

**National Real Estate Company K.P.S.C.
and its Subsidiaries**

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION
(UNAUDITED)**

31 MARCH 2017



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working world

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF NATIONAL REAL ESTATE COMPANY K.P.S.C.

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of National Real Estate Company K.P.S.C. (the “Parent Company”) and its Subsidiaries (collectively, the “Group”) as at 31 March 2017, and the related interim condensed consolidated statement of income, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the three months period then ended. The management of the Parent Company is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard IAS 34 “Interim Financial Reporting” (“IAS 34”). Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

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

Basis for Qualified Conclusion

As stated in Note 3 (b) to the interim condensed consolidated financial information, the associate filed a request for arbitration related to one of its investment. The auditors of the associate were unable to obtain sufficient appropriate audit evidence about the investment and the recoverability of the loan granted by the associate to the related investee as at 31 March 2017, due to the nature and significant uncertainty around the investment and outcome of the request for arbitration. Consequently, we were unable to determine whether any adjustment to the carrying value of the investment in associate was necessary.

Qualified Conclusion

Based on our review, except for the possible effect of the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS 34.

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF NATIONAL REAL ESTATE COMPANY K.P.S.C. (continued)

Emphasis of Matter

We draw attention to Note 3 (a) to the interim condensed consolidated financial information, which describes the legal cases of the associate. The ultimate outcome of these matters cannot presently be determined, and therefore no provision has been made in the interim condensed consolidated financial information of the associate. Our Conclusion is not further qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

Furthermore, based on our review, except for the effect of matter described in the “Basis for Qualified Conclusion” above, the interim condensed consolidated financial information is in agreement with the books of accounts of the Parent Company. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 1 of 2016 and its executive regulations, or of the Parent Company’s Memorandum of Incorporation and Articles of Association, as amended, during the three months period ended 31 March 2017 that might have had a material effect on the business of the Parent Company or on its financial position.



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10 May 2017
Kuwait

National Real Estate Company K.P.S.C. and its Subsidiaries
INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME
(UNAUDITED)

For the period ended 31 March 2017

	Notes	Three months ended 31 March	
		2017 KD	2016 KD
REVENUE			
Sale of inventory properties		2,231,135	4,443,900
Rental income		2,923,201	2,874,931
		<u>5,154,336</u>	<u>7,318,831</u>
Cost of inventory properties sold		(2,366,407)	(3,579,765)
GROSS PROFIT		<u>2,787,929</u>	<u>3,739,066</u>
Share of results from an associate	3	3,426,724	3,084,499
Share of results from a joint venture		(139,077)	(124,717)
General and administrative expenses		(832,354)	(1,376,717)
Staff costs		(967,204)	(1,006,669)
Depreciation of property and equipment		(30,200)	(43,105)
Other income		66,350	104,852
Interest income		116,312	75,501
Finance costs		(536,385)	(708,442)
PROFIT FOR THE PERIOD BEFORE TAXATION AND BOARD OF DIRECTORS' REMUNERATION		<u>3,892,095</u>	<u>3,744,268</u>
Taxation		(37,341)	(40,964)
Board of directors' remuneration	7	(21,250)	(24,000)
PROFIT FOR THE PERIOD		<u><u>3,833,504</u></u>	<u><u>3,679,304</u></u>
Attributable to			
Equity holders of the Parent Company		3,786,732	3,615,655
Non-controlling interests		46,772	63,649
		<u><u>3,833,504</u></u>	<u><u>3,679,304</u></u>
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (FILS)	6	<u><u>4.04</u></u>	<u><u>3.86</u></u>

The attached notes 1 to 11 form part of this interim condensed consolidated financial information.

National Real Estate Company K.P.S.C. and its Subsidiaries
 INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL
 POSITION (UNAUDITED)
 As at 31 March 2017

		(Audited)	
	31 March 2017	31 December 2016	31 March 2016
	KD	KD	KD
ASSETS			
Cash and cash equivalents	6,732,791	9,664,222	8,944,967
Accounts receivable and prepayments	15,355,739	14,247,845	15,281,268
Inventory properties	14,732,859	15,608,321	21,491,209
Financial assets available-for-sale	1,562,696	1,311,718	1,426,140
Investment in an associate	195,529,681	192,323,026	190,057,184
Investment in a joint venture	21,080,228	21,213,973	23,593,180
Properties under development	74,965,228	74,994,248	120,804,009
Property and equipment	1,043,083	1,061,307	1,116,153
Investment properties	199,769,492	197,716,963	182,412,860
TOTAL ASSETS	530,771,797	528,141,623	565,126,970
LIABILITIES AND EQUITY			
Liabilities			
Loans and borrowings	160,645,725	161,781,794	164,682,556
Accounts payable and accruals	123,914,698	123,521,405	152,779,076
Employees' end of service benefits	1,270,201	1,223,184	1,176,063
Total liabilities	285,830,624	286,526,383	318,637,695
Equity			
Share capital	98,965,918	98,965,918	94,253,255
Treasury shares	(7,864,846)	(7,781,690)	(7,811,040)
Statutory reserve	45,944,927	45,944,927	44,295,836
Treasury share reserve	12,857,601	12,857,601	12,857,601
Effect of change in other comprehensive income of an associate	1,070,815	1,290,884	735,887
Share of other reserves of an associate	(8,331,325)	(8,331,325)	(7,349,134)
Cumulative change in fair value reserve	250,978	-	(136,897)
Foreign currency translation reserve	(26,679,389)	(26,283,272)	(10,174,066)
Retained earnings	97,023,997	93,237,265	87,112,540
Equity attributable to equity holders of the Parent Company	213,238,676	209,900,308	213,783,982
Non-controlling interests	31,702,497	31,714,932	32,705,293
Total equity	244,941,173	241,615,240	246,489,275
TOTAL LIABILITIES AND EQUITY	530,771,797	528,141,623	565,126,970


 Faisal Jamil Sultan Al-Essa
 Chairman

The attached notes 1 to 11 form part of this interim condensed consolidated financial information.

National Real Estate Company K.P.S.C. and its Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the period ended 31 March 2017

Attributable to shareholders of the Parent Company

	Share capital KD	Treasury shares KD	Statutory reserve KD	Treasury share reserve KD	Effect of changes in other comprehensive income of associate KD	Share of other reserves from associate KD	Cumulative changes in fair value reserve KD	Foreign currency translation reserve KD	Retained earnings KD	Sub-total KD	Non-controlling interests KD	Total equity KD
As at 1 January 2017	98,965,918	(7,781,690)	45,944,927	12,857,601	1,290,884	(8,331,325)	-	(26,283,272)	93,237,265	209,900,308	31,714,932	241,615,240
Profit for the period	-	-	-	-	-	-	-	-	3,786,732	3,786,732	46,772	3,833,504
Other comprehensive (loss) income for the period	-	-	-	-	(220,069)	-	250,978	(396,117)	-	(365,208)	(59,207)	(424,415)
Total comprehensive (loss) income for the period	-	-	-	-	(220,069)	-	250,978	(396,117)	3,786,732	3,421,524	(12,435)	3,409,089
Purchase of treasury shares	-	(83,156)	-	-	-	-	-	-	-	(83,156)	-	(83,156)
As at 31 March 2017	98,965,918	(7,864,846)	45,944,927	12,857,601	1,070,815	(8,331,325)	250,978	(26,679,389)	97,023,997	213,238,676	31,702,497	244,941,173
As at 1 January 2016	94,253,255	(7,601,831)	44,295,836	12,857,601	2,895,860	(7,349,369)	-	(6,047,462)	83,496,885	216,800,775	34,331,953	251,132,728
Profit for the period	-	-	-	-	-	-	-	-	3,615,655	3,615,655	63,649	3,679,304
Other comprehensive (loss) income for the period	-	-	-	-	(2,159,973)	235	(136,897)	(4,126,604)	-	(6,423,239)	(1,690,309)	(8,113,548)
Total comprehensive (loss) income for the period	-	-	-	-	(2,159,973)	235	(136,897)	(4,126,604)	3,615,655	(2,807,584)	(1,626,660)	(4,434,244)
Purchase of treasury shares	-	(209,209)	-	-	-	-	-	-	-	(209,209)	-	(209,209)
As at 31 March 2016	94,253,255	(7,811,040)	44,295,836	12,857,601	735,887	(7,349,134)	(136,897)	(10,174,066)	87,112,540	213,783,982	32,705,293	246,489,275

The attached notes 1 to 11 form part of this interim condensed consolidated financial information

National Real Estate Company K.P.S.C. and its Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

For the period ended 31 March 2017

	Note	Three months ended 31 March	
		2017 KD	2016 KD
OPERATING ACTIVITIES			
Profit for the period before taxation and Board of directors' remuneration		3,892,095	3,744,268
Adjustments for:			
Share of results from an associate	3	(3,426,724)	(3,084,499)
Share of results from a joint venture		139,077	124,717
Depreciation of property and equipment		30,200	43,105
Interest income		(116,312)	(75,501)
Finance costs		536,385	708,442
Provision for (reversal of) employees' end of service benefits		47,017	(15,794)
		<u>1,101,738</u>	<u>1,444,738</u>
Changes in working capital:			
Inventory properties		2,291,159	3,556,221
Additions to properties under development		(1,183,803)	(4,605,984)
Accounts receivable and prepayments		(1,107,892)	1,670,833
Accounts payable and accruals		(74,879)	(11,189,966)
Cash flows from (used in) operations		<u>1,026,323</u>	<u>(9,124,158)</u>
Employees' end of service benefits paid		-	(6,272)
Taxation paid		(102,642)	-
Net cash flows from (used in) operating activities		<u>923,681</u>	<u>(9,130,430)</u>
INVESTING ACTIVITIES			
Purchase of property and equipment		(14,163)	(14,758)
Purchase of investment properties		(1,155,087)	(2,349,375)
Interest income received		116,312	75,501
Net cash flows used in investing activities		<u>(1,052,938)</u>	<u>(2,288,632)</u>
FINANCING ACTIVITIES			
Net movement in loans and borrowings		(1,136,069)	(195,643)
Purchase of treasury shares		(83,156)	(209,209)
Finance cost paid		(1,791,845)	(1,868,456)
Dividend paid		-	(18,855)
Net cash flows used in financing activities		<u>(3,011,070)</u>	<u>(2,292,163)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		<u>(3,140,327)</u>	<u>(13,711,225)</u>
Foreign currency translation adjustments		208,896	8,769,463
Cash and cash equivalents at beginning of the period		9,664,222	13,886,729
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		<u>6,732,791</u>	<u>8,944,967</u>

The attached notes 1 to 11 form part of this interim condensed consolidated financial information.

National Real Estate Company K.P.S.C. and its Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at 31 March 2017

1 INFORMATION ABOUT THE PARENT COMPANY

National Real Estate Company K.P.S.C. (the "Parent Company") was incorporated in State of Kuwait under reference number 19628 dated 15 November 1973 as a Kuwaiti public shareholding company. The Parent Company is listed on the Kuwait Stock Exchange. The address of the Parent Company's registered office is P.O. Box 22644, Safat 13087, State of Kuwait.

The main activities of the Group are real estate investment and management, as well as undertaking real estate construction and maintenance.

The interim condensed consolidated financial information of Parent Company and its subsidiaries (collectively, the "Group") for the period ended 31 March 2017 was authorised for issuance in accordance with a resolution of the Parent Company's Board of Directors on 10 May 2017.

The Annual General Assembly for the year ended 31 December 2016 has not been held until the date of approval of this interim condensed consolidated financial information. Accordingly, the consolidated financial statements for the year ended 31 December 2016 have not yet been approved. The interim condensed consolidated financial information for the three months period ended 31 March 2017 do not include any adjustments, which might have been required, had the General Assembly not approved the consolidated financial statements for the year ended 31 December 2016.

2 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The interim condensed consolidated financial information of the Group has been prepared in compliance with IAS 34: *Interim Financial Reporting* ("IAS 34").

The interim condensed consolidated financial information does not include all the information and disclosures required in the annual audited consolidated financial statements, and should be read in conjunction with the Group's annual audited consolidated financial statements for the year ended 31 December 2016. In the opinion of management, all adjustments consisting of normal recurring accruals considered necessary for a fair presentation have been included in the interim condensed consolidated financial information. Operating results for the interim period ended 31 March 2017 are not necessarily indicative of the results that may be expected for the year ending 31 December 2017. For further information, refer to the annual audited consolidated financial statements and notes thereto for the year ended 31 December 2016.

The interim condensed consolidated financial information is presented in Kuwaiti Dinars ("KD"), which is the functional currency of the Group.

The accounting policies used in the preparation of this interim condensed consolidated financial information are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of the amendments and annual improvements to IFRSs, relevant to the Group which are effective for annual reporting period starting from 1 January 2017 and did not result in any material impact on the accounting policies, financial position or performance of the Group.

3 INVESTMENT IN AN ASSOCIATE

The Parent Company has investment in Agility Public Warehousing Company K.S.C.P. ("Associate") with effective equity interest of 23.668% (31 December 2016: 23.537% and 31 March 2016: 23.537%). The associate is a public shareholding company registered in Kuwait and listed on the Kuwait Stock Exchange and Dubai Financial Market. Its principal activities include storing goods, management and renting of warehouses, transportation activities, distribution, handling and customs clearance for goods.

National Real Estate Company K.P.S.C. and its Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at 31 March 2017

3 INVESTMENT IN AN ASSOCIATE (continued)

Movement in carrying value of investment in an associate during the period/year was as follows:

	<i>31 March</i> <i>2017</i> <i>KD</i>	<i>(Audited)</i> <i>31 December</i> <i>2016</i> <i>KD</i>	<i>31 March</i> <i>2016</i> <i>KD</i>
Balance at the beginning of the period / year	192,323,026	189,132,423	189,132,423
Share of results	3,426,724	13,899,193	3,084,499
Cash dividends received	-	(8,121,658)	-
Effect of changes in an associate's equity	(220,069)	(1,604,976)	(2,159,973)
Effect of change in other reserves of associate	-	(981,956)	235
Balance at the end of the period / year	<u>195,529,681</u>	<u>192,323,026</u>	<u>190,057,184</u>

Market value of investment in the associate as at the date of consolidated financial statements was KD 165,140,331 (31 December 2016: 167,847,549 and 31 March 2016: 128,592,881) .

a) The contingent liabilities and legal cases relating to the associate are summarized as follows:

i. In 2007, the Associate was served with an administrative subpoena and, subsequently, in March 2008, with a grand jury subpoena, by the US Government in connection with an investigation into certain aspects of the Subsistence Prime Vendor ("SPV") Contract which expired in December 2010. In addition, some employees of the Associate were served with grand jury subpoenas. The Associate cooperated with this investigation and produced numerous records in response to this request.

In November 2009, the Associate was indicted by a federal grand jury in United States on multiple counts of fraud allegations. Furthermore, The United States Department of Justice also joined the qui tam lawsuit against the Associate under the US False Claims Act (the "Qui Tam Proceedings"). The Department of Justice is claiming substantial damages for alleged violations. The Associate pled not guilty to the indictment. Between February and November 2012, both parties filed various motions and opposition briefs which are pending before the court for ruling. The Associate's filings included motions to dismiss the indictment on various grounds and a motion to transfer venue to another judicial district.

As a result of this indictment, the Group companies of the Associate are suspended from bidding for new contracts with the US Government pending the outcome of the cases. However, the suspension did not affect continued performance of the existing contracts.

A judgment was issued by the higher Court of Appeal in the State of Kuwait on 30 January 2014 annulling the notices of service of process made upon the request of the competent American authorities at the Court of North Georgia in the United States, and determining such notices to be void ab initio. The judgment determined the Qui Tam Proceedings to be criminal in nature and further enjoined the Undersecretary in the Kuwait Ministry of Justice and others from serving the Associate, its employees and their dependents with any legal document related to the ongoing litigation at the Court of North Georgia in the United States. The above judgment is procedural in nature, and does not have any impact on the financial information of the Associate. As required by applicable law, the Associate has made disclosure of the foregoing judgment to the Kuwait Stock Exchange and the Kuwait Capital Markets Authority. The impact of this judgment leads to the same results that have been disclosed in the notes to previous consolidated financial statements of the Associate.

With respect to the Qui Tam Proceedings, in an order dated 5 February 2016, the United States District Court granted the United States' motion for alternative service of the Associate. The Qui Tam Proceedings are pending in the Northern District of Georgia in the United States. The order is not a final judgment in the matter. While publication of notice of the proceedings was subsequently made in a Kuwaiti newspaper, the United States District Court has yet to rule on whether service of process has yet been effected.

National Real Estate Company K.P.S.C. and its Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at 31 March 2017

3 INVESTMENT IN AN ASSOCIATE (continued)

On 28 September 2016, the U.S. magistrate issued a Report and Recommendation recommending that the U.S. District Court deny the Associate's motions to dismiss the indictment and to transfer venue. The recommendation is not a final judgment in the matter, and the U.S. District Court has yet to rule on the Associate's motions.

Furthermore, in 2009, in relation to a cost reimbursable contract, the U.S. Defense Contract Audit Agency (DCAA) determined that reimbursement requests for certain costs incurred by the Associate were not proper, and demanded repayment of approximately KD 23 million from the Associate. In 2011, the US Government collected KD 4.7 million from this amount by offsetting payments due on the Associate's other US Government contracts.

In November 2010, the Associate filed a Notice of Appeal in respect of the matter to the U.S. Armed Services Board of Contract Appeals (ASBCA). On 10 December 2014, the ASBCA ruled that it did not have subject-matter jurisdiction to review the appeal by the Associate.

On 8 April 2015, the Associate appealed the ASBCA ruling to the U.S. Court of Appeals for the Federal Circuit. As part of the same contract, the Associate asserted a KD 13 million claim for non-reimbursed costs. This claim was denied by the ASBCA and consolidated with the above referenced Government claim for KD 23 million. Both claims are therefore on appeal to the U.S. Court of Appeals for the Federal Circuit. The Associate also filed a separate complaint at the U.S. Court of Federal Claims on 7 April 2015 on a different jurisdictional basis seeking the KD 13 million affirmative claim, the KD 4.7 million which was offset by the U.S. Government as aforementioned, and a determination that the KD 23 million demanded by the US Government is invalid. On 10 March 2016 the U.S. Court of Appeals for the Federal Circuit granted a "limited remand" back to the ASBCA for the purpose of determining the real party in interest. Notwithstanding this remand, the U.S. Court of Appeals for the Federal Circuit retained jurisdiction over the appeal.

In October 2016, U.S. Defense Logistics Agency (DLA) sent a demand that the Associate reimburse the U.S. Government an amount of approximately KD 8.4 million for alleged "bottled water overcharges." The U.S. Government paid the claimed amount to the Associate for supplying bottled water to the U.S. military in Afghanistan in 2005. DLA claims that the Associate misrepresented the price of bottled water because PWC's supplier, Supreme Foodservice, charged an artificially-high price for the water that Supreme sold to the Associate. To date, DLA has not presented any evidence that the Associate was complicit in, or had any actual or constructive knowledge of, Supreme's fraud at the time the Associate purchased bottled water from Supreme. The Associate intends to defend vigorously against these claims, and has appealed DLA's decision before the United States Court of Federal Claims. In addition, the Associate has notified Supreme that the Associate will hold Supreme liable for all costs, including legal fees, the Associate incurs in defending this matter.

Despite inherent uncertainty surrounding these cases, no provision is recorded by the management in the consolidated financial statements. The Associate (after consulting the external legal counsel) is not able to comment on the likely outcome of the cases.

ii. *Freight forwarding business - investigation*

On 26 November 2009, the Italian Competition Authority (ICA) opened an investigation into the activities of some 20 freight forwarding companies including Associate's subsidiary in Italy. The ICA issued its final decision on 15 September 2011, imposing a total fine of approximately KD 55,000 (Euro 139,000) on Agility.

This decision was appealed by other third parties before the court and the proceedings were stayed pending a reference on the interpretation on the relevant points of EU law to the European Court of Justice, which handed down its judgment on 20 January 2016 that supports Associate's position. On October 23, 2016, the Italian court issued a ruling confirming the European Court of Justice ruling, and rejecting the third party appeals, thereby rendering as final the ICA decision.

In August 2010, the Brazilian competition authority ("CADE") opened an investigation into the activities of the freight forwarding industry which included the Associate. The investigation is currently ongoing. The Brazilian competition authority purported to serve a notice on the Associate through its Brazilian subsidiary. The Associate has to date rejected the validity of service of the notice. However, CADE stated in public announcement that it considers the notice to the Associate duly served. The Associate filed proceedings before the Brazilian court on 18 February 2014 requesting that the service of process be declared null. The Court issued a ruling rejecting this request and the Associate appealed against this ruling on 2 June 2015.

National Real Estate Company K.P.S.C. and its Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at 31 March 2017

3 INVESTMENT IN AN ASSOCIATE (continued)

As at 31 March 2017, due to inherent uncertainty surrounding these investigations, the Associate's management (after consulting the external legal counsel) is not able to comment on the likely outcome of the investigations and in view of the difficulty in quantifying any additional potential liabilities in this regard, no provision is recorded in the consolidated financial statements.

iii. Guarantee encashment

A resolution was issued by the General Administration of Customs for Kuwait ("GAC") to cash a portion, amounting to KD 10,092 thousand of the bank guarantee submitted by Global Clearing House Systems K.S.C. (Closed) (the "GCHS"), a subsidiary of the Associate, in favour of GAC in relation to performance of a contract. Pursuant to this resolution, GAC called the above guarantee during the year ended 31 December 2007.

GCHS appealed the above resolution at the Court of First Instance and the latter issued its judgment in favour of GCHS and ordered GAC to pay an amount of KD 58,927 thousand as compensation against the non-performance of its obligations under the contract, and KD 9,138 thousand towards refunding of the guarantee encashed earlier, together with an interest of 7% per annum on these amounts to be calculated from the date the judgment becomes final.

The GCHS appealed the judgment before the Court of Appeal requesting an increase in compensation. GAC also filed an appeal No. 1955 / 2014 administrative 4 before the Court of Appeal. On 13 September 2015, the Court of Appeal pronounced its judgement affirming the decision of the Court of First Instance. Both GCHS and GAC appealed against this ruling before the Kuwait Court of Cassation which is yet to pronounce its judgement.

The GCHS also filed a claim against GAC and requested, under one of its demands, the Court of Appeal to prohibit GAC from encashing the remaining bank guarantees offered by GCHS. The Court of Appeal issued its judgment in favour of GCHS in blocking the encashment of the bank guarantees in the possession of GAC.

In addition to the above, there are legal disputes between GCHS and GAC. Both the parties have filed various claims currently pending in the courts. The Associate's in-house counsel believes that these matters will not have a material adverse effect on the Associate's consolidated financial statements.

iv. KGL Litigation

During the year ended 31 December 2012, the Associate and certain of its subsidiaries were named as defendants in civil lawsuits filed by Kuwait and Gulf Link Transport Company ("KGL") and its affiliates in three separate jurisdictions in the United States for certain alleged defamation and interference with KGL's contracts with the US Government by an alleged former employee of the Associate. The Associate filed motions to dismiss the complaints and KGL also filed amended complaints. As a result, the Court in two of the jurisdictions granted the Associate's motion to dismiss the complaint. The ultimate outcome of the litigation in the other jurisdiction is uncertain at this time.

In addition to the above, the Associate is involved in various incidental claims and legal proceedings matters. The legal counsel of the Associate believes that these matters will not have a material adverse effect on the accompanying consolidated financial statements.

b) In February 2017, the Associate filed a request for arbitration related to one of its investments. The associate was unable to determine the fair value of its investments carried at fair value through profit and loss and the recoverability of the loan granted by the Associate to the related investee as at 31 March 2017, 31 December 2016 and 31 March 2016, due to nature and significant uncertainty around the investment and outcome of the request for arbitration. The investment is carried at its fair value as at 31 December 2013 of US Dollars 359 million which is equivalent to KD 109,346,000 (31 December 2016: KD 109,881,000 and 31 March 2016: 108,445,000).

As at 31 March 2017, interest bearing loan provided by the Associate to related investee along with interest accrued thereon amounted to KD 35,396,000 (31 December 2016: KD 35,569,000 and 31 March 2016: KD 35,104,000) for which the Associate's management is unable to determine the recoverability.

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4 SHARE CAPITAL

At 31 March 2017, the authorised, issued and fully paid up capital of the Parent Company comprises of 989,659,182 (31 December 2016: 989,659,182 and 31 March 2016: 942,532,557) shares of 100 fils each.

On 19 June 2016, the Shareholders at the Extra Ordinary General Assembly meeting of the Parent Company approved the increase in authorized share capital from KD 94,253,255 to KD 98,965,918 by issuing bonus shares of 5% of the Parent Company's capital, with a par value of 100 fils for each share. The increase in share capital was recorded in the Parent Company's commercial register on 11 July 2016.

5 TREASURY SHARES

	<i>31 March</i> <i>2017</i> <i>KD</i>	<i>(Audited)</i> <i>31 December</i> <i>2016</i> <i>KD</i>	<i>31 March</i> <i>2016</i> <i>KD</i>
Number of treasury shares	53,057,312	52,337,312	50,149,590
Percentage of issued and fully paid up shares (%)	5.36	5.29	5.32
Market value (KD)	5,411,846	5,443,080	4,764,211

6 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share is computed by dividing the profit for the period attributable to the equity holders of the Parent Company by the weighted average number of ordinary shares during the period less weighted average numbers of treasury shares as follows:

	<i>Three months ended</i> <i>31 March</i>	
	<i>2017</i>	<i>2016</i>
Profit attributable to equity holders of the Parent Company (KD)	3,786,732	3,615,655
Number of issued and fully paid-up shares	989,659,182	989,659,182
Less: Weighted average number of treasury shares	(52,817,201)	(52,337,312)
Weighted average number of ordinary shares	936,841,981	937,321,870
Basic and diluted earnings per share attributable to equity holders of the Parent Company (fils)	4.04	3.86

Basic and diluted earnings per share for the period ended 31 March 2016 was 4.05 fils before retrospective adjustment to the number of shares following the bonus issue (Note 4).

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7 RELATED PARTY BALANCES AND TRANSACTIONS

Related parties represent major shareholders, board of directors, associate, key management personnel and parties related to them. Pricing policies and terms of these transactions are approved by the Parent Company's management. Related party balances and transactions are summarized as follows:

Transactions included in interim condensed consolidated statement of income:

	<i>Major shareholders KD</i>	<i>Associate KD</i>	<i>Joint Venture KD</i>	<i>Three months ended 31 March</i>	
				<i>2017 KD</i>	<i>2016 KD</i>
Rental income	115,148	-	-	115,148	115,148
General and administrative expenses	(45,138)	-	-	(45,138)	(43,932)

Balances included in interim condensed consolidated statement of financial position

	<i>Major shareholders KD</i>	<i>Associate KD</i>	<i>Joint Venture KD</i>	<i>31 March 2017 KD</i>	<i>(Audited)</i>	
					<i>31 December 2016 KD</i>	<i>31 March 2016 KD</i>
Amounts due from related parties	1,179,998	2,808	688,753	1,871,559	2,120,611	303,998
Amounts due to related parties	-	(22,653,821)	-	(22,653,821)	(20,348,106)	(12,780,672)
Loans and borrowings	-	(3,000,000)	-	(3,000,000)	-	-

Key management compensation

The remuneration of directors and other members of key management during the period were as follows:

	<i>Three months ended 31 March</i>	
	<i>2017 KD</i>	<i>2016 KD</i>
Short term benefits	182,374	214,159
Termination benefits	9,144	10,464
Board of Directors' remuneration	21,250	24,000

8 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

- At 31 March 2017, the Group has capital commitments of KD 12,878,491 (31 December 2016: KD 11,437,758 and 31 March 2016: KD 17,500,290).
- At 31 March 2017, the Parent Company has commitments of KD 84,600 (31 December 2016: KD 84,600 and 31 March 2016: KD 112,800) under a non-cancelable operating lease, primarily for land leased from the Government of Kuwait for a Water Front Project for the period from 2016 to 2019.
- For the operating lease commitments, the Parent Company is required to give a bank guarantee of 0.5% of the total value of the capital project concerned for the purpose of maintenance services to be provided by the final lessor.
- At 31 March 2017, the Group is contingently liable in respect of the letters of guarantee amounting to KD 4,360,430 (31 December 2016: KD 4,360,430, 31 March 2016: 4,473,573).

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9 LEGAL CASES

The main legal claims of the Group are as follows:

- 1) The Ministry of Finance (MOF) issued a resolution to terminate contracts relating to certain properties constructed on land leased from the Government upon the expiry of 25 years. The Parent company appealed against this resolution.

For one of the properties, the court of appeal had ruled in favour of the MOF and awarded a compensation of KD 11,711,060. The Parent company has further appealed to court of cassation and the case is still under consideration. For the other property, the court of first instance has ruled in favour of the MOF and awarded a compensation of KD 6,597,527. The Parent Company has further appealed to the Court of Appeal and the case is under consideration to date. The Parent Company has also filed law suits against the MOF demanding compensation for these properties. These cases are still under consideration till date.

- 2) An Arbitration claim was filed by one of the investors in Kuwait Free Trade Zone (KFTZ) against the Parent Company for alleged damages and loss of profit. Arbitration ruled against the Parent Company and awarded KD 6,021,803 to the investor in the KFTZ. The Parent Company has appealed in the court of first instance and the appeal was rejected. The Parent Company has appealed at the Court of Appeal and is still under consideration till date.
- 3) The Ministry of Commerce and Industry (MOCI) had cancelled the management contract of KFTZ. The Parent Company filed a lawsuit appealing the decision of MOCI. The Parent Company had recognized a provision for KD 13,360,424 upon losing control over the assets in KFTZ. The Court of Cassation has ruled in favour of MOCI on 22 March 2016, which brings to the end of this legal case. There were no additional provision required as the Parent company had earlier fully provided for KFTZ assets.
- 4) The Parent Company filed a legal case against Kuwait Ports Authority (KPA) and a transport company claiming for the unpaid rent from their utilization of certain plots in KFTZ. The Court of Appeal confirmed the appeal obliging KPA and the transport company to jointly pay KD 6,956,416 to the Parent Company. The Parent Company received the amount as stated in the Court ruling on 11 October 2011. KPA and the transport company appealed against the ruling in the Court of Cassation which is still pending. On conservative basis, provisions recorded earlier were not reversed by the Parent Company even after the receipt of amounts from KPA and the transport company, until a final ruling is issued.

Also, the Parent company has filed a lawsuit against KPA to compensate it for utilizing other sites in KFTZ. The Court transferred the matter to Experts department which is still under consideration to date.

Provisions are taken for those cases where it is more probable that the Parent company will not prevail in the opinion of the external legal counsel.

In addition to the above, there are other lawsuits raised against the Parent Company in the ordinary course of business, and the Parent Company's external legal counsel believes that these matters will not have a material adverse effect on the Group interim condensed consolidated financial statements.

10 FAIR VALUE MEASUREMENT

The Group measures financial assets such as financial assets available-for-sale and non-financial assets such as investment properties, at fair value at each reporting date.

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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10 FAIR VALUE MEASUREMENT (continued)

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The following table presents the Group's assets that are measured at fair value at:

<i>31 March 2017</i>	<i>Level 1 KD</i>	<i>Level 2 KD</i>	<i>Total KD</i>
Financial assets available-for-sale:			
Quoted securities	1,528,685	-	1,528,685
Investment properties	-	190,178,247	190,178,247
	<u>1,528,685</u>	<u>190,178,247</u>	<u>191,706,932</u>
<i>31 December 2016 (Audited)</i>	<i>Level 1 KD</i>	<i>Level 2 KD</i>	<i>Total KD</i>
Financial assets available-for-sale:			
Quoted securities	1,277,711	-	1,277,711
Investment properties	-	187,066,588	187,066,588
	<u>1,277,711</u>	<u>187,066,588</u>	<u>188,344,299</u>
<i>31 March 2016</i>	<i>Level 1 KD</i>	<i>Level 2 KD</i>	<i>Total KD</i>
Financial assets available-for-sale:			
Quoted securities	1,391,788	-	1,391,788
Investment properties	-	171,907,855	171,907,855
	<u>1,391,788</u>	<u>171,907,855</u>	<u>173,299,643</u>

During the periods / year ended 31 March 2017, 31 December 2016 and 31 March 2016, there were no transfers between different levels of fair value measurement.

11 SEGMENT INFORMATION

The Group's management has grouped its services into the following business segments:

- Real estate and other: consisting of development, trading, leasing and management of real estate properties and other activities.
- Investments: consisting of investment in an associate, joint venture and equity securities.

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As at 31 March 2017

11 SEGMENT INFORMATION (continued)

There are no inter-segmental transactions. The following are the details of the above segments as at 31 March:

	2017			2016		
	<i>Real estate & Others KD</i>	<i>Investments KD</i>	<i>Total KD</i>	<i>Real estate & others KD</i>	<i>Investments KD</i>	<i>Total KD</i>
Segment income	5,220,686	3,287,647	8,508,333	7,423,683	2,959,782	10,383,465
Segment expenses	(4,175,092)	-	(4,175,092)	(5,963,151)	-	(5,963,151)
Depreciation on property and equipment	(30,200)	-	(30,200)	(43,105)	-	(43,105)
Segment profit	1,015,394	3,287,647	4,303,041	1,417,427	2,959,782	4,377,209
Net interest			(420,073)			(632,941)
Unallocated expenses			(49,464)			(64,964)
Net profit for the period			3,833,504			3,679,304
Total assets	312,599,192	218,172,605	530,771,797	350,050,466	215,076,504	565,126,970
Total liabilities	(263,176,803)	(22,653,821)	(285,830,624)	(305,857,023)	(12,780,672)	(318,637,695)