2012. The Minister of Commerce has issued the Executive Regulations of Law Number 1 of 2016 (by Ministerial Resolution No 287 of 2016 issued on 12 July 2016) and cancelled the current Executive regulations of Company Law Number 25 of 2012. The new Executive Regulations are effective from 17 July 2016, date of published in Kuwait Gazette. As per Article Number 21 of the new Executive Regulations, all companies have a grace period of 6 months from the date of publication of the Executive Regulation to comply with the new regulations.

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Notes to the consolidated financial statements
for the year ended 31 December 2016**

2. Basis of preparation and significant accounting policies

The principal accounting policies have been applied consistently by the Group and are consistent with those used in the previous year, with the exception of new accounting policies as set out in note 2 (c).

a) Basis of preparation

The consolidated financial statements are prepared on a historical cost basis as modified for the measurement of the fair value of financial assets at fair value through profit or loss, financial assets available for sale and financial assets / liabilities carried at amortised cost.

These consolidated financial statements are presented in Kuwaiti Dinars ("KD"), which is the Company's functional and presentation currency.

b) Statement of compliance

The consolidated financial statements have been prepared in accordance with the IFRS promulgated by the International Accounting Standards Board ("IASB"), interpretations issued by the International Financial Reporting Committee of the IASB, the relevant provisions of the Companies Law No. 1 of 2016 and its Executive Regulations, the Company's Memorandum of Incorporation and Articles of Association and Ministerial Resolution No. 287 of 2016.

c) Revised and newly issued IFRS adopted by the Group

The Group has adopted the following revised and newly issued IFRS effective for annual periods beginning on or after 1 January 2016:

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
In response to diversity in practice, particularly in the energy and natural resources sector, over whether IFRS 3 Business Combinations applies when an entity acquires an interest in a joint operation that meets that standard's definition of a business, the IASB has issued Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11). The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business.

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

The amendments to IAS 16 Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset.

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

Notes to the consolidated financial statements
for the year ended 31 December 2016

2. Basis of preparation and significant accounting policies (continued)

c) Revised and newly issued IFRS adopted by the Group (continued)

The amendments of IAS 38 *Intangible Assets* introduce a rebuttable presumption that the use of revenue based amortization methods of intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible assets are 'highly correlated', or when the intangible asset is expressed as measure of revenue.

Equity Method in Separate Financial Statements (Amendments to IAS 27)

The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures, but also for subsidiaries.

Annual Improvements to IFRSs 2012–2014 Cycle – various standards

This new cycle improvements contains amendments to the following standards:

- IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations - Change in method of disposal
- IFRS 7 Financial Instruments: Disclosures - Continuing involvement for servicing contracts and Offsetting disclosures in condensed interim financial statements
- IAS 19 Employee Benefits - Discount rate in a regional market sharing the same currency
- IAS 34 Interim Financial Reporting - Disclosure of information 'elsewhere in the interim financial report'

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)

As a result of the amendment, intermediate investment entities are not permitted to be consolidated. So where an investment entity's internal structure uses intermediates, the financial statements will provide less granular information about investment performance i.e. less granular fair values of, and cash flows from, the investments making up the underlying investment portfolio. As such, some simplicity has been achieved, but at the price of accounting that depends on internal structuring. Many will see this as less useful and, as a result, some entities are likely to continue using parallel non-GAAP measures to meet the needs of their investors. The IASB has also clarified that entities conducting 'investment-related services' are those whose main purpose and activities are to provide services that relate to the investment entity parent's activities.

Disclosure Initiative (Amendments to IAS 1)

These narrow-scope amendments are effective for periods beginning on or after 1 January 2016. But the amendments do not require any significant change to current practice. Only by keeping the bigger picture in mind, and avoiding a boilerplate, checklist approach to financial statement disclosures, can preparers achieve the improved reporting sought by these clarifications.

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Notes to the consolidated financial statements
for the year ended 31 December 2016**

2. Basis of preparation and significant accounting policies (continued)

The implementation of the above amendments of the standards had no significant financial impact on the consolidated financial statements.

Standards issued but not yet effective

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

Disclosure Initiative (Amendments to IAS 7)

IAS 7, *Statement of Cash Flows* has been amended as part of the IASB's broader disclosure initiative to improve presentation and disclosure in financial statements. The amendments are effective for periods beginning on or after 1 January 2017, with earlier application permitted.

IFRS 15 Revenue from Contracts with Customers

The new standard may have a significant impact on how and when entities can recognise revenue, with new estimates and judgements and the possibility of revenue recognition being accelerated or deferred. The new effective date is 1 January 2018

IFRS 9 Financial Instruments

The impact of the new standard is likely to be most significant for financial institutions. For banks in particular, the effects of adoption – and the effort required to adopt – will be especially great. However, businesses in all sectors will need to identify the impact of IFRS 9. The new standard presents revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment.

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

The amendments cover three accounting areas:

- measurement of cash-settled share-based payments;
- classification of share-based payments settled net of tax withholdings; and
- accounting for a modification of a share-based payment from cash-settled to equity-settled.

The new requirements could affect the classification and/or measurement of these arrangements and potentially the timing and amount of expense recognised for new and outstanding awards.

IFRS 16 Leases

IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. This standard takes effect in January 2019.

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

Notes to the consolidated financial statements
for the year ended 31 December 2016

2. Basis of preparation and significant accounting policies (continued)

d) Basis of consolidation

These consolidated financial statements include the financial statements of the Company and its subsidiaries (note 13).

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries are consistent with the accounting policies adopted by the Group.

Non-controlling interests represent the net assets (excluding goodwill) of consolidated subsidiaries not attributable directly, or indirectly, to the equity holders of the company. Equity and net income attributable to non-controlling interests are shown separately in the consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and consolidated statement of changes in equity.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the consolidated statement of profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted or as an available for sale financial asset depending on the level of influence retained.

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The Group controls an entity when it is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those returns through its powers over the entity.

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

Notes to the consolidated financial statements
for the year ended 31 December 2016

2. Basis of preparation and significant accounting policies (continued)

d) Basis of consolidation (continued)

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated statement of profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in the consolidated statement of profit or loss.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated statement of profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in the consolidated statement of profit or loss or in the consolidated statement of comprehensive income.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Acquisitions of non-controlling interests

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Notes to the consolidated financial statements
for the year ended 31 December 2016**

2. Basis of preparation and significant accounting policies (continued)

d) Basis of consolidation (continued)

Investment in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Investment in an associate is accounted for using the equity method and is recognised initially at cost. The cost of the investment includes transactions costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income from the date that significant influence commences until the date that significant influence ceases.

The associates accounting policies align with the accounting policies of the Group. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest, including any long-term investments, is reduced to zero and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

e) Foreign currency

Foreign currency transactions

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate prevailing at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective profit and payments during the year and the amortised cost in foreign currency translated at the exchange rate prevailing at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in the consolidated statement of profit or loss, except for the differences which are recognised in the consolidated statement of comprehensive income arising on the retranslation of available-for-sale equity investments (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to the consolidated statement of profit or loss).

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Notes to the consolidated financial statements
for the year ended 31 December 2016**

2. Basis of preparation and significant accounting policies (continued)

e) Foreign currency (continued)

Hyperinflationary economy

The financial statements of subsidiary companies whose functional currency is the currency of a hyperinflationary economy are adjusted for inflation in accordance with the procedures described in note 23 prior to their translation to Kuwaiti Dinars. Once restated, all items of the financial statements are converted to Kuwaiti Dinars using the closing exchange rate. Amounts shown for prior years for comparative purposes are not restated at consolidation level as the presentation currency of the Group is not of a hyperinflationary economy. On consolidation, the effect of price changes in the prior periods on the financial statements of the subsidiary has been recognized directly in the consolidated statement of changes in equity.

To determine the existence of hyperinflation, the Group assesses the qualitative characteristics of the economic environment of the country, such as the trends in inflation rates over the previous three years.

The financial statements of subsidiaries whose functional currency is the currency of a hyperinflationary economy are adjusted to reflect the changes in purchasing power of the local currency, such that all items in the statement of financial position not expressed in current terms (non-monetary items) are restated by applying a general price index at the reporting date and all income and expenses are restated quarterly by applying appropriate conversion factors as defined in note 23.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Kuwaiti Dinars at exchange rates prevailing at the reporting date. Income and expenses of foreign operations are translated to Kuwaiti Dinars at exchange rates prevailing on the dates of the transactions.

Foreign currency differences are recognized in the consolidated statement of comprehensive income and presented in the foreign currency translation reserve in the consolidated statement of changes in equity. However, if the foreign operation is a non-wholly owned subsidiary, then the relevant portion of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the foreign currency translation reserve related to that foreign operation is reclassified to the consolidated statement of profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in a joint venture that includes a foreign operation while retaining joint control, the relevant proportion of the cumulative amount is reclassified to the consolidated statement of profit or loss.

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Notes to the consolidated financial statements
for the year ended 31 December 2016**

2. Basis of preparation and significant accounting policies (continued)

e) Foreign currency (continued)

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such item are considered to form part of a net investment in the foreign operation and are recognised in the consolidated statement of comprehensive income, and presented in foreign currency translation reserve in the consolidated statement of changes in equity.

f) Financial instruments

i) *Non-derivative financial assets*

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group classifies non-derivative financial assets into the following categories:

- loans and receivables;
- available for sale financial assets; and
- fair value through profit or loss

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective profit method, less any impairment losses.

Loans and receivables comprise of cash and cash equivalents and trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise of cash balances and wakala deposits with original maturities of three months or less from the date of placement less bank overdrafts. The wakala deposits are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments.

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Notes to the consolidated financial statements
for the year ended 31 December 2016**

2. Basis of preparation and significant accounting policies (continued)

f) Financial instruments (continued)

Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of other categories of financial assets.

Available for sale financial assets are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses are recognised in the consolidated statement of comprehensive income and presented in the fair value reserve in the consolidated statement of changes in equity. When an investment is derecognised, the gain or loss accumulated in the consolidated statement of changes in equity is reclassified to the consolidated statement of profit or loss.

Financial assets at fair value through profit or loss

This category has two sub-categories: investments held for trading and those designated at fair value through statement of profit or loss at inception.

An investment is classified as held for trading if acquired principally for the purpose of selling in the short term or if it forms part of an identified portfolio of investments that are managed together and has a recent actual pattern of short-term profit making or it is a derivative that is not designated and effective as a hedging instrument.

An investment is designated by the management on initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise or, if they are managed and their performance is evaluated and reported internally on a fair value basis in accordance with a documented risk management or investment strategy.

Investments in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months from the end of the reporting period.

ii) *Non-derivative financial liabilities*

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially at the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective profit method.

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Notes to the consolidated financial statements
for the year ended 31 December 2016**

2. Basis of preparation and significant accounting policies (continued)

f) Financial instruments (continued)

Other financial liabilities comprise of trade and other payables, term debts and other non-current liabilities.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less from the financial position date (or in the normal operating cycle of the business, if longer), otherwise, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective profit method.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

g) Inventories

Inventories are stated at the lower of purchase cost and net realisable value using the weighted average method after making allowance for any slow moving and obsolete items. Purchase cost includes the purchase price, import duties, transportation, handling and other direct costs except for borrowing costs. Net realisable value represents the estimated selling price less all estimated selling costs.

h) Property and equipment

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

Depreciation is calculated based on the following estimated useful lives of the applicable assets on a straight-line basis commencing when the assets are ready for their intended use:

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Notes to the consolidated financial statements
for the year ended 31 December 2016**

2. Basis of preparation and significant accounting policies (continued)

h) Property and equipment (continued)

Category	Useful lives
Buildings and leasehold properties	3 to 20 years
Furniture, fixtures and office equipment	2 to 7 years
Motor vehicles and equipment	4 to 10 years

Property and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

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

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repair and maintenance are expensed as incurred.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in the consolidated statement of profit or loss.

i) Leases

Leased assets

Leases in terms of which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised in the Group's consolidated statement of financial position. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Lease payments

Payments made under operating leases are recognised in the consolidated statement of profit or loss on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant rate of profit on the remaining balance of the liability.

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Notes to the consolidated financial statements
for the year ended 31 December 2016**

2. Basis of preparation and significant accounting policies (continued)

i) Leases (continued)

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:

- the fulfilment of the arrangement is dependent on the use of a specific asset or assets; and
- the arrangement contains a right to use the asset(s).

At inception or on reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Group's incremental borrowing rate.

j) Intangible assets

Intangible assets are shown at historical cost. Intangible assets have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight line method to allocate the cost of intangible assets over their estimated useful lives.

Goodwill is not amortised, but is reviewed for impairment at least annually. Any impairment loss is recognised immediately in the consolidated statement of profit or loss and is not subsequently reversed. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

k) Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the reporting date that is determined based on the lower of two valuations performed by independent valuers using valuation methods consistent with the nature and usage of the investment property. Gains or losses arising from changes in the fair values of investment property are included in the consolidated statement of profit or loss in the year in which they arise.

Investment properties are derecognized when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefits is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the consolidated statement of profit or loss in the year of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Notes to the consolidated financial statements
for the year ended 31 December 2016**

2. Basis of preparation and significant accounting policies (continued)

l) Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

m) Impairment

i) Non-derivative financial assets

A financial asset, not classified as at fair value through profit or loss, is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for a financial asset in available for sale equity, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Financial assets measured at amortised cost

The Group considers evidence of impairment for financial assets measured at amortised cost (loans and receivables) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective cost rate. Losses are recognised in the consolidated statement of profit or loss.

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

Notes to the consolidated financial statements
for the year ended 31 December 2016

2. Basis of preparation and significant accounting policies (continued)

m) Impairment (continued)

Available for sale financial assets

Impairment losses on available for sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to the consolidated statement of profit or loss. The cumulative loss that is reclassified from the consolidated statement of changes in equity to the consolidated statement of profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization and the current fair value, less any impairment loss recognised previously in the consolidated statement of profit or loss. Changes in cumulative impairment losses attributable to application of the effective profit method are reflected as a component of finance income. If, in a subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in the consolidated statement of profit or loss. However, any subsequent recovery in the fair value of an impaired available for sale equity security is recognised in the consolidated statement of comprehensive income.

ii) *Non-financial assets*

The carrying amounts of the Group's non-financial assets other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to the present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups at CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in the consolidated statement of profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Notes to the consolidated financial statements
for the year ended 31 December 2016**

2. Basis of preparation and significant accounting policies (continued)

n) Provision for staff indemnity

Provision is made for amounts payable to employees under the Kuwaiti Labour Law, employee contracts and applicable labour laws in the countries where the subsidiaries operate. The expected costs of these benefits are accrued over the period of employment. The Group also contributes to the government defined contribution plan for its Kuwaiti employees in accordance with the legal requirements in Kuwait.

In case of arrangements where the payment of end of service benefits is reimbursed by the counterparty, the Group record the related amount as other receivable.

o) Revenue recognition

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

The specific revenue recognition criteria applied to significant elements of revenue is set out below:

Construction contracts

The Group principally operates fixed price contracts. If the outcome of such a contract can be reliably measured, revenue associated with the construction contract is recognised by reference to the stage of completion of the contract activity at reporting date (the percentage of completion method).

The outcome of a construction contract can be estimated reliably when the total contract revenue can be measured reliably, it is probable that economic benefits associated with the contract will flow to the entity, the costs to complete the contract and the stage of completion can be measured reliably and the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates. When the outcome of a construction cannot be estimated reliably (principally during early stages of a contract), contract revenue is recognised only to the extent of costs incurred that are expected to be recoverable. In applying the percentage of completion method, revenue recognised corresponds to the total contract revenue (as defined below) multiplied by the actual completion rate based on the proportion of total contract costs (as defined below) incurred to date and the estimated costs to complete.

Contract revenue corresponds to the initial amount of revenue agreed in the contract and any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and they can be reliably measured.

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Notes to the consolidated financial statements
for the year ended 31 December 2016**

2. Basis of preparation and significant accounting policies (continued)

o) Revenue recognition (continued)

Contract costs include costs that relate directly to the specific contract and costs that are attributable to contract activity in general and can be allocated to the contract. Costs that relate directly to a specific contract comprise: site labour costs (including site supervision) costs of materials used in construction; depreciation of equipment used on the contract costs of design, and technical assistance that is directly related to the contract.

Sale of goods

Revenue from sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Rendering of services

Revenue from rendering of services is recognised when the outcome of the transaction can be estimated reliably, by reference to the stage of completion of the transaction at the reporting date.

Rental income

Rental income arising from operating leases on investment property is accounted for on a straight line basis over the term of the lease.

Dividend income

Dividend income is recognised when the Group's right to receive payment is established, which is generally when shareholders approve the dividend.

Sales of equipment

Revenue from sales of peripheral and other equipment is recognised when the significant risks and rewards of ownership are transferred to the buyer which is normally when the equipment is delivered and accepted by the customer.

p) Taxation

Certain subsidiaries are subject to taxes on income in various foreign jurisdictions. Income tax expense represents the sum of the tax currently payable and deferred tax.

Taxation on overseas subsidiaries is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries where these subsidiaries operate.

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Notes to the consolidated financial statements
for the year ended 31 December 2016**

2. Basis of preparation and significant accounting policies (continued)

q) Zakat, KFAS and NLST

Zakat, contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) and National Labour Support Tax (NLST) represent levies/taxes imposed on the Company at the flat percentage of net profits attributable to the Company less permitted deductions under the prevalent respective fiscal regulations of the State of Kuwait. There are no significant differences between the tax/levy bases of assets and liabilities and their carrying amount for financial reporting purposes.

Tax/statutory levy	Rate
Contribution to KFAS	1.0% of net profit less permitted deductions
NLST	2.5% of net profit less permitted deductions
Zakat	1.0% of net profit less permitted deductions

r) Finance costs

Finance costs representing profit on financial liabilities are calculated on an accrual basis and are recognised in the consolidated statement of profit or loss in the year in which they are incurred.

s) Contingencies

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

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

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Notes to the consolidated financial statements
for the year ended 31 December 2016**

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

Critical judgements in applying accounting policies

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

Impairment of inventories

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

Classification of investments

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

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes an investment team that has overall responsibility for overseeing all significant fair value measurements.

The investment team regularly reviews significant unobservable inputs and valuation adjustments. If the third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on inputs used in the valuation techniques (note 25).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

Notes to the consolidated financial statements
for the year ended 31 December 2016

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

Impairment of investments

The Group treats available for sale financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is “significant” or “prolonged” requires judgment. In addition, the Group also evaluates among other factors, normal volatility in the share price for quoted investments and the future cash flows and discount factors for unquoted investments.

Finance lease

The Group has entered into a sale and lease back transaction with a related party. The Group has determined, based on evaluation of the terms and conditions of the arrangements and classified the lease as finance lease.

Estimated cost on uncompleted contracts

Revenue from installation contracts is measured by reference to the percentage of costs incurred to the estimated total costs for each contract applied to the estimated contract revenue, and reduced by the proportion of revenue previously recognised. This requires the management to use judgment in the estimation of the total cost expected to complete each contract.

Profit on uncompleted contracts

Profit on uncompleted contracts is only recognised when the contract reaches a point where the ultimate profit can be estimated with reasonable certainty. This requires the Group’s management to determine the level at which reasonable estimates can be reached.

Key sources of estimation uncertainty

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

Impairment of receivables

The impairment charge reflects estimates of losses arising from the failure or inability of the parties concerned to make the required payments. The charge is based on the ageing of the party accounts, the customer’s credit worthiness and the historic write-off experience.

Fair value of unquoted equity investments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

Notes to the consolidated financial statements
for the year ended 31 December 2016

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Impairment of property and equipment and intangible assets

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

Impairment of non-financial assets and useful lives

The Group's management tests annually whether non-financial assets have suffered impairment in accordance with the accounting policies stated in note 2. The recoverable amount of an asset is determined based on value-in-use method. This method uses estimated cash flow projections over the estimated useful life of the asset discounted using market rates.

The Group's management determines the useful lives and the related depreciation and amortisation charge. The depreciation and amortisation charge for the year will change significantly if actual life is different from the estimated useful life of the asset.

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Notes to the consolidated financial statements
For the year ended 31 December 2016**

4. Property and equipment

	Land	Buildings and leasehold properties	Furniture, fixtures and office equipment	Motor vehicles and equipment	Capital work-in progress	Total
Cost	KD	KD	KD	KD	KD	KD
Balance at 1 January 2015	1,230,000	697,338	349,320	9,586,777	53,606	11,917,041
Additions	-	44,846	111,074	1,646,343	-	1,802,263
Disposals	-	-	(2,184)	(618,638)	-	(620,822)
Currency translation effects	-	1,939	3,367	340,862	105	346,273
Balance at 31 December 2015	1,230,000	744,123	461,577	10,955,344	53,711	13,444,755
Additions	-	35,454	35,585	479,006	593,005	1,143,050
Disposals	-	-	-	(702,848)	-	(702,848)
Currency translation effects	-	(27,060)	(2,873)	(876,464)	(3,141)	(909,538)
Balance at 31 December 2016	1,230,000	752,517	494,289	9,855,038	643,575	12,975,419
Accumulated depreciation						
Balance at 1 January 2015	-	277,299	255,745	5,402,633	-	5,935,677
Charge for the year	-	41,566	90,329	793,729	-	925,624
Related to disposals	-	-	(2,082)	(532,353)	-	(534,435)
Currency translation effects	-	1,101	2,211	82,794	-	86,106
Balance at 31 December 2015	-	319,966	346,203	5,746,803	-	6,412,972
Charge for the year	-	90,180	80,224	1,042,628	-	1,213,032
Related to disposals	-	-	-	(614,362)	-	(614,362)
Impairment, net (note 18)	-	-	-	2,875,358	-	2,875,358
Currency translation effects	-	(20,499)	(1,677)	(519,386)	-	(541,562)
Balance at 31 December 2016	-	389,647	424,750	8,531,041	-	9,345,438

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Notes to the consolidated financial statements
For the year ended 31 December 2016**

4. Property and equipment (continued)

	Land KD	Buildings and leasehold properties KD	Furniture, fixtures and office equipment KD	Motor vehicles and equipment KD	Capital work-in progress KD	Total KD
Carrying amounts:						
At 31 December 2015 (before adjustment)	1,230,000	424,157	115,374	5,208,541	53,711	7,031,783
Impact of hyperinflation (note 23)						
Opening hyperinflation at 1 January 2015	-	472,384	24,876	2,289,164	96,414	2,882,838
Effect on depreciation	-	(2,561)	(466)	(12,233)	-	(15,260)
Change in carrying value	-	156,610	26,116	109,789	27,595	320,110
Hyperinflation at 31 December 2015	-	626,433	50,526	2,386,720	124,009	3,187,688
Adjusted balance at 31 December 2015	1,230,000	1,050,590	165,900	7,595,261	177,720	10,219,471
At 31 December 2016 (before adjustment)	1,230,000	362,870	69,539	1,323,997	643,575	3,629,981
Impact of hyperinflation (note 23)						
Opening hyperinflation at 1 January 2016	-	626,433	50,526	2,386,720	124,009	3,187,688
Effect on depreciation	-	1,209	311	(74,705)	-	(73,185)
Change in carrying value	-	186,677	7,645	101,314	25,297	320,933
Hyperinflation at 31 December 2016	-	814,319	58,482	2,413,329	149,306	3,435,436
Adjusted balance at 31 December 2016	1,230,000	1,177,189	128,021	3,737,326	792,881	7,065,417

Land is in Kuwait with a market value as at 31 December 2016 of KD 2,125,000 (2015: KD 2,125,000). Notwithstanding the contractual term of lease, management considers that, based on market experience, the lease is renewable indefinitely, at similar nominal rates of rent and with no premium payable for renewal of the lease. Consequently as is common practice in the State of Kuwait, these leases have been accounted for as freehold land.

The allocation of depreciation expense for the year is as follows:

	2016 KD	2015 KD
Cost of revenue	1,143,625	834,552
General and administration expenses	142,592	106,332
	<u>1,286,217</u>	<u>940,884</u>

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Notes to the consolidated financial statements
for the year ended 31 December 2016**

5. Intangible assets and goodwill

	Goodwill	Other intangible assets	Total
	KD	KD	KD
Cost			
As at January 2015	15,900	1,590,206	1,606,106
Currency translation effects	700	-	700
Balance at 31 December 2015	16,600	1,590,206	1,606,806
Currency translation effects	40	-	40
Balance at 31 December 2016	16,640	1,590,206	1,606,846
Accumulated amortisation and impairment loss			
Balance at 1 January 2015	-	1,299,224	1,299,224
Charge for the year	-	90,030	90,030
Impairment loss (note 18)	-	200,952	200,952
Balance at 31 December 2015	-	1,590,206	1,590,206
Impairment loss (note 18)	16,640	-	16,640
Balance at 31 December 2016	16,640	1,590,206	1,606,846
Carrying amounts			
At 31 December 2015	16,600	-	16,600
At 31 December 2016	-	-	-

Other intangible assets comprised of license to market a process developed by an associate in the Middle East & North Africa region and certain areas in Asia. During the previous year, the Group has impaired the license in full.

In accordance with the requirements of IFRS, the Group has carried out an impairment test on goodwill relating to its subsidiary. The recoverable amount of the subsidiaries have been determined on the higher of the value in use or fair value less costs to sell. As the recoverable amount was lower than the carrying value, Group has impaired the goodwill in full.

6. Investment property

	2016 KD	2015 KD
Balance at 1 January	5,652,030	8,001,328
Currency translation effects	(1,454,228)	(170,236)
Effect of hyperinflation on fair valuation (note 23)	(461,053)	(2,179,062)
Balance at 31 December	3,736,749	5,652,030

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Notes to the consolidated financial statements
for the year ended 31 December 2016**

6. Investment property (continued)

Following amounts are recognized in the consolidated statement of profit or loss in respect of investment properties:

	2016 KD	2015 KD
Rental income	<u>94,376</u>	<u>157,994</u>

The hierarchy for determining and disclosing the fair value of investment property by valuation technique is presented in note 25.

7. Investment in associates

Movement of investment in associates is as follows:

	2016 KD	2015 KD
Balance at 1 January	2,489,024	4,041,115
Share of results	(148,140)	(462,361)
Impairment (note 18)	(542,320)	(923,794)
Dividends received	(9,605)	-
Currency translation effects	(60,841)	(92,291)
Effect of hyperinflation (note 23)	34,737	(73,645)
Balance at 31 December	<u>1,762,855</u>	<u>2,489,024</u>

Investment in associates represents the following:

Name of associates	Country	Percentage of ownership		2016 KD	2015 KD
		2016 %	2015 %		
Kitara OFIL Limited	Mauritius	36.36	36.36	1,172,570	1,244,170
Al Dindir Petroleum International Company Limited	Sudan	50.00	50.00	590,285	1,244,854
Synfuels International, INC.	USA	23.38	23.38	-	-
				<u>1,762,855</u>	<u>2,489,024</u>

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Notes to the consolidated financial statements
for the year ended 31 December 2016**

7. Investment in associates (continued)

Summary of the financial information of associates, not adjusted for the percentage held by the Group, is as follows:

	Total assets	Total liabilities	Income	Expenses	(Loss) / Profit
	KD	KD	KD	KD	KD
2016					
Synfuels International, INC.*	236,212	93,615	147,209	(185,543)	(38,334)
Kitara OFIL Limited	3,225,468	580	19,000	(120,472)	(101,472)
Al Dindir Petroleum International Company Limited	2,091,271	947,412	200,000	(403,000)	(203,000)
2015					
Synfuels International, INC.	257,578	68,417	71,688	(166,556)	(94,868)
Kitara OFIL Limited	3,422,404	595	61,625	(5,194)	56,431
Al Dindir Petroleum International Company Limited	2,373,404	828,061	363,555	(374,546)	(10,991)

* The carrying amount of the investment is fully impaired.

All associates are unquoted companies.

8. Financial assets available for sale

	2016	2015
	KD	KD
Quoted equity securities	346,212	328,561
Unquoted equity securities	14,000,000	25,926,856
	<u>14,346,212</u>	<u>26,255,417</u>

Unquoted equity securities are carried at cost less impairment. During the year, based on the available information and cash flow projections, certain financial assets available for sale were impaired by KD 11,926,856 (2015 : KD 6,320,000) (note 18).

9. Financial assets at fair value through profit or loss

	2016	2015
	KD	KD
Investment in an unquoted fund	<u>7,964,538</u>	<u>6,783,834</u>

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Notes to the consolidated financial statements
for the year ended 31 December 2016**

9. Financial assets at fair value through profit or loss (continued)

The movement is as follows:

	2016 KD	2015 KD
Balance at 1 January	6,783,834	6,910,008
Purchase of investments	127,273	60,486
Disposal of investments	(3,635)	-
Unrealized gain / (loss)	1,036,138	(490,149)
Effect of foreign currency translation	20,928	303,489
Balance at 31 December	<u>7,964,538</u>	<u>6,783,834</u>

10. Accounts receivable and other assets

	2016 KD	2015 KD
Trade receivable, net	6,747,218	7,183,318
Retention receivables	1,225,742	1,053,201
Receivable on sale of a subsidiary	261,414	130,393
Advances and prepayments	762,723	1,197,732
Due from related parties (note 16)	9,409	10,602
Other receivables	432,218	946,600
	<u>9,438,724</u>	<u>10,521,846</u>

Movement in the allowance for doubtful debts for trade receivables is as follows:

	2016 KD	2015 KD
Balance at beginning of the year	1,691,259	1,944,749
Charge for the year	2,238,728	1,581,832
Reversal during the year	(1,259,706)	(1,792,848)
Effect of foreign currency translation	(2,133,300)	(42,474)
Balance at end of the year	<u>536,981</u>	<u>1,691,259</u>

Retention receivables are stated net of impairment of KD 50,000 (2015: KD 50,000).

Other receivables are stated net of impairment of KD 612,880 (2015: KD 640,500).

During the year, the Group has reversed an impairment of KD 1,259,706 (2015: KD 1,792,848) provided previously against receivables of one of the subsidiaries. The amount was received during the current year.

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Notes to the consolidated financial statements
for the year ended 31 December 2016**

10. Accounts receivable and other assets (continued)

The ageing of trade receivables net of impairment is as follows:

	2016 KD	2015 KD
Neither past due nor impaired	3,171,091	4,311,603
Past due for 1 to 30 days	477,033	274,883
Past due for 31 to 90 days	1,821,790	1,163,919
Past due for more than 90 days	1,277,304	1,432,913
Total	6,747,218	7,183,318

Based on the past experience the unimpaired trade receivables are expected to be recoverable in full.

11. Bank balances, cash and term deposits

	2016 KD	2015 KD
Bank balances and cash	3,423,940	3,208,900
Wakala deposits	1,892,678	1,900,000
Bank balances and cash in the consolidated statement of financial position	5,316,618	5,108,900
Restricted bank balances and wakala deposits of more than three months	(2,250,574)	(2,445,904)
Cash and cash equivalents in the consolidated statement of cash flows	3,066,044	2,662,996

Wakala deposits with original maturities of more than three months include KD 1,892,678 (2015: KD 1,800,000) representing margin deposits held as security against the letters of guarantee (note 22). Restricted bank balances represent margin deposits that are held as security against letters of guarantee (note 22).

12. Equity

a) Share capital

The authorised, issued and fully paid up share capital as at 31 December 2016 consists of 750,000 thousand shares (2015: 750,000 thousand shares) of 100 fils each, contributed in cash.

b) Share premium

The share premium account is not available for distribution.

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Notes to the consolidated financial statements
for the year ended 31 December 2016**

12. Equity (continued)

c) Statutory reserve

In accordance with the Companies Law No. 1 of 2016, as amended, and its Executive Regulations and the Company's Memorandum of Incorporation, 10% of profit for the year attributable to shareholders of the Company before KFAS, NLST, Zakat and Directors' remuneration is required to be transferred to a statutory reserve until the reserve reaches a minimum of 50% of the paid up share capital.

This reserve is not available for distribution except for the amount in excess of 50% of share capital or payment of a dividend of 5% of paid up share capital in years when retained earnings are not sufficient for the payment of such dividends.

No transfer has been made for the years ended 31 December 2016 and 2015 due to losses incurred during the years.

d) Voluntary reserve

In accordance with the Company's Memorandum of Incorporation, 10% of profit for the year attributable to shareholders of the Company before KFAS, NLST, Zakat and Directors' remuneration is required to be transferred to the voluntary reserve until the shareholders decide to discontinue the transfer to the voluntary reserve.

No transfer has been made for the years ended 31 December 2016 and 2015 due to losses incurred during the years.

e) Other reserves

Other reserves comprises of amounts credited to equity on acquisitions of non-controlling interests which are accounted for as transactions with shareholders in their capacity as owners.

f) Board of Directors' remuneration

The provision for the Board of Directors' remuneration was made according to Article 198 of the Companies Law No. 1 of 2016 and it's Executive Regulations.

13. Subsidiaries and non-controlling interests

Subsidiaries of the Group are as follows:

Name of subsidiary	Country of incorporation	Effective interest	
		2016	2015
KDDB General Trading and Contracting Company W.L.L. ("KDDB")	Kuwait	90.00%	90.00%
Higleig Petroleum Services and Investment Company Ltd. ("Higleig")	Sudan	64.25%	64.25%
Nordic Intervention Services LLC ("NIS")	UAE	100.00%	100.00%
Nordic Energy FZC ("NES")	UAE	92.50%	92.50%
AREF Energy International Ltd ("AEIL")	Cayman Island	100.00%	100.00%

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Notes to the consolidated financial statements
for the year ended 31 December 2016**

13. Subsidiaries and non-controlling interests (continued)

The following table summarizes the information relating to each of the Group's subsidiaries that has material non-controlling interests (NCI), before any intra-group eliminations:

31 December 2016	KDDB KD	Higleig KD	NES KD	Total KD
Non-current assets	2,215,099	8,583,724	935,013	11,733,836
Current assets	6,111,122	6,017,942	1,294,081	13,423,145
Non-current liabilities	(301,234)	(175,775)	-	(477,009)
Current liabilities	(9,023,466)	(4,608,537)	(547,328)	(14,179,331)
Net assets	(998,479)	9,817,354	1,681,766	10,500,641
Carrying amount of NCI	(99,848)	3,509,704	126,132	3,535,988
Revenue	8,058,848	2,076,821	2,972,350	13,108,019
Loss	(4,804,803)	(1,167,700)	(1,994,273)	(7,966,776)
Total comprehensive loss	(4,804,803)	(1,128,503)	(1,994,273)	(7,927,579)
Loss allocated to NCI	(480,480)	(417,453)	(149,570)	(1,047,503)
Other comprehensive loss allocated to NCI	-	(144,603)	(720)	(145,323)
31 December 2015				
Non-current assets	1,843,354	10,785,323	4,806,585	17,435,262
Current assets	5,860,824	7,183,237	1,331,943	14,376,004
Non-current liabilities	(201,035)	(158,040)	-	(359,075)
Current liabilities	(3,696,820)	(4,722,061)	(2,452,880)	(10,871,761)
Net assets	3,806,323	13,088,459	3,685,648	20,580,430
Carrying amount of NCI	380,632	4,679,125	276,424	5,336,181
Revenue	9,948,966	4,442,105	1,743,268	16,134,339
Profit	259,107	913,048	(298,255)	873,900
Total comprehensive income / (loss)	259,107	(2,122,878)	(131,556)	(1,995,327)
Profit allocated to NCI	25,910	326,415	(22,369)	329,956
Other comprehensive (loss) / income allocated to NCI	-	(126,725)	12,502	(114,223)

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Notes to the consolidated financial statements
for the year ended 31 December 2016**

14. Accounts payable and other liabilities

	2016 KD	2015 KD
Trade payables	2,368,231	2,382,120
Advances received from customers	1,007,016	1,903,364
Due to related parties (note 16)	12,216	308,380
Accruals	3,575,857	1,917,735
Dividend payable	280,475	854,924
Other payables	829,125	576,047
	<u>8,072,920</u>	<u>7,942,570</u>

15. Murabaha payables

Murabaha facilities are unsecured and majority are obtained from related parties (note 16).

16. Related party transactions

Related parties represent major shareholders, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management. Transactions between the Company and its subsidiaries which are related parties to the Company have been eliminated on consolidation and are not disclosed in this note. Transactions with related parties are as follows:

	2016 KD	2015 KD
a) Balances included in the consolidated statement of financial position		
<i>The Ultimate Parent Company</i>		
Bank balances, cash and term deposits	2,865,658	599,487
Murabaha payable	1,185,218	222,635
<i>The Parent Company</i>		
Murabaha payable	4,852,211	1,335,682
<i>Entities related to the shareholders</i>		
Accounts receivables and other assets	9,409	10,602
Accounts payable and other liabilities	12,216	308,380

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Notes to the consolidated financial statements
for the year ended 31 December 2016**

16. Related party transactions (continued)

	2016	2015
	KD	KD
b) Contingent liability		
Letters of credit (note 22)	1,063,297	195,098
c) Transactions included in the consolidated statement of profit or loss		
<i>The Ultimate Parent Company</i>		
Finance income	11,842	4,636
Murabaha finance cost	21,436	11,026
<i>The Parent Company</i>		
Murabaha finance cost	49,058	1,382
d) Compensation of key management personnel		
Short term benefits	560,639	547,323
Termination benefits	27,169	36,144
	587,808	583,467

The amount of provision made for Audit Committee and Executive Committee remunerations for current year is nil (2015: KD 9,000 and KD 12,000 respectively).

The Group has entered into transactions with related parties on substantially the same terms as those with other parties on an arm's length basis.

17. Other income

Other income mainly represents income from scrap sales from one of the subsidiaries.

18. Net impairment loss

	2016	2015
	KD	KD
Impairment / (reversal of impairment) of receivables, net	979,022	(211,016)
Impairment of inventories	520,713	-
Impairment of investment in associate (note 7)	542,320	923,794
Impairment of financial asset available for sale (note 8)	11,926,856	6,320,000
Impairment of goodwill (note 5)	16,640	-
Impairment of other intangible assets (note 5)	-	200,952
Impairment of property and equipment, net (note 4)	2,875,358	-
	16,860,909	7,233,730

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

Notes to the consolidated financial statements
for the year ended 31 December 2016

18. Net impairment loss (continued)

The impairment loss of goodwill and property and equipment are recognized in relation to one of the subsidiaries' rigs as the daily rig rates with a key client have decreased and will have an impact on earnings in future and therefore the management has carried out an impairment test. According to this, management estimated the recoverable amounts of this cash generating unit based on value in use using weighted average cost of capital of 19.7% and a terminal value growth of 1% from 2019 onwards. Budgeted EBITDA is 15% over next three years. This is based on expectations of future outcomes including expected utilization based on work program provided by the client, taking into account prevailing rig rates and adjusted for anticipated revenue growth. The recoverable amount of the CGU was hence lesser than its carrying value, which resulted to full impairment of goodwill of KD 16,640 and impairment of property and equipment of KD 3,454,145.

19. Foreign exchange gain

The foreign exchange gain for the current year is arising mainly due to the impact of significant devaluation of the functional currency of a subsidiary during the year.

20. Basic and diluted loss per share

Loss per share attributable to shareholders of the Company is computed by dividing the loss for the year attributable to shareholders of the Company by the weighted average number of shares outstanding during the year as follows:

	2016	2015
Loss for the year attributable to shareholders of the Company (KD)	(19,993,323)	(7,910,436)
Weighted average number of outstanding shares	750,000,000	750,000,000
Basic and diluted loss per share attributable to shareholders of the Company (fils)	(26.66)	(10.55)

21. Segment information

For management purposes, the Group is organised into two operating segments based on business units as follows:

- Energy** : Exploration, drilling, development and production of oil and gas, alternate and renewable sources of energy, licensing and other activities related to the energy sector; and
- Others** : Investment and other related services.

The management of the Company monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss for the year and is measured consistently with net profit or loss in the consolidated statement of profit or loss.

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Notes to the consolidated financial statements
for the year ended 31 December 2016**

21. Segment information (continued)

	Energy KD	Others KD	Total KD
31 December 2016			
Segment revenues	<u>13,108,019</u>	<u>-</u>	<u>13,108,019</u>
Loss	<u>(20,994,096)</u>	<u>(46,730)</u>	<u>(21,040,826)</u>
Depreciation and amortization	<u>1,070,440</u>	<u>142,592</u>	<u>1,213,032</u>
Impairment loss	<u>16,844,269</u>	<u>16,640</u>	<u>16,860,909</u>
Segment assets	<u>45,669,571</u>	<u>3,736,749</u>	<u>49,406,320</u>
Investment in associates	<u>1,762,855</u>	<u>-</u>	<u>1,762,855</u>
Total assets	<u>47,432,426</u>	<u>3,736,749</u>	<u>51,169,175</u>
Total liabilities	<u>14,334,578</u>	<u>-</u>	<u>14,334,578</u>
Capital expenditures	<u>1,143,050</u>	<u>-</u>	<u>1,143,050</u>
31 December 2015			
Segment revenues	<u>16,134,339</u>	<u>-</u>	<u>16,134,339</u>
Loss	<u>(7,189,910)</u>	<u>(390,570)</u>	<u>(7,580,480)</u>
Depreciation and amortization	<u>909,322</u>	<u>106,332</u>	<u>1,015,654</u>
Impairment losses	<u>7,233,730</u>	<u>-</u>	<u>7,233,730</u>
Segment assets	<u>60,681,896</u>	<u>5,652,030</u>	<u>66,333,926</u>
Investment in associates	<u>2,489,024</u>	<u>-</u>	<u>2,489,024</u>
Total assets	<u>63,170,920</u>	<u>5,652,030</u>	<u>68,822,950</u>
Total liabilities	<u>10,066,689</u>	<u>-</u>	<u>10,066,689</u>
Capital expenditures	<u>1,802,263</u>	<u>-</u>	<u>1,802,263</u>

The Group also earns revenue and has assets mainly in three geographic markets: a) Kuwait b) Middle East and North Africa (MENA) and c) Outside MENA. The following table shows the distribution of the Group's segment revenues and non-current assets by geographic segment:

	Kuwait KD	MENA KD	Outside MENA KD	Total KD
31 December 2016				
Segment revenues	<u>8,058,848</u>	<u>5,049,171</u>	<u>-</u>	<u>13,108,019</u>
Non-current assets	<u>1,174,992</u>	<u>11,800,934</u>	<u>21,964,538</u>	<u>34,940,464</u>
31 December 2015				
Segment revenues	<u>9,948,966</u>	<u>6,185,373</u>	<u>-</u>	<u>16,134,339</u>
Non-current assets	<u>3,105,848</u>	<u>15,795,552</u>	<u>32,710,690</u>	<u>51,612,090</u>

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Notes to the consolidated financial statements
for the year ended 31 December 2016**

22. Commitments and contingent liabilities

	2016 KD	2015 KD
a) Capital commitments		
Commitment towards contribution of fund expenses	903,683	994,379
Financial assets available for sale	<u>6,593,400</u>	<u>6,480,000</u>
	<u>7,497,083</u>	<u>7,474,379</u>
b) Contingent liabilities		
Letters of guarantee	4,817,334	6,764,733
Letters of credit (note 16)	<u>1,063,297</u>	<u>195,098</u>
	<u>5,880,631</u>	<u>6,959,831</u>

No material liabilities are anticipated to arise out of contingent liabilities. The letters of guarantee are partly secured by bank balances and wakala deposits (note 11).

23. Hyperinflation adjustment

IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of a measuring unit current at the statement of financial position date and that corresponding figures for previous periods be stated in the same terms to the latest statement of financial position date. This has been applied in Higlieig, a subsidiary, which is declared by The International Monetary Fund (IMF) and hence the restatement has been calculated by means of conversion factors derived from the Consumer Price Index (CPI) provided by the Central Bank of Sudan (CBOS). The conversion factors used to restate the financial statements of the subsidiary are as follows:

	Index	Conversion factor
31 December 2016	617.400	1.101
31 December 2015	521.800	1.081
31 December 2014	428.300	1.151
31 December 2013	314.826	1.198
31 December 2012	262.793	1.444
31 December 2011	181.944	1.189

The above mentioned restatement is affected as follows:

- i. Financial statements prepared in the currency of a hyperinflationary economy are stated after applying the measuring unit current at statement of financial position date and corresponding figures for the previous period are stated on the same basis. Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at the statement of financial position date. Monetary items are money held and items to be recovered or paid in money;
- ii. Non-monetary assets and liabilities that are not carried at amounts current at the statement of financial position date and components of shareholders' equity are restated by applying the relevant conversion factors;

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

Notes to the consolidated financial statements
for the year ended 31 December 2016

23. Hyperinflation adjustment (continued)

- iii. Comparative financial statements are restated using general inflation indices in terms of the measuring unit current at the statement of financial position date. Investment property and available for sale investments are indexed based on recent fair valuations. The resulting adjustments are taken directly to the consolidated statement of changes in equity;
- iv. All items in the income statement are restated by applying the relevant quarterly average or year-end conversion factors; and
- v. The effect on the net monetary position of the Group is included in the consolidated statement of profit or loss as a monetary gain or loss from hyperinflation.

The application of the IAS 29 restatement procedures has the effect of amending certain accounting policies at the subsidiary's level which are used in the preparation of the financial statements under the historical cost conversion.

The hyperinflation adjustment of KD 864,226 (2015: KD 2,671,992) in the books of Higleig, up to 31 December 2016, has been adjusted directly in the consolidated statement of changes in equity.

The movement in non-monetary assets and liabilities due to hyperinflation is as follows:

	2016	2015
	KD	KD
Property and equipment (note 4)	320,933	320,110
Investment in associates (note 7)	34,737	(73,645)
Investment property (note 6)	(461,053)	(2,179,062)
Inventories	(81,342)	442,798
Provision for staff indemnity	-	27,516
Other impact on the consolidated statement of profit or loss	(384,702)	(501,784)
	(571,427)	(1,964,067)

Consolidated statement of changes in equity

Attributable to:

Shareholders of the Company	(555,266)	(1,716,755)
Non-controlling interests	(308,960)	(955,237)
	(864,226)	(2,671,992)

Consolidated statement of profit or loss

Attributable to:

Shareholders of the Company	188,123	454,842
Non-controlling interests	104,676	253,083
	292,799	707,925
Total impact of hyperinflation	(571,427)	(1,964,067)

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

Notes to the consolidated financial statements
for the year ended 31 December 2016

24. Financial instruments and risk management

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

The Group's risk management focuses on actively securing the Group's short to medium term cash flows by minimizing the potential adverse effects on the Group's financial performance through internal risk reports. The Company's Board of Directors are ultimately responsible for the overall risk management and for approving risk strategies and principles.

The Group is exposed to credit risk, liquidity risk, market risk and operational risk. Market risk is subdivided into profit rate risk, foreign currency risk and equity price risk.

The independent risk control process does not include business risks such as changes in the environment technology and industry. They are monitored through the Group's strategic planning process.

Market risk

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

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, profit rates and equity prices.

i. Foreign currency exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar and Sudanese Pounds. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

	2016	2015
	KD	KD
	Equivalent	Equivalent
US Dollar	9,649,557	10,578,393
Sudanese Pounds	9,817,346	13,088,459

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

Notes to the consolidated financial statements
for the year ended 31 December 2016

24. Financial instruments and risk management (continued)

Market risk (continued)

Foreign currency sensitivity analysis

The Group is maintaining exposure mainly to the US Dollar and Sudanese Pounds. The following table details the Group's sensitivity to a 10% increase in the KD against the other currencies (as a result of a change in the foreign currency) at the year end due to the assumed change in market rates, with all other variance held constant. A 10 % decrease in the KD against these currencies would have the opposite effect. A positive number indicates decrease in loss for the year before KFAS, NLST, Zakat and Directors' remunerations / equity and a negative number indicates increase in loss for the year before KFAS, NLST, Zakat and Directors' remuneration / equity.

	2016		2015	
	Effect on profit KD	Effect on equity KD	Effect on profit KD	Effect on equity KD
US Dollar	(105,156)	964,956	(83,550)	1,057,839
Sudanese Pounds	(116,770)	981,735	91,305	1,308,846

ii. Profit rate risk management

Profit rate risk arises from the possibility that changes in profit rates of Islamic financial instruments will affect future profitability of the Group. Profit rate risk is managed by the Finance Department of the Company. The Group is not significantly exposed to profit rate risk as a result of mismatches of profit rate re-pricing of assets and liabilities since it does not own significant floating rate Islamic financial assets and Islamic financial liabilities that could have a material impact on the Group's results before taxes and Board of Directors' remuneration.

iii. Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio. The Group manages the risk by focusing on the long term holding of equity assets, keeping its exposure at an acceptable level and by continuously monitoring the markets.

The effects of other comprehensive income (as a result of a change in fair value of financial assets available for sale) due to a 3% change in regional market indices, with all other variables held constant, is not significant.

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Notes to the consolidated financial statements
for the year ended 31 December 2016**

24. Financial instruments and risk management (continued)

Credit risk management

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group's credit policy and exposure to credit risk is monitored on an ongoing basis. The Group seeks to avoid undue concentrations of risks with individuals or groups of customers in specific locations or business through diversification.

With respect to credit risk arising from the other financial assets of the Group, which comprise bank balances and other assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Where financial instruments are recorded at fair value, it represents the current maximum credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

i. Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2016	2015
	KD	KD
Bank balances	5,189,669	5,066,923
Accounts receivable and other assets	9,017,528	10,100,650
	<u>14,207,197</u>	<u>15,167,573</u>

The maximum exposure to credit risk for financial assets at the reporting date by geographic region was:

	Carrying amount	
	2016	2015
	KD	KD
Kuwait	7,806,615	10,645,568
MENA (other than Kuwait)	6,362,980	4,460,875
Outside MENA	37,602	61,130
	<u>14,207,197</u>	<u>15,167,573</u>

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

Notes to the consolidated financial statements
for the year ended 31 December 2016

24. Financial instruments and risk management (continued)

Credit risk management (continued)

The Group's credit risk bearing assets can be analysed by the industry sector as follows:

	Carrying amount	
	2016	2015
	KD	KD
Banks and other financial institutions	5,189,669	5,066,923
Others	9,017,528	10,100,650
	14,207,197	15,167,573

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates.

The Group has fully provided for all receivables due for a period greater than 365 days as a result of historical experience. Trade receivables between 30 days and 365 days are provided for based on estimated irrecoverable amounts determined by reference to past default experience.

Liquidity risk management

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, the Company's management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents, and readily marketable securities.

The table below summarizes the analysis of Group's financial liabilities based on contractual undiscounted repayment obligations. The liquidity profile of financial liabilities reflects the projected cash flows which includes profit payments over the life of these financial liabilities.

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Notes to the consolidated financial statements
for the year ended 31 December 2016**

24. Financial instruments and risk management (continued)

Liquidity risk management (continued)

At 31 December 2016	On demand KD	Less than 1 year KD	More than 1 year KD	Total KD
Financial liabilities				
Murabaha payable	-	6,261,654	-	6,261,654
Accounts payable and other liabilities	3,619,386	3,792,664	660,870	8,072,920
	<u>3,619,386</u>	<u>10,054,318</u>	<u>660,870</u>	<u>14,334,574</u>
Commitments				
Commitment towards contribution of fund expenses	-	903,683	-	903,683
Financial assets available for sale	-	-	6,593,400	6,593,400
	<u>-</u>	<u>903,683</u>	<u>6,593,400</u>	<u>7,497,083</u>
At 31 December 2015				
Financial liabilities				
Murabaha payable	-	1,558,317	-	1,558,317
Accounts payable and other liabilities	2,996,692	3,987,271	958,607	7,942,570
	<u>2,996,692</u>	<u>5,545,588</u>	<u>958,607</u>	<u>9,500,887</u>
Commitments				
Commitment towards contribution of fund expenses	-	994,379	-	994,379
Financial assets available for sale	-	-	6,480,000	6,480,000
	<u>-</u>	<u>994,379</u>	<u>6,480,000</u>	<u>7,474,379</u>

Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, human error, systems failure or from external events. The Group has a set of policies and procedures, which are applied to identify, assess and supervise operational risk. The Group's management ensures compliance with policies and procedures and monitors operational risk as part of overall risk management.

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

Notes to the consolidated financial statements
for the year ended 31 December 2016

25. Fair values

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair value of financial instruments traded in active markets (such as trading and available for sale securities) is based on quoted market prices at the financial position date. The quoted market price used for financial assets held by the Group is the current bid price.

The investment in an unquoted fund is carried at net asset value provided by the fund manager.

The fair value of investment property is determined based on the valuation performed as at 31 December 2016 by accredited independent valuator who is the industry specialists in valuing this type of investment property.

Fair value measurements recognised in the consolidated statement of financial position

The table below analyses the assets carried at fair value. The different levels have been defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 KD	Level 2 KD	Total fair Value KD
31 December 2016			
Financial assets at fair value through profit or loss:			
Investment in an unquoted fund	-	7,964,538	7,964,538
Financial assets available for sale:			
Quoted equity securities	346,212	-	346,212
Investment property	-	3,736,749	3,736,749
	<u>346,212</u>	<u>11,701,287</u>	<u>12,047,499</u>

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Notes to the consolidated financial statements
for the year ended 31 December 2016**

25. Fair values (continued)

31 December 2015	Level 1 KD	Level 2 KD	Total fair value KD
Financial assets at fair value through profit or loss:			
Investment in an unquoted fund	-	6,783,834	6,783,834
Financial assets available for sale:			
Quoted equity securities	328,561	-	328,561
Investment property	-	5,652,030	5,652,030
	<u>328,561</u>	<u>12,435,864</u>	<u>12,764,425</u>

There were no transfers between levels during the years ended 31 December 2016 and 31 December 2015.

26. Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business and maximise shareholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may return capital to shareholders or issue new shares.

In order to determine or adjust the capital structure, the Company monitors capital on the basis of gearing ratio. The ratio is calculated as net debt divided by total capital. Net debt is calculated as total liabilities less cash and bank balances. Total capital is calculated as equity as shown in the consolidated statement of financial position plus net debt.

The gearing ratios at the reporting date are as follows:

	2016 KD	2015 KD
Net debt	11,571,504	6,857,789
Equity attributable to shareholders of the Company	32,637,743	53,420,080
Gearing ratio	35.5%	12.8%

The Company is not subject to any minimum capital requirements other than the requirements of the Companies Law No. 1 of 2016 and its Executive Regulations.