

نموذج رقم (2-1) Form No. (1-2)	
رقم: د/م/266/2	
To: Jordan Securities Commission Amman Stock Exchange Date: 16/4/2018 Subject: Audited Financial Statements for the fiscal year ended of 31/12/2017	السادة هيئة الأوراق المالية السادة بورصة عمان التاريخ: 2018/4/16 الموضوع: البيانات المالية السنوية المدققة كما هي في 2017/12/31
Attached the Audited Financial Statement of Union Tobacco & Cigarette Industries co.) As of 31/12/2017 in English.	مرفق طية نسخة من البيانات المالية السنوية لشركة (مصانع الإتحاد لإنتاج التبغ والسجائر) باللغة الانجليزية كما هي بتاريخ 2017/12/31م
Kindly accept our highly appreciation and respect Union Tobacco & Cigarette Industries co. Chairman of the Board of Directors Samer Al Shawawreh	وتفضلوا بقبول فائق الاحترام شركة مصانع الإتحاد لإنتاج التبغ والسجائر توقيع رئيس مجلس الإدارة سامر الشواورده

**UNION TOBACCO AND CIGARETTE INDUSTRIES**  
**PUBLIC SHAREHOLDING COMPANY**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2017**



Building a better  
working world

Ernst & Young Jordan

P.O.Box 1140

Amman 11118

Jordan

Tel : 00 962 6580 0777/00 962 6552 6111

Fax: 00 962 6553 8300

www.ey.com/me

## **INDEPENDENT AUDITOR'S REPORT**

**To the Shareholders of Union Tobacco and Cigarette Industries**

**Public Shareholding Company**

**Amman – Jordan**

### **Report on the Audit of the Consolidated Financial Statements**

#### **Qualified Opinion**

We have audited the consolidated financial statements of Union Tobacco and Cigarette Industries - Public Shareholding Company (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the effect of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2017, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### **Basis for Qualified Opinion**

The Group recognized a gain of JD 653,248 from a sale of machinery and equipment during 2017 after receiving an amount of JD 1,775,000, which represents 50% of the total sale price. The machinery and equipment is still in the Group's possession.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards, are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Jordan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.



Building a better  
working world

## 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 for the year ended 31 December 2017. 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 matter below, our description of how our audit addressed the matter provided in that context. We have determined the matters described below to be the key audit matters to be communicated in our report.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

### 1. Valuation of trade receivables

Disclosures that relate to the valuation of trade receivables are included in note (7) to the consolidated financial statements.

#### Key audit matter:

The determination as to whether trade receivables are collectable involves management judgement. The Group has large number of local and foreign customers, which increases the risk of having a difficulty of collecting these amounts. Management considers specific factors including the age of the balance, historical payment patterns and other available information concerning the credit worthiness of customers. Management uses this information to determine whether a provision for impairment is required either for a specific transaction or for a customer's balance overall.

#### How the key audit matter was addressed in the audit:

We tested aged balances to check that there were no indicators of impairment. This included verifying if payments had been received since year-end, reviewing historical payment patterns and any correspondence with customers on expected settlement dates.

We selected a sample of the larger trade receivable balances where a provision for impairment of trade receivables was recognised and understood the rationale behind management's judgement. In order to evaluate the appropriateness of these judgements we verified whether balances were overdue, the customer's historical payment patterns and whether any post year-end payments had been received.



Building a better  
working world

## **2. Provision for slow moving inventories**

Disclosures that relate to the valuation of provision for slow moving inventories are included in note (6) to the consolidated financial statements.

### **Key audit matter:**

At 31 December 2017, total inventories balance amounted to JD 13,397,170 representing 19% of total assets of the Group. Judgment is required to assess the appropriate level of provisioning for slow moving and obsolete items, which may be ultimately sold below cost or not in saleable conditions. The Group is mainly operating in the tobacco industry and trades in foreign markets and inventories are stored in different local and foreign locations increasing the level of judgment involved in estimating the provision.

### **How the key audit matter was addressed in the audit:**

For both finished goods and raw materials, we tested the methodology for calculating the provision, reviewed the appropriateness and consistency of judgments and assumptions used in estimating the provision, the accuracy and completeness of ageing profile of inventory, including the adequacy of provision for slow moving and obsolete items. Additionally, we have observed the inventories stock count process in order to identify the obsolete and damaged inventories.

### **Other Matter**

The consolidated financial statements for the year ended 31 December 2016, were audited by another auditor who expressed a qualified opinion on 22 February 2017, the qualified opinion was expressed as the other auditor was unable to obtain sufficient audit evidence over the accounts of the Group's Iraqi Branch as of 31 December 2016. The total assets of the Iraqi Branch was representing 22% of the Group's total assets as at 31 December 2016.

### **Other information included in the Group's 2017 annual report.**

Other information consists of the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. 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 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, 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.



Building a better  
working world

## **Responsibilities of Board of Directors and Those Charged with Governance for the Consolidated Financial Statements**

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

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

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

## **Auditor's 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 auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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.



Building a better  
working world

- 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 exist, we are required to draw attention in our auditor's 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 auditor's 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



Building a better  
working world

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 auditor's 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 reasonable be expected to outweigh the public interest benefits of such communication.

#### **Report on Other Legal and Regulatory Requirements**

The Group maintains proper books of accounts which are in agreement with the consolidated financial statements.

Ernst & Young / Jordan

**ERNST & YOUNG** \_\_\_\_\_  
Amman - Jordan

Mohammad Ibrahim Al-Karaki

License No. 882

Amman – Jordan  
29 March 2018



**UNION TOBACCO AND CIGARETTE INDUSTRIES - PUBLIC SHAREHOLDING COMPANY**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2017**

	Notes	As of 31 December		As of 1 January
		2017	2016	2016
		JD	JD	JD
			(Restated note 19)	(Restated note 19)
<b>ASSETS</b>				
<b>Non-Current Assets-</b>				
Property, plant and equipment	3	17,955,874	20,146,793	20,367,975
Investment properties		17,203	17,203	17,203
Investment in an associate	4	-	-	50,000
Advance payments on machine purchases		101,244	375,951	1,775,951
Financial assets at fair value through other comprehensive income	5	9,585,050	9,524,584	9,590,253
		<u>27,659,371</u>	<u>30,064,531</u>	<u>31,801,382</u>
<b>Current assets-</b>				
Inventories	6	13,397,170	16,630,993	12,359,188
Trade receivables	7	23,108,830	25,507,283	10,233,607
Other current assets	8	2,754,991	2,699,016	3,778,832
Due from related parties	20	3,625,745	3,861,345	12,463,719
Cash and bank balances	9	218,128	345,093	70,817
		<u>43,104,864</u>	<u>49,043,730</u>	<u>38,906,163</u>
Non-current assets held for sale	22	-	-	3,337,574
<b>Total Assets</b>		<u><b>70,764,235</b></u>	<u><b>79,108,261</b></u>	<u><b>74,045,119</b></u>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity-</b>				
Paid in capital	10	15,083,657	15,083,657	15,083,657
Share premium	10	5,000,000	5,000,000	5,000,000
Statutory reserve	10	3,774,151	3,774,151	3,770,914
Voluntary reserve	10	7,250,000	7,250,000	7,250,000
Fair value reserve	5	(726,532)	(314,806)	(563,027)
Accumulated losses		<u>(5,186,946)</u>	<u>(1,462,716)</u>	<u>(1,369,991)</u>
<b>Net equity</b>		<u><b>25,194,330</b></u>	<u><b>29,330,286</b></u>	<u><b>29,171,553</b></u>
<b>Liabilities-</b>				
<b>Non-current liabilities</b>				
Long term loans	11	<u>13,812,140</u>	<u>16,048,514</u>	<u>8,074,771</u>
<b>Current liabilities</b>				
Current portion of long term loans	11	5,352,000	2,288,652	3,925,632
Bank overdrafts	12	265,845	1,644,083	9,042,513
Payables and other current liabilities	13	22,737,324	28,992,774	23,435,341
Due to related parties	20	2,728,018	408,643	-
Income tax provision	18	674,578	395,309	395,309
		<u>31,757,765</u>	<u>33,729,461</u>	<u>36,798,795</u>
<b>Total liabilities</b>		<u><b>45,569,905</b></u>	<u><b>49,777,975</b></u>	<u><b>44,873,566</b></u>
<b>Total Equity and Liabilities</b>		<u><b>70,764,235</b></u>	<u><b>79,108,261</b></u>	<u><b>74,045,119</b></u>

The attached notes from 1 to 28 form part of these consolidated financial statements

**UNION TOBACCO AND CIGARETTE INDUSTRIES - PUBLIC SHAREHOLDING COMPANY**  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**FOR THE YEAR ENDED IN 31 DECEMBER 2017**

	<u>Notes</u>	<u>2017</u> JD	<u>2016</u> JD (Restated note 19)
<b><u>Continuing operations</u></b>			
Sales		11,957,001	26,373,794
Cost of sales	14	<u>(11,067,197)</u>	<u>(21,401,242)</u>
<b>Gross profit</b>		889,804	4,972,552
Gain on selling of property, plant and equipment		720,538	121,000
Impairment losses on investment in an associate		-	(50,000)
Other (expenses) income, net		(73,786)	104,757
Administrative expenses	15	(2,312,671)	(2,457,384)
Selling and marketing expenses	16	(953,971)	(718,209)
Provision for doubtful debts	7	-	(1,019,121)
Provision for advance payments on machine purchases		-	(1,400,000)
Provision for slow moving inventories	6	-	(405,584)
Finance costs		<u>(1,668,064)</u>	<u>(1,497,043)</u>
<b>Loss before tax from continuing operations</b>		(3,398,150)	(2,349,032)
Prior years income tax expense	18	<u>(279,269)</u>	-
<b>Loss for the year from continuing operations</b>		(3,677,419)	(2,349,032)
<b><u>Discontinued operations</u></b>			
Profit after tax for the year from discontinued operations	22	-	2,311,524
<b>Loss for the year</b>		<u>(3,677,419)</u>	<u>(37,508)</u>
		<u>JD/ Fils</u>	<u>JD/ Fils</u>
<b>Basic and diluted loss per share for the year attributable to shareholders</b>	17	<u>(0/244)</u>	<u>(0/003)</u>

The attached notes from 1 to 28 form part of these consolidated financial statements

**UNION TOBACCO AND CIGARETTE INDUSTRIES - PUBLIC SHAREHOLDING COMPANY**  
**CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED IN 31 DECEMBER 2017**

	<u>2017</u>	<u>2016</u>
	JD	JD (Restated note 19)
Loss for the year	(3,677,419)	(37,508)
<b>Add: other comprehensive income items</b>		
<b>not to be reclassified to profit or loss</b>		
<b>In subsequent periods:</b>		
Net (losses) gains of financial assets at fair		
value through other comprehensive income	<u>(458,537)</u>	<u>196,241</u>
<b>Total comprehensive income for the year</b>	<u>(4,135,956)</u>	<u>158,733</u>

The attached notes from 1 to 28 form part of these consolidated financial statements

**UNION TOBACCO AND CIGARETTE INDUSTRIES - PUBLIC SHAREHOLDING COMPANY**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED IN 31 DECEMBER 2017**

	Paid in capital	Share premium	Statutory reserve	Voluntary reserve	Fair value reserve	Accumulated losses	Total
	JD	JD	JD	JD	JD	JD	JD
<b>2017 -</b>							
<b>As at 1 January 2017</b>	15,083,657	5,000,000	3,774,151	7,250,000	(314,806)	(1,462,716)	29,330,286
Loss for the year	-	-	-	-	-	(3,677,419)	(3,677,419)
Other comprehensive income items	-	-	-	-	(458,537)	-	(458,537)
Loss on selling of financial assets at fair value through other comprehensive income	-	-	-	-	46,811	(46,811)	-
<b>Balance at 31 December 2017</b>	<b>15,083,657</b>	<b>5,000,000</b>	<b>3,774,151</b>	<b>7,250,000</b>	<b>(726,532)</b>	<b>(5,186,946)</b>	<b>25,194,330</b>
<b>2016 -</b>							
<b>Balance at 1 January 2016 before restatement</b>	15,083,657	5,000,000	3,770,914	7,250,000	(563,027)	(229,319)	30,312,225
Prior years restatement (Note 19)	-	-	-	-	-	(1,140,672)	(1,140,672)
<b>Restated balance as at 1 January 2016</b>	<b>15,083,657</b>	<b>5,000,000</b>	<b>3,770,914</b>	<b>7,250,000</b>	<b>(563,027)</b>	<b>(1,369,991)</b>	<b>29,171,553</b>
Loss from continuing operations for the year	-	-	-	-	-	(2,349,032)	(2,349,032)
Profit from discontinued operations for the year	-	-	-	-	-	2,311,524	2,311,524
Other comprehensive income items	-	-	-	-	196,241	-	196,241
Loss on selling of financial assets at fair value through other comprehensive income	-	-	-	-	51,980	(51,980)	-
Transfers	-	-	3,237	-	-	(3,237)	-
<b>Balance at 31 December 2016</b>	<b>15,083,657</b>	<b>5,000,000</b>	<b>3,774,151</b>	<b>7,250,000</b>	<b>(314,806)</b>	<b>(1,462,716)</b>	<b>29,330,286</b>

The attached notes from 1 to 28 form part of these consolidated financial statements

**UNION TOBACCO AND CIGARETTE INDUSTRIES - PUBLIC SHAREHOLDING COMPANY**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED IN 31 DECEMBER 2017**

	Notes	2017 JD	2016 JD (Restated note 19)
<b><u>OPERATING ACTIVITIES</u></b>			
Loss before tax from continuing operations		(3,398,150)	(2,349,032)
Profit before tax from discontinued operations	22	-	2,311,524
<b>Loss for the year before tax</b>		<b>(3,398,150)</b>	<b>(37,508)</b>
<b>Adjustments for:</b>			
Depreciation		915,020	1,009,980
Provision for doubtful debts		-	1,019,121
Provision for advance payments on machine purchases		-	1,400,000
Provision for slow moving inventories		-	405,584
Gain on selling of property, plant and equipment		(720,538)	(121,000)
Gain on selling of non-current assets held for sale	22	-	(3,826,146)
Finance costs		1,668,064	1,497,043
Impairment losses on investment in an associate		-	50,000
<b>Working capital changes:</b>			
Inventories		3,233,823	(4,677,389)
Trade receivables and other current assets		2,617,185	(8,049,260)
Related parties balances		2,554,975	9,011,017
Payables and other current liabilities		(6,255,450)	5,557,433
<b>Net cash flows from operating activities</b>		<b>614,929</b>	<b>3,238,875</b>
<b><u>INVESTING ACTIVITIES</u></b>			
Proceeds from sale of property, plant and equipment		3,761,456	913,187
Purchases of property, plant and equipment		(1,765,019)	(1,580,985)
Purchases of financial assets at fair value through other comprehensive income		(987,868)	(118,314)
Proceeds from selling of financial assets at fair value through other comprehensive income		468,865	380,223
<b>Net cash flows from (used in) investing activities</b>		<b>1,477,434</b>	<b>(405,889)</b>
<b><u>FINANCING ACTIVITIES</u></b>			
Repayments of loans		(2,236,374)	(12,000,403)
Proceeds from loans		3,063,348	18,337,166
Finance costs paid		(1,668,064)	(1,497,043)
<b>Net cash flows (used in) from financing activities</b>		<b>(841,090)</b>	<b>4,839,720</b>
<b>Net increase in cash and cash equivalents</b>		<b>1,251,273</b>	<b>7,672,706</b>
Cash and cash equivalents at 1 January		(1,298,990)	(8,971,696)
<b>Cash and cash equivalents at 31 December</b>	9	<b>(47,717)</b>	<b>(1,298,990)</b>

The attached notes from 1 to 28 form part of these consolidated financial statements

**(1) GENERAL**

Union Tobacco and Cigarette Industries (the "Company") was established as a public shareholding company on 19 July 1993 under registration number (232) with paid in capital of JD 15,083,657 divided into 15,083,657 shares at a par value of JD 1 per share.

The Company's objective is the production and packaging of tobacco, cigarette, toombak products and printing works related to these products.

The consolidated financial statements were approved by the Company's Board of Directors in their meeting held on 29 March 2018. The consolidated financial statements require the approval of the General Assembly.

**(2-1) BASIS OF PREPARATION**

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements have been prepared on historical cost basis, except for financial assets at fair value through other comprehensive income which have been measured at fair value.

The consolidated financial statements are presented in Jordanian Dinars (JD), which represents the functional currency of the Group.

**(2-2) BASIS OF CONSOLIDATION**

The consolidated financial statements comprise of the Company's financial statements and its subsidiaries (together the "Group").

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee).
- Exposure, or rights, to variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, which includes:

- The contractual arrangement with the other vote holders of the investee.
- Rights arising from other contractual arrangements.
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Consolidation of a subsidiary begins on the date that the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or losses and all other comprehensive income items are attributed to the equity holders of the parent of the Group and the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring the accounting policies of subsidiaries into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full upon consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the cumulative translation differences, recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained in the subsidiary;
- Recognizes any surplus or deficit in profit or loss resulting from the loss of control of the entity;
- Reclassifies the parent's share of components previously recognized in other comprehensive income items to profit or loss;

The Company's subsidiaries along with percentage of ownership are disclosed in note (20).

### **(2-3) CHANGES IN ACCOUNTING POLICIES**

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2016 except for the followings:

#### **Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative**

Limited amendments which require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). However, the adoption of these amendments have no impact on the Group's consolidated financial statements.

#### **Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Un-recognised Losses**

Limited amendments to clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference and some other limited amendments, the adoption of these amendments have no impact on the Group's consolidated financial statements.

### **(2-4) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -**

#### **Property, plant and equipment**

Property and equipment are recorded at cost less accumulated depreciation and any impairment in value. Cost represents the cost of replacement of property, plant and equipment and borrowing costs for long-term projects under construction, if recognition conditions are met. Maintenance and repair expenses are recognized in the consolidated statement of profit or loss. Depreciation (except for land) is calculated on a straight-line basis over the estimated useful lives of the assets using the following annual depreciation rates:

	<u>%</u>
Buildings	4
Machinery and equipment*	5
Laboratory and quality control equipment	15
Computers	20-25
Furniture and fixtures	20-25
Decorations	25
Tools supplies	20
Vehicles	15
Others	10-25

\* Some of the machinery and equipment are depreciated using the units of production method.



The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amounts. Impairment losses are recognized in the consolidated statement of profit or loss.

The useful lives and methods of depreciation are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment

Gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and carrying amount of the asset) is included in the consolidated statement of profit or loss when the asset is derecognized.

#### **Investment properties**

Properties held to earn rental or for capital appreciation purposes or held for undetermined use are considered investment properties.

Investment properties are measured at cost less accumulated depreciation and any impairment in value. Depreciation (except for land) is calculated when ready for use on a straight-line basis over the estimated useful lives using annual rates that range from 2 to 20%.

#### **Investments in associate**

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. The Group's investments in its associates are accounted for using the equity method.

The investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment. The consolidated statement of profit or loss reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

### **Impairment of non-financial assets**

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Group's of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

### **Financial assets at fair value through other comprehensive income**

These financial assets are initially recognized at fair value plus attributable transaction costs and subsequently measured at fair value. The change in fair value of those assets is presented in the consolidated statement of comprehensive income within equity, including the change in fair value resulting from the foreign exchange differences of non-monetary assets. In case those assets – or part of them – were sold, the resultant gain or loss is recorded in the consolidated statement of comprehensive income within equity and the fair value reserve for the sold assets is directly transferred to the retained earnings and not through the consolidated statement of profit or loss.

These financial assets are no longer subject to impairment testing and dividends are recognized in the consolidated statement of profit or loss.

### **Recognition of financial assets**

Sale and purchase of financial assets is recognized at transaction date.

### **Fair value measurement**

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

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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:

- 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

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### **Inventories**

Inventories are valued at the lower of cost and net realizable value.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

Raw inventories, work in progress and spare parts are stated using the weighted average cost.

### **Trade receivables**

Accounts receivable are stated at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

### **Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, and other short-term highly liquid investments with original maturities of three months or less which do not include the risk of the change in fair value, net of outstanding bank overdrafts.

### **Loans**

After initial recognition, interest bearing loans are subsequently measured at amortized cost using the effective interest rate method (EIR). Gains and losses are recognized in the consolidated statement of profit or loss when the liability is derecognized as well through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on a acquisition and fees or costs that forms an integral part of the effective interest rate.

### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### **Trade payables and other current liabilities**

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

### **Provisions**

Provisions are recognized when the Group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

### **Income tax**

Income tax for the years ended 31 December 2017 and 2016 was calculated in accordance with the Income Tax Law no. (34) of 2014.

Deferred income taxation is provided using the liability method on all temporary differences at the consolidated financial statement date. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on laws that have been enacted at the financial position date. The carrying values of deferred income tax assets are reviewed at each consolidated statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

### **Revenue Recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Dividends are recognized when the shareholder's right to receive payment is established.

Other revenues are recognized on the accrual basis.

### **Foreign currencies**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the consolidated statement of financial position date, based on the rates declared by the Central Bank of Jordan.

Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on transaction of non-monetary items measured at fair value is recognized in the consolidated statement of comprehensive income.

Transaction differences for items of non-monetary financial assets and liabilities denominated in foreign currencies (like shares) are recognized as part of the change in fair value.

### **Segment reporting**

For the purpose of reporting to management and the decision makers in the Group, a business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

### **Offsetting**

Offsetting between financial assets and financial liabilities and presenting the net amount on the consolidated statement of financial position is performed only when there are legally-enforceable rights to offset, the settlement is on a net basis, or the realization of the assets and satisfaction of the liabilities is simultaneous.

## **Discontinued operations**

The Group classifies non-current assets and disposal groups as held for sale to equity holders of the parent if their carrying amounts will be recovered principally through a sale or distribution rather than through continuing use.

Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the sale, excluding finance costs and income tax expense.

The criteria for non-current assets held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sale will be withdrawn. Management must be committed to the sale expected within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations.
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or;
- Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

## **(2-5) USE ESTIMATES**

The preparation of the consolidated financial statements and the application of accounting policies require management to make estimates and judgments that affect the amounts of assets and liabilities and disclose potential liabilities. These estimates and judgments also affect the income, expenses and provisions and, in particular, require the Group's management to make judgments and judgments to estimate the amounts and timing of future cash flows arising from the circumstances and circumstances of those estimates in the future. These estimates are necessarily based on multiple hypotheses and factors that have varying degrees of estimation and uncertainty and actual results may differ from estimates as a result of future changes in the conditions and circumstances of those provisions.

The estimates and assumptions used in the consolidated financial statements are as follows:

- Provision for receivables is made on the basis and assumptions approved by the Group's management to estimate the provision to be taken.
- The fiscal year shall be charged for the income tax expense in accordance with the accounting regulations, laws and standards. The deferred tax assets and liabilities and tax provision are measured and recognized.
- The Group periodically recalculates the useful life of the property and equipment for the purpose of calculating annual depreciation based on the general condition of the asset and estimated future useful lives. Impairment losses are recognized as an expense in the consolidated statement of profit or loss.
- A provision is taken for legal cases raised against the Group based on legal studies prepared by the Group's legal advisors, under which future potential risks are identified these studies are reviewed on a periodic basis.

**UNION TOBACCO AND CIGARETTE INDUSTRIES - PUBLIC SHAREHOLDING COMPANY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2017**

**(3) PROPERTY, PLANT AND EQUIPMENT**

2017-	Land	Buildings	Machinery and equipment *	Laboratory and quality control equipment	Computers	Furniture and fixtures	Decorations	Tools	Vehicles	Others	Total
	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD
<b>Cost-</b>											
Balance at 1 January 2017	514,219	13,153,994	34,285,373	361,209	313,072	543,822	-	473,309	1,464,859	-	51,109,857
Additions	-	-	1,614,354	-	3,400	-	-	280	46,000	100,985	1,765,019
Disposals	-	-	(6,330,390)	-	-	-	-	-	(455,133)	-	(6,785,523)
Balance at 31 December 2017	514,329	13,153,994	29,569,337	361,209	316,472	543,822	-	473,589	1,055,726	100,985	46,089,353
<b>Accumulated depreciation-</b>											
Balance at 1 January 2017	-	5,652,742	22,892,578	315,607	228,403	469,411	-	418,834	985,489	-	30,963,064
Charge for the year	-	523,882	194,017	13,391	3,808	22,787	-	31,049	126,086	-	915,020
Disposals	-	-	(3,434,531)	-	-	-	-	-	(310,074)	-	(3,744,605)
Balance at 31 December 2017	-	6,176,624	19,652,064	328,998	232,211	492,198	-	449,883	801,501	-	28,133,479
<b>Net book value:</b>											
As at 31 December 2017	514,329	6,977,370	9,917,273	32,211	84,261	51,624	-	23,706	254,225	100,985	17,955,874

\* This category includes machinery and equipment with a cost of JD 24,832,787 which were depreciated using the units of production method.

The depreciation charge for the year is allocated as follows:

	2017	2016
	JD	JD
Cost of sales (Note 14)	651,328	714,855
Administrative expenses (Note 15)	255,997	283,017
Selling and marketing expenses (Note 16)	7,695	12,108
	915,020	1,009,980

The cost of fully depreciated property, plant and equipment is amounted to JD 12,520,484 as at 31 December 2017.



**UNION TOBACCO AND CIGARETTE INDUSTRIES - PUBLIC SHAREHOLDING COMPANY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2017**

	Land		Buildings		Machinery and equipment		Laboratory and quality control equipment		Computers		Furniture and fixtures		Decorations		Tools		Vehicles		Total	
	JD		JD		JD		JD		JD		JD		JD		JD		JD		JD	
<b>2016-</b>																				
<b>Cost-</b>																				
Balance at 1 January 2016	514,219		13,153,994		34,023,307		361,209		312,363		578,631		670,023		781,447		1,450,670		51,845,863	
Additions	-		-		1,376,015		-		709		2,620		-		851		200,790		1,580,985	
Disposals	-		-		(1,113,949)		-		-		(37,429)		(670,023)		(308,989)		(186,601)		(2,316,991)	
Balance at 31 December 2016	514,219		13,153,994		34,285,373		361,209		313,072		543,822		-		473,309		1,464,859		51,109,857	
<b>Accumulated depreciation-</b>																				
Balance at 1 January 2016 (Restated)	-		5,128,860		23,198,315		302,216		222,882		464,680		535,251		559,466		1,066,218		31,477,888	
Charge for the year	-		523,882		278,260		13,391		5,521		41,607		-		51,607		95,712		1,009,980	
Disposals	-		-		(583,997)		-		-		(36,876)		(535,251)		(192,239)		(176,441)		(1,524,804)	
Balance at 31 December 2016	-		5,652,742		22,892,578		315,607		228,403		469,411		-		418,834		985,489		30,963,064	
<b>Net book value-</b>																				
As at 31 December 2016	514,219		7,501,252		11,392,795		45,602		84,669		74,411		-		54,475		479,370		20,146,793	

**UNION TOBACCO AND CIGARETTE INDUSTRIES - PUBLIC SHAREHOLDING COMPANY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2017**

**(4) INVESTMENT IN AN ASSOCIATE**

	Country of incorporation	Nature of activity	Ownership percentage		2017	2016
			2017	2016	JD	JD
Al-Rafidain for Tobacco and Cigarettes Distribution Company*	Jordan	Services	50%	50%	-	-

The movement on the investment in an associate was as follows:

	31 December 2017 JD	31 December 2016 JD
Balance at 1 January	-	50,000
Impairment losses	-	(50,000)
Balance at 31 December	-	-

- \* The Group owns 50% of Al-Rafidain for Tobacco and Cigarettes Distribution Company, a limited liability company that was established on 6 November 2012. The Board of Directors resolved to liquidate the company in its meeting held on 14 July 2016, accordingly the investment carrying amount was written off.

**(5) FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

This amount represents the Group's investments in the capital of the following companies:

	2017 JD	2016 JD
<b>Quoted Shares / Inside Jordan</b>		
Union Investments Corporation/ P.L.C	2,231,509	2,243,504
Union Land Development Company/ P.L.C	7,353,541	7,281,080
	9,585,050	9,524,584

**UNION TOBACCO AND CIGARETTE INDUSTRIES - PUBLIC SHAREHOLDING COMPANY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2017**

The movement on the fair value reserve was as follows:

	<u>2017</u>	<u>2016</u>
	JD	JD
Balance at 1 January	(314,806)	(563,027)
Change in fair value of financial assets at fair value through other comprehensive income	(458,537)	196,241
Loss on selling of financial assets at fair value through other comprehensive income	46,811	51,980
Balance at 31 December	<u>(726,532)</u>	<u>(314,806)</u>

**(6) INVENTORIES**

	<u>2017</u>	<u>2016</u>
	JD	JD
Raw materials	5,775,061	5,258,677
Work in progress	1,135,043	1,024,132
Finished goods	6,176,121	10,083,223
Spare parts	2,356,475	2,354,724
Goods in transit	101,411	57,178
	<u>15,544,111</u>	<u>18,777,934</u>
Provision for slow moving inventories	<u>(2,146,941)</u>	<u>(2,146,941)</u>
	<u>13,397,170</u>	<u>16,630,993</u>

The movement on the provision for slow moving Inventories was as follows:

	<u>2017</u>	<u>2016</u>
	JD	JD
Balance at 1 January	2,146,941	1,741,357
Provision for the year	-	405,584
Balance at 31 December	<u>2,146,941</u>	<u>2,146,941</u>

**UNION TOBACCO AND CIGARETTE INDUSTRIES - PUBLIC SHAREHOLDING COMPANY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2017**

**(7) TRADE RECEIVABLES**

	<u>2017</u> JD	<u>2016</u> JD
Trade receivables	25,233,424	27,631,877
Provision for doubtful debts	(2,124,594)	(2,124,594)
	<u>23,108,830</u>	<u>25,507,283</u>

The movement on provision for doubtful debts was as follows:

	<u>2017</u> JD	<u>2016</u> JD
Balance at 1 January	2,124,594	1,105,473
Provision for the year	-	1,019,121
Balance at 31 December	<u>2,124,594</u>	<u>2,124,594</u>

As at 31 December, the aging of unimpaired trade receivables is as follow:

	<u>Past due but not impaired</u>		
	<u>1-180 days</u>	<u>More than 181 days</u>	<u>Total</u>
	JD	JD	JD
2017	9,140,053	13,968,777	23,108,830
2016	18,181,059	7,326,224	25,507,283

The management of the Group believes that unimpaired receivables are expected to be fully recoverable. The Group does not obtain guarantees against these receivables and thus they are unsecured.

**(8) OTHER CURRENT ASSETS**

	<u>2017</u> JD	<u>2016</u> JD
Refundable deposits	190,871	212,748
Governmental deposits	1,253,828	1,223,433
Advances to suppliers	791,473	663,138
Employees receivables	58,101	80,072
Prepaid expenses	416,342	494,922
Others	44,376	24,703
	<u>2,754,991</u>	<u>2,699,016</u>

**UNION TOBACCO AND CIGARETTE INDUSTRIES - PUBLIC SHAREHOLDING COMPANY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2017**

**(9) CASH AND BANK BALANCES**

	<u>2017</u>	<u>2016</u>
	JD	JD
Cash on hand	13,905	39,911
Banks current accounts	204,223	305,182
	<u>218,128</u>	<u>345,093</u>

For the purpose of the preparing consolidated statement of cash flows, cash and cash equivalents comprise of the following:

	<u>2017</u>	<u>2016</u>
	JD	JD
Cash and bank balances	218,128	345,093
Bank overdrafts (Note 12)	(265,845)	(1,644,083)
	<u>(47,717)</u>	<u>(1,298,990)</u>

**(10) SHAREHOLDERS' EQUITY**

**Authorized and paid in capital -**

The Company's authorized and paid in capital is JD 15,083,657 divided into 15,083,657 shares at a par value of JD 1 per share as at 31 December 2017 and 2016.

**Share premium -**

The amounts accumulated in this account represents the amounts received and resulted from the difference between the shares issuance price and the shares face value as a result of increasing the Company's capital during previous years.

**Statutory reserve -**

As required by the Jordanian Companies Law, 10% of the profit before tax is to be transferred to statutory reserve. This reserve is not available for distribution to the shareholders. Transfers cannot be stopped before the statutory reserve reaches 25% of the Company's authorized capital. The Company's Board of Directors decided to discontinue such annual transfer after the reserve reached 25% of its paid in capital.

**Voluntary reserve -**

The amount accumulated in this reserve represents the transfers from profit before tax at maximum of 20%. This reserve is available for distribution to shareholders.

**UNION TOBACCO AND CIGARETTE INDUSTRIES - PUBLIC SHAREHOLDING COMPANY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2017**

**(11) LOANS**

	Currency	Loan installments					
		2017			2016		
		Current portion	Non-current portion	Total	Current portion	Non-current portion	Total
		JD	JD	JD	JD	JD	JD
Bank Al Etihad – Revolving loan	JD	941,024	-	941,024	-	-	-
Bank Al Etihad – Revolving loan	USD	2,122,324	-	2,122,324	-	-	-
Bank Al Etihad – Declining loan	USD	2,288,652	13,812,140	16,100,792	2,288,652	16,048,514	18,337,166
		<u>5,352,000</u>	<u>13,812,140</u>	<u>19,164,140</u>	<u>2,288,652</u>	<u>16,048,514</u>	<u>18,337,166</u>

**Bank al Etihad - Revolving loan- JD**

During 2017, the Company obtained a revolving loan with a ceiling of JD 1,000,000, and an annual interest rate of 5.5% with no commission if the loan is fully paid off in 2018. The guarantees on this loan are the same as those related to the declining loan from Bank Al Etihad, which is mentioned below in that disclosure.

**Bank al Etihad - Revolving loan- USD**

During 2017, the Company obtained a revolving loan with a ceiling of JD 3,000,000, and an annual interest rate of 5.5% with no commission if the loan is fully paid off in 2018. The guarantees on this loan are the same as those related to the declining loan from Bank Al Etihad, which is mentioned below in that disclosure.

**Bank Al Etihad – Declining- USD**

The Company has obtained a declining loan in US Dollars in the amount of USD 14,000,000 at an annual interest rate of 5.5% without commission. This loan is repayable over 48 equal monthly installments of USD 326,000 per installment except for the last installment which will become due on 1 December 2018. The first installment was due on 2 February 2014 and the last installment will be due on 1 January 2018.

The loan is guaranteed by the Company's shares in Union Land Development Company (sister company) and its shares in Union Investment Corporation (parent) and the resulting dividends. The loan is also secured by a first degree real estate mortgage with an amount of JD 15,000,000 and endorsement of Insurance policy in favor of the bank in the amount of JD 21,000,000.

On 12 August 2015, the declining loan facility was increased to become USD 17,000,000 at an annual interest rate of 5.5% less a margin of 0.25% without commission. This loan is repayable over equal monthly installments of USD 394,000 per installment, the first installment was due on 30 September 2015 and the last installment which represents the remaining balance of the loan will be due on 30 August 2019 under the same conditions and collaterals mentioned above.

On 28 April 2016, the declining loan was increased to become USD 26,900,000 at an annual interest rate of 5.5% without commission. This loan is repayable over 100 equal monthly installments of USD 269,000 each, the first installment was due on 30 May 2017 and the last installment which represents the remaining balance of the loan will be due on 30 September 2024 under the same conditions and collaterals mentioned above.

**UNION TOBACCO AND CIGARETTE INDUSTRIES - PUBLIC SHAREHOLDING COMPANY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2017**

The amounts of annual principle maturities of bank loans are as follows:

	<u>JD</u>
2018	5,352,000
2019	2,288,652
2020	2,288,652
2021	2,288,652
2022 – 2024	<u>6,946,184</u>
	<u>19,164,140</u>

**(12) BANK OVERDRAFTS**

This item represents the utilized balance of the facilities provided for the Group, the details of this item are as follow:

<u>Financing party</u>	<u>Currency</u>	<u>Interest rate</u>	<u>Ceiling amount</u>	<u>Utilized balance</u>
			<u>JD</u>	<u>JD</u>
Bank Al Etihad	JD	5.50%	<u>250,000</u>	<u>265,845</u>

The Group exceeded the granted ceiling as of 31 December 2017 as a result of the interest accrued on the facility.

**Bank Al Etihad**

Guarantees on these facilities are the same guarantees relating to Bank Al-Etihad declining loan mentioned in Note (11).

**(13) TRADE PAYABLES AND OTHER CURRENT LIABILITIES**

	<u>2017</u>	<u>2016</u>
	<u>JD</u>	<u>JD</u>
Accounts payable	17,515,494	23,836,706
Financial brokers payables*	2,008,329	2,013,091
Shareholders deposits	564,653	546,715
Accrued expenses	669,550	605,016
Sales tax deposits	622,365	607,893
Miscellaneous provisions	1,249,851	1,262,765
Employee payables	106,602	120,108
Others	<u>480</u>	<u>480</u>
	<u>22,737,324</u>	<u>28,992,774</u>

\* The financial broker's payables bear interest ranging from 10.5% to 12.25% annually.

**UNION TOBACCO AND CIGARETTE INDUSTRIES - PUBLIC SHAREHOLDING COMPANY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2017**

**(14) COST OF SALES**

	<u>2017</u>	<u>2016</u>
	JD	JD
Cost of materials used in production	8,223,533	17,832,691
Salaries and wages	1,352,412	1,594,875
Depreciation (Note 3)	651,328	714,855
Maintenance	76,363	118,117
Electricity, water and fuel	214,901	244,765
Employees' meals and hospitality	41,396	52,140
Vehicles expenses	48,308	67,543
Damaged materials	451	3,713
Fees and licenses	43,293	16,683
Cleaning	13,786	17,284
Insurance	339,283	411,024
Stationery and printing	4,015	4,883
Others	58,128	322,669
	<u>11,067,197</u>	<u>21,401,242</u>

**(15) ADMINISTRATIVE EXPENSES**

	<u>2017</u>	<u>2016</u>
	JD	JD
Salaries and wages	1,182,123	1,043,747
Depreciation (Note 3)	255,997	283,017
Professional fees and consultancy	48,132	155,545
Fees and licenses	213,236	445,680
Postage and telephone	40,044	26,293
Advertisements	1,875	1,844
Rent	124,216	48,651
Water and electricity	67,314	107,627
Transportation	39,761	18,983
Stationary and printing	17,710	68,289
Vehicles expenses	54,025	36,617
Insurance	91,282	124,743
Maintenance	4,836	457
Cleaning	1,288	2,045
Hospitality	19,838	14,014
Donations and gifts	1,444	3,193
Bank charges	4,458	111
Others	145,092	76,528
	<u>2,312,671</u>	<u>2,457,384</u>



**UNION TOBACCO AND CIGARETTE INDUSTRIES - PUBLIC SHAREHOLDING COMPANY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2017**

**(16) SELLING AND MARKETING EXPENSES**

	<u>2017</u>	<u>2016</u>
	JD	JD
Salaries and wages	92,493	100,661
Export expenses	777,718	549,343
Trademark expenses	1,467	1,828
Depreciation (Note 3)	7,695	12,108
Others	74,598	54,269
	<u>953,971</u>	<u>718,209</u>

**(17) BASIC AND DILUTED LOSS PER SHARE**

	<u>2017</u>	<u>2016</u>
	JD	JD
Loss for the year attributable to shareholders of the Company (JD)	(3,677,419)	(37,508)
Weighted average number of shares (Share)	<u>15,083,657</u>	<u>15,083,657</u>
<b>Basic loss per share attributable to shareholders (JD / Fils)</b>	<u>(0/244)</u>	<u>(0/003)</u>

The diluted loss per share equals the basic loss per share.

**(18) INCOME TAX**

**Income tax -**

Income tax presented in the consolidated statement of profit or loss is as follows:

	<u>2017</u>	<u>2016</u>
	JD	JD
Prior years income tax expense	<u>279,269</u>	<u>-</u>

**UNION TOBACCO AND CIGARETTE INDUSTRIES - PUBLIC SHAREHOLDING COMPANY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2017**

The movement on provision for income tax was as follows:

	<u>2017</u> JD	<u>2016</u> JD
Balance at 1 January	395,309	395,309
Prior years income tax expense	<u>279,269</u>	<u>-</u>
Balance at 31 December	<u>674,578</u>	<u>395,309</u>

Income tax provision for the years ended 31 December 2017 and 2016 has been calculated in accordance with the Income Tax Law No. (34) of 2014.

The Company reached a final settlement with the Income Tax Department up to the year 2012. The Income Tax Department reviewed the accounting records of the Company and its subsidiaries until the end of the year 2015 without issuing a final clearance yet.

The Income and Sales Tax Department did not review the Group records for the years 2016 and 2017 up to the date of these consolidated financial statements.

**(19) RESTATEMENT OF PRIOR YEARS FIGURES**

Some of 2016 consolidated financial statements figures have been reclassified in order to correspond with the presentation of 2017 consolidated financial statements. The reclassification has no effect on 2016 net results or equity.

Some of 2016 consolidated financial statements figures and prior years figures were restated as a result of depreciation calculation differences of JD 1,093,310 and elimination entries differences of JD 47,362.

The effects of the restatement on the Group's consolidated statements of financial position and changes in equity as at 31 December 2016 and 1 January 2016 are as follow:

	<u>31 December</u> <u>2016</u> JD	<u>1 January</u> <u>2016</u> JD
<b>Equity-</b>		
Accumulated losses	<u>(1,279,212)</u>	<u>(1,140,672)</u>
 <b>Non-current assets -</b>		
Property, plant and equipment	(1,093,310)	(1,093,310)
Inventory	<u>(185,902)</u>	<u>(47,362)</u>
	<u>(1,279,212)</u>	<u>(1,140,672)</u>

**UNION TOBACCO AND CIGARETTE INDUSTRIES - PUBLIC SHAREHOLDING COMPANY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2017**

The effect of the restatement on the consolidated statement of profit or loss for the year ended 31 December 2016 is as follows:

	31 December 2016 JD
Revenues, net	(38,540)
Impairment losses on investment in an associate	(50,000)
<b>Loss for the year</b>	<b>(88,540)</b>

The effect of the restatement on the consolidated other statement of comprehensive income for the year ended 31 December 2016 is as follows:

	31 December 2016 JD
Loss for the year	(88,540)
<b>Total comprehensive income for the year</b>	<b>(88,540)</b>

The effect of the restatement on the consolidated statement of cash flows for the year ended 31 December 2016 is as follows:

	31 December 2016 JD
Operating activities	5,823
<b>Net change of cash and cash equivalents</b>	<b>5,823</b>

**(20) RELATED PARTIES**

The consolidated financial statements include the following financial statements of the Company and the following subsidiaries:

	Paid In capital JD	Major activity	Percentage of ownership %
- Al Aseel for Marketing of Masel and Cigarettes Co.	100,000	Marketing	100
- Union for Advanced Industries Co.	100,000	Marketing	100
- Union Tobacco and Cigarettes Co. - Iraq	-	Marketing	100

Related parties include associates, major shareholders, Board of Directors members, executive management, as well as companies controlled or significantly influenced directly or indirectly, by those entities.

**UNION TOBACCO AND CIGARETTE INDUSTRIES - PUBLIC SHAREHOLDING COMPANY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2017**

---

The balances of related parties in the consolidated statement of financial position represent the following:

	<u>2017</u>	<u>2016</u>
	JD	JD
<b>Due from a related party</b>		
Union Investments Corporation – P.L.C (Parent company)	<u>3,625,745</u>	<u>3,861,345</u>
	<u>2017</u>	<u>2016</u>
	JD	JD
<b>Due to a related party</b>		
Union Land Development Corporation- P.L.C (Sister company)	<u>2,728,018</u>	<u>408,643</u>

The following is a summary of the benefits (salaries, bonuses and other benefits) of the key management of the Group:

	<u>2017</u>	<u>2016</u>
	JD	JD
Salaries, bonuses and other benefits	<u>195,534</u>	<u>406,553</u>

**(21) OPERATING SEGMENTS**

The presentation of key segments is determined on the basis that the risks and rewards relating to the Group are materially affected by the difference in the products or services of those segments. These segments are organized and managed separately by the nature of the services and products, each of which is a separate unit and is measured according to reports used by the Group's Chief Executive Officer and Chief Decision Maker.

The Group is organized for administrative purposes through the following sectors:

- Cigarette and Tobacco.
- Carton Production.
- Marketing of Cigarette and Tobacco.

The Group's management monitors the results of business segments separately for performance evaluation purposes. Segment performance is evaluated based on operating profit or loss for each segment.

**UNION TOBACCO AND CIGARETTE INDUSTRIES - PUBLIC SHAREHOLDING COMPANY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2017**

A geographical segment is associated with the provision of products or services in a specific economic environment that is subject to risks and rewards that differ from those in other economic environments.

Revenues, profits, assets and liabilities by business sector are as follows:

	Cigarette and tobacco JD	Carton production	Marketing of cigarette and tobacco JD	Total JD
<b>For the year ended 31 December 2017-</b>				
<u>Revenues:</u>				
Revenues	5,866,818	-	6,090,183	11,957,001
<u>Results:</u>				
(Loss) profit for the year	(5,104,853)	-	1,427,434	(3,677,419)
<u>Other segment information:</u>				
Deprecation	866,585	-	48,435	915,020
Finance costs	1,668,064	-	-	1,668,064
<b>As at 31 December 2017-</b>				
<u>Segment assets and liabilities</u>				
Segment assets	51,752,321	-	19,011,914	70,764,235
Segment liabilities	29,260,065	-	16,309,840	45,569,905
<b>For the year ended 31 December 2016 (Restated - Note 19) -</b>				
Revenues from continuing operations:	4,438,719	-	21,935,075	26,373,794
Revenues from discontinued operations	-	327,798	-	327,798
<u>Results:</u>				
(Loss) profit for the year from continuing operation	(3,405,318)	-	1,056,286	(2,349,032)
Profit for the year from discontinued operations	-	2,311,524	-	2,311,524
<u>Other segment information:</u>				
Deprecation	953,358	-	56,622	1,009,980
Finance costs	1,497,043	-	-	1,497,043
<b>As at 31 December 2016 (Restated - Note 19) -</b>				
<u>Segment assets and liabilities</u>				
Segment assets	60,305,786	-	18,802,475	79,108,261
Segment liabilities	31,933,602	-	17,173,109	49,106,711

**UNION TOBACCO AND CIGARETTE INDUSTRIES - PUBLIC SHAREHOLDING COMPANY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2017**

**(22) NON-CURRENT ASSETS HELD FOR SALE**

On 29 November 2016, the Group signed an agreement to sell the carton-production segment for an amount of JD 7,525,000. The selling price is divided into the following:

- 1) Cash of JD 5,267,000
- 2) Inventories with an amount of JD 2,258,000

During January 2017, an amount of JD 5,267,000 was received after deducting the sales tax of JD 361,280. Inventories will be supplied in accordance with the agreement signed on 26 January 2017 over the following periods:

- 1) An amount of JD 1,800,000 for the period from the date of signing the agreement until 1 February 2018.
- 2) An amount of JD 458,000 after 1 February 2018.

The Group has recognized a gain from the sale of non-current assets held for sale amounted to JD 3,826,146.

The results of the carton production segment are as follow:

	<u>2017</u>	<u>2016</u>
	JD	JD
Sales	-	327,798
Cost of sales	-	<u>(1,590,473)</u>
<b>Gross loss</b>	<u>-</u>	<u>(1,262,675)</u>
Gain on sale of property, plant and equipment	-	3,826,146
Administrative expenses	-	<u>(251,947)</u>
<b>Profit for the year from discontinued operations after tax</b>	<u>-</u>	<u>2,311,524</u>

**(23) CONTINGENT, CONTRACTUAL AND CAPITAL COMMITMENTS**

At the date of the consolidated financial statements, the Group has letters of credit amounted to JD 2,005,002 (2016: JD 1,903,152).

**(24) LAWSUITS AGAINST THE GROUP**

As at 31 December 2017, the Group was defendant in number of lawsuits in its normal course of business in the amount of JD 17,604,626 (2016: JD 13,972,005). The Group's management and its legal counsel believe that the Group will not have any obligations in respect of these lawsuits.

**(25) RISK MANAGEMENT**

**Interest rate risk -**

The Group is exposed to interest rate risk on its floating interest bearing assets and liabilities such as bank overdrafts and loans.

The following table demonstrates the sensitivity of the consolidated statement of profit or loss reasonable possible changes in interest rates as of 31 December, with all other variables held constant.

	<u>Increase in interest rate</u>	<u>Effect on loss for the year before tax</u>
	<u>(Basis points)</u>	<u>JD</u>
<b>2017-</b>		
Currency		
JD	50	4,705
USD	50	92,445
<b>2016-</b>		
Currency		
JD	50	6,299
USD	50	93,607

The effect of decrease in interest rate is expected to be equal and opposite to the effect shown above.

#### Equity price risk -

The following table demonstrates the sensitivity of the consolidated statement of profit or loss, fair value reserve, consolidated statement of other comprehensive income and shareholders' equity due to the possible reasonable changes in share prices, with all other variables held constant:

##### 2017-

<u>Index</u>	<u>Change in index</u> (%)	Effect on consolidated statement of other comprehensive income, fair value reserve and shareholders' equity
		JD
Amman Stock Exchange	15	1,437,758

##### 2016-

<u>Index</u>	<u>Change in index</u> (%)	Effect on consolidated statement of other comprehensive income, fair value reserve and shareholders' equity
		JD
Amman Stock Exchange	15	1,428,688

The effect of the decrease in index is expected to be equal and opposite to the effect shown above.

#### Credit risk -

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 seeks to limit its credit risk with respect to customers by setting credit limits for customers and by monitoring outstanding receivables. In addition, the Group seeks to limit its credit risk with respects to banks by only dealing with reputable banks.



**UNION TOBACCO AND CIGARETTE INDUSTRIES - PUBLIC SHAREHOLDING COMPANY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2017**

**Liquidity risk -**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The table below summarises the maturities of the Group's undiscounted financial liabilities at 31 December, based on contractual payment dates and current market interest rates:

	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
<b>31 December 2017 -</b>	JD	JD	JD	JD	JD
Loans	4,013,788	2,298,665	11,063,725	4,207,067	21,583,245
Trade payables and other current liabilities	22,737,324	-	-	-	22,737,324
Bank overdrafts	280,466	-	-	-	280,466
<b>Total</b>	<b>27,031,578</b>	<b>2,298,665</b>	<b>11,063,725</b>	<b>4,207,067</b>	<b>44,601,035</b>
	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
<b>31 December 2016 -</b>	JD	JD	JD	JD	JD
Loans	813,425	2,393,072	11,567,229	6,784,184	21,557,910
Trade payables and other current liabilities	28,321,510	-	-	-	28,321,510
Bank overdrafts	1,734,508	-	-	-	1,734,508
<b>Total</b>	<b>30,869,443</b>	<b>2,393,072</b>	<b>11,567,229</b>	<b>6,784,184</b>	<b>51,613,928</b>

**Currency risk -**

Most of the Group's transactions are in Jordanian Dinars and US Dollars. The Jordanian Dinar exchange rate is fixed against the US Dollar (US \$1.41 for JD 1), and accordingly the Group is not exposed to significant currency risk.

**(26) Fair Value of FINANCIAL INSTRUMENTS**

Financial instruments include financial assets and financial liabilities.

Financial assets comprise cash and bank balances, trade receivables, financial assets at fair value through other comprehensive income, due from a related party and some other current assets.

Financial liabilities comprise of trade payables, loans, due to a related party, bank overdrafts and some other current liabilities.

The following table illustrates the fair value measurement of financial assets and liabilities of the Group.

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

	Level 1	Level 2	Level 3	Total
	JD	JD		
<b>2017 -</b>				
Financial assets at fair value through other comprehensive income	9,585,050	-	-	9,585,050
<b>2016 -</b>				
Financial assets at fair value through other comprehensive income	9,524,584	-	-	9,524,584

**(27) CAPITAL MANAGEMENT**

The primary objective of the Group's capital management is to ensure that it maintains a credit rating and capital ratios in order to support its business and maximise shareholders value.

The Group manages its capital structure and makes adjustments to it in light of changes in business conditions.

No changes were made in the objectives, policies or procedures during the current year and the prior year.

Capital structure comprises of paid in capital, share premium statutory reserve, voluntary reserve, fair value reserve and accumulated losses, and is measured at JD 25,194,330 as at 31 December 2017 (2016: JD 29,330,286)

**(28) STANDARDS ISSUED BUT NOT YET EFFECTIVE**

The standards and interpretations that are issued but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

**IFRS 9 Financial Instruments**

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. The Group has implemented the first phase of IFRS 9 as issued during 2009. The date of initial implementation of the first phase of IFRS 9 was 1 January 2011.

The new version of IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted.

The Group plans to adopt the remaining phases on the effective date and will not restate comparative information.

**(a) Classification and Measurement**

The Group does not expect a material impact on its balance sheet or equity on applying the new classification and measurement category of IFRS 9.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

**(b) Impairment**

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables. The Group has estimated that the additional provision to be recorded resulting from the expected credit loss from its trade receivables will not be material compared to the current requirements of provisioning for doubtful trade receivables.

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15 specifies the accounting treatment for all revenue arising from contracts with customers. It applies to all entities that enter into contracts to provide goods or services to their customers, unless the contracts are in the scope of other IFRSs, such as IAS 17 Leases. IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers; and SIC-31 Revenue—Barter Transactions Involving Advertising Services. The standard is effective for annual periods beginning on or after 1 January 2018, and early adoption is permitted.

During 2017, the Group has performed an impact assessment of IFRS 15. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group adopts IFRS 15, whereas, the Group does not expect a material impact on its balance sheet or equity on applying the requirements of IFRS 15.

**Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture**

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

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

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

Entities may apply the amendments prospectively and are effective for annual periods beginning on or after 1 January 2018, with early application permitted.

### **IFRS 16 Leases**

During January 2016, the IASB issued IFRS 16 "Leases" which sets out the principles for the recognition, measurement, presentation and disclosure of leases.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 introduced a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted.

### **IFRS 17 Insurance Contracts**

IFRS 17 provides a comprehensive model for insurance contracts covering the recognition and measurement and presentation and disclosure of insurance contracts and replaces IFRS 4 -Insurance Contracts. The standard applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The standard general model is supplemented by the variable fee approach and the premium allocation approach.

The new standard will be effective for annual periods beginning on or after 1 January 2021. Early application is permitted.

### **Transfers of Investment Property (Amendments to IAS 40)**

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

Entities should apply the amendments prospectively and effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed.

**Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts**

In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the upcoming new insurance contracts standard (IFRS 17). The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, a temporary exemption from implementing IFRS 9 to annual periods beginning before 1 January 2021 at latest and an overlay approach that allows an entity applying IFRS 9 to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for the designated financial assets being the same as if an entity had applied IAS 39 to these designated financial assets.

**IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration**

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the nonmonetary asset or non-monetary liability arising from the advance consideration. Entities may apply the amendments on a fully retrospective or prospective basis. The new interpretation will be effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed.

**IFRIC Interpretation 23 Uncertainty over Income Tax Treatment**

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available.