موريسون مينون محاسبون قانونيون

Morison Menon
Chartered Accountants

# IOC MIDDLE EAST FZE

## FINANCIAL STATEMENTS AND REPORTS

## FOR THE YEAR ENDED 31 MARCH 2018

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Chartered Accountants

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## FINANCIAL STATEMENTS AND REPORTS

## FOR THE YEAR ENDED 31 MARCH 2018

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# IOC MIDDLE EAST FZE

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2018

On behalf of the Board of Directors, I am presenting the audited financial statements of IOC Middle East FZE ('the Establishment') for the year ended 31 March 2018.

### Principal activity

The principal activity of the Establishment is trading in crude oil, lubricants, grease, fuel, tar, asphalt, petrochemicals and refined oil products.

### Directors' responsibilities

The Law requires the Directors to prepare the financial statements for each financial year, which provide a true and fair view of the state of affairs of the Establishment and the net profit or loss for the year.

### Business review

During the Financial year 2017 – 2018, IOC Middle East FZE achieved sales of 5352 Kilo Liters of finished lubricants with a growth of 24% over the previous year. Out of the total sales of finished products, 4893 Kilo Liters of product was blended in U.A.E. which works out to 91.4% of total volume.

During the year 2017 – 2018, IOC Middle East FZE exported products to Oman, Qatar, Bahrain, Kuwait, Nigeria, Iraq, Somalia and Saudi Arabia.

Highest ever single order received from Dangote Industries, (Biggest industrial group of Africa) for 533 KLs. Subsequent orders also expected during the next financial year.

Activities also initiated for trading in other commodities (Bitumen, Base Oil, HFO and Diesel) the first lot supplies expected to be received in April/May 2018.

### Financial results and appropriations

The financial results of the Establishment for the year ended 31 March 2018 are set out in the statement of profit or loss and other comprehensive income. For the year ended 31 March 2018 the Establishment achieved revenue of AED 30.25 million with a gross profit of AED 5.66 million at 18.71% of revenue (2017 : revenue of AED 26.13 million with a gross profit of AED 5.04 million at 19.29% of revenue). The profit for the year is AED 4.19 million at 13.85% of revenue (2017 : profit of AED 3.45 million at 13.20%). On a share capital of AED 2.0 million the Establishment has cumulative reserves of AED 19.30 million with a net worth of AED 21.30 million (2017: share capital of AED 2.0 million, the cumulative reserve was AED 17.06 million with a net worth of AED 19.06 million).

Keeping in view the reasonable profits made by the Establishment in its 11$^{th}$ successive year of operation, the Board of Directors were pleased to recommend a dividend of 100% on the paid-up capital for the financial year 2017 - 2018.

## IOC MIDDLE EAST FZE

**DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2018** (Continued)

**Events after the reporting period**

There are no significant events after the reporting period.

**Directors**

The Directors who served during the year are as follows:

1. K. L Murthy
2. Sandeep Kumar Gupta
3. Kamal Kumar Gwalani
4. Vikas Bahl

**Auditors**

The financial statements have been audited by Morison Menon Chartered Accountants, who retire and, being eligible, offer themselves for reappointment.

**Vikas Bahl**
**Director**
**16 April 2018**

موريسون مينون محاسبون قانونيون
Morison Menon
Chartered Accountants

NR/511/APRIL/2018

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF IOC MIDDLE EAST FZE

### Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of IOC Middle East FZE, Jebel Ali Free Zone, Dubai - U.A.E. ('the Establishment'), which comprise the statement of financial position as at 31 March 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Establishment as at 31 March 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Establishment 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 financial statements in the United Arab Emirates, 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 opinion.

### Other Matter

The financial statements of IOC Middle East FZE for the year ended 31 March 2017 were audited by another auditor who expressed an unqualified opinion on those statements on 29 April 2017.

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

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

In preparing the financial statements, management is responsible for assessing the Establishment'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 Establishment or to cease operations, or has no realistic alternative but to do so.

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

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF IOC MIDDLE EAST FZE** (Continued)

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Establishment'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 Establishment's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 Establishment to cease to continue as a going concern.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF IOC MIDDLE EAST FZE** (Continued)

**Auditor's Responsibilities for the Audit of the Financial Statements** (Continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

**Report on Other Legal and Regulatory Requirements**

We further confirm that the financial statements comply with the Jebel Ali Free Zone Companies Implementing Regulations 2016. Also, in our opinion, proper books of account and other records have been maintained in accordance with the said Regulations.

MORISON MENON CHARTERED ACCOUNTANTS P.O.Box: 55535 DUBAI - U.A.E

Raju Menon
Reg. No :271
**Morison Menon Chartered Accountants**

Dubai
16 April 2018

# IOC MIDDLE EAST FZE

## STATEMENT OF FINANCIAL POSITION

## AS AT 31 MARCH 2018

| | Note | 31.03.2018 AED | 31.03.2017 AED |
|---|---|---|---|
| **Assets** | | | |
| ***Non-current assets*** | | | |
| Property and equipment | 4 | 37,977 | 35,058 |
| ***Current assets*** | | | |
| Inventories | 5 | 217,118 | 155,357 |
| Trade and other receivables | 6 | 4,103,178 | 4,428,137 |
| Due from related parties | 7 | 431,724 | 578,191 |
| Other current financial assets | 8 | 20,893,289 | 16,814,904 |
| Cash and cash equivalents | 9 | 375,898 | 1,962,695 |
| **Total current assets** | | 26,021,207 | 23,939,284 |
| **Total assets** | | **26,059,184** | **23,974,342** |
| **Shareholder's equity and liabilities** | | | |
| ***Shareholder's equity*** | | | |
| Share capital | 10 | 2,000,000 | 2,000,000 |
| Retained earnings | | 19,254,560 | 17,059,834 |
| **Total shareholder's equity** | | 21,254,560 | 19,059,834 |
| ***Non-current liabilities*** | | | |
| Provision for employees' end of service benefits | 11 | 63,232 | 53,532 |
| ***Current liabilities*** | | | |
| Trade and other payables | 12 | 4,246,759 | 4,860,976 |
| Due to a related party | 7 | 494,633 | - |
| **Total current liabilities** | | 4,741,392 | 4,860,976 |
| **Total liabilities** | | 4,804,624 | 4,914,508 |
| **Total shareholder's equity and liabilities** | | **26,059,184** | **23,974,342** |

The accompanying notes on pages 10 to 24 form an integral part of these financial statements.

The report of the independent auditor is set forth on pages 3 to 5.

Authorised for issue by the Board of Directors on 16 April 2018.

For IOC Middle East FZE

Director

MUKUNDAN MENON CHARTERED ACCOUNTANTS

**IOC MIDDLE EAST FZE**

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

**FOR THE YEAR ENDED 31 MARCH 2018**

| | Note | 31.03.2018 AED | 31.03.2017 AED |
|---|---|---|---|
| **Revenue** | 13 | 30,249,863 | 26,128,498 |
| Cost of sales | 14 | (24,586,915) | (21,088,872) |
| **Gross profit** | | 5,662,948 | 5,039,626 |
| Other income | 15 | 320,844 | 310,416 |
| Administrative expenses | 16 | (1,390,895) | (1,416,766) |
| Marketing and branding expenses | 17 | (398,171) | (478,806) |
| **Profit for the year** | | **4,194,726** | **3,454,470** |
| **Other comprehensive income** | | - | - |
| **Total comprehensive income for the year** | | **4,194,726** | **3,454,470** |

The accompanying notes on pages 10 to 24 form an integral part of these financial statements.

The report of the independent auditor is set forth on pages 3 to 5.

MORISON MENON CHARTERED ACCOUNTANTS

## IOC MIDDLE EAST FZE
## STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 MARCH 2018

| | Share capital AED | Retained earnings AED | Total AED |
|---|---|---|---|
| Balance as at 1 April 2016 | 2,000,000 | 14,605,364 | 16,605,364 |
| Total comprehensive income for the year | - | 3,454,470 | 3,454,470 |
| Dividend paid (Note 19) | - | (1,000,000) | (1,000,000) |
| **Balance as at 31 March 2017** | **2,000,000** | **17,059,834** | **19,059,834** |
| Total comprehensive income for the year | - | 4,194,726 | 4,194,726 |
| Dividend paid (Note 19) | - | (2,000,000) | (2,000,000) |
| **Balance as at 31 March 2018** | **2,000,000** | **19,254,560** | **21,254,560** |

The accompanying notes on pages 10 to 24 form an integral part of these financial statements.

The report of the independent auditor is set forth on pages 3 to 5.

MOORE STEPHENS CHARTERED ACCOUNTANTS

**IOC MIDDLE EAST FZE**

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED 31 MARCH 2018**

| | 31.03.2018 AED | 31.03.2017 AED |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit for the year | 4,194,726 | 3,454,470 |
| Adjustments for: | | |
| Depreciation | 18,190 | 11,436 |
| Provision for employees' end of service benefits | 9,700 | 6,695 |
| Loss on sale of property and equipment | - | 70 |
| Interest income | (321,592) | (241,535) |
| **Operating cash flows before changes in working capital** | 3,901,024 | 3,231,136 |
| Increase in inventories | (61,761) | (42,650) |
| Decrease in trade and other receivables | 324,959 | 513,422 |
| Decrease/(increase) in due from related parties | 146,467 | (531,324) |
| Increase in due to a related party | 494,633 | - |
| Decrease in trade and other payables | (614,217) | (776,230) |
| **Net cash generated from operating activities** | 4,191,105 | 2,394,354 |
| **Cash flows from investing activities** | | |
| Purchase of property and equipment | (21,109) | (28,918) |
| Increase in other current financial assets | (3,756,793) | (2,332,494) |
| **Net cash used in investing activities** | (3,777,902) | (2,361,412) |
| **Cash flows from financing activities** | | |
| Dividend paid | (2,000,000) | (1,000,000) |
| **Net cash used in financing activities** | (2,000,000) | (1,000,000) |
| **Net decrease in cash and cash equivalents** | (1,586,797) | (967,058) |
| Cash and cash equivalents at beginning of year | 1,962,695 | 2,929,753 |
| **Cash and cash equivalents at end of year (Note 9)** | **375,898** | **1,962,695** |

The accompanying notes on pages 10 to 24 form an integral part of these financial statements.

The report of the independent auditor is set forth on pages 3 to 5.

MOORE MENON CHARTERED ACCOUNTANTS

# IOC MIDDLE EAST FZE
## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 MARCH 2018

### 1. GENERAL INFORMATION

IOC Middle East FZE ('the Establishment') was initially formed and registered with Jebel Ali Free Zone Authority, Dubai, United Arab Emirates on 19 April 2006 as a Free Zone Establishment under the name IOCL Trading FZE, with limited liability, under license No. 6863 pursuant to Laws and Regulations applicable to free zone entities. On 11 June 2006, the name was amended to IOC Middle East FZE. The registered office of the Establishment is P.O. Box : 261338, Jebel Ali, Dubai, United Arab Emirates.

The principal activity of the Establishment is trading in crude oil, lubricants, grease, fuel, tar, asphalt, petrochemicals and refined oil products.

The immediate parent and ultimate holding company of the Establishment is Indian Oil Corporation Ltd, India.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES

#### 2.1 Basis of preparation

The financial statements have been prepared on the historical cost basis. The financial statements are presented in Arab Emirates Dirhams (AED) and all values are rounded to the nearest Arab Emirates Dirham. The principal accounting policies adopted are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### 2.2 Statement of compliance

The financial statements of the Establishment have been prepared in accordance with International Financial Reporting Standards.

#### 2.3 Adoption of New and revised International Financial Reporting Standards

The following new and revised Standards including amendments thereto and Interpretations which became effective for the current reporting period have been adopted, wherever applicable. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the financial reporting for future transactions or arrangements.

Amendments to IFRS 12: Disclosure of Interests in Other Entities

Amendments to IAS 7: Disclosure Initiative

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

The following Standards, amendments thereto and Interpretations have been issued prior to 31 March 2018 but have not been applied in these financial statements as their effective dates of adoption are for future periods. It is anticipated that their adoption in the relevant accounting periods will have impact only on disclosures within the financial statements.

IFRS 9: Financial Instruments - 1 January 2018

IFRS 15: Revenue from Contracts with Customers - 1 January 2018

IFRS 16: Leases - 1 January 2019

Amendments to IFRS 1: First time adoption of IFRS - Amendments resulting from annual improvements 2014-16 cycle - 1 January 2018

Amendments to IFRS 2: Classification and Measurement of Share - based Payment Transactions - 1 January 2018

Amendments to IFRS 3 and IFRS 11: Business Combinations and Joint Arrangements - Amendments resulting from annual improvements 2015-17 cycle - 1 January 2019

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Date to be determined

Amendments to IAS 23: Borrowing Costs - Amendments resulting from annual improvements 2015-17 cycle - 1 January 2019

Amendments to IAS 28: Investment in Associates and Joint Ventures - Amendments resulting from annual improvements 2014-16 cycle - 1 January 2018

Amendments to IAS 28: Investment in Associates and Joint Ventures - Amendments regarding long-term interests in associates and joint ventures - 1 January 2019

Amendments to IAS 40: Investment Property - Amendments to clarify transfers of property to or from investment property - 1 January 2018

IFRIC 22: Foreign Currency Transactions and Advance Consideration - 1 January 2018

## 2.4 Foreign currencies

*(a) Functional and presentation currency*

The financial statements are prepared and the items included in the financial statements are measured using the currency of the primary economic environment in which the Establishment operates ('the functional currency'). The financial statements are presented in U.A.E. Dirhams, which is the Establishment's functional and presentation currency.

*(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of outstanding amounts of such transactions and from the re-translation of monetary assets and liabilities denominated in foreign currencies at each reporting date are recognised in the profit or loss. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

## 2.5 Property and equipment

Property and equipment is stated at cost less accumulated depreciation and identified impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items including installation costs. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Establishment and the cost of the item can be measured reliably.

All other repairs and maintenance expenses are charged to the profit or loss during the reporting period in which they are incurred.

The depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

| | Years |
|---|---|
| Furniture & fixtures | 4 |
| Office equipment | 4 |

The assets' residual values and useful lives are reviewed at the end of the reporting period with the effect of any changes in estimates adjusted on a prospective basis. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gains or losses arising on the disposal or retirement of an item of property and equipment is determined by comparing the disposal proceeds with the carrying amount of the asset and is recognised in profit or loss.

**2.6 Impairment of tangible assets**

At the end of each reporting period, the Establishment reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Establishment estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

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### 2.7 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Payments made under operating leases (net of any incentives received from the lessor) are recognised as an expense in the profit or loss on a straight-line basis over the period of the lease.

### 2.8 Inventories

Inventories are valued at the lower of cost and net realisable value. The cost of inventory is determined on weighted average basis and includes expenditure incurred in acquiring the inventory and bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of marketing and selling expenses.

### 2.9 Financial instruments

Financial assets and financial liabilities are recognized when, and only when, the Establishment becomes a party to the contractual provisions of the instrument.

Financial assets are de-recognized when, and only when, the contractual rights to receive cash flows expire or when substantially all the risks and rewards of ownership have been transferred. Financial liabilities are de-recognized when, and only when, they are extinguished, cancelled or expired.

Current financial assets that have fixed or determinable payments and for which there is no active market, which comprise trade and other receivables, related party receivables and other current financial assets are classified as receivables and stated at cost or, if the impact is material, at amortized cost using the effective interest method, less any write down for impairment losses plus reversals of impairment losses. Impairment losses and reversals thereof are recognized in the profit or loss.

Current financial liabilities which comprise trade other payables and payable to a related party are measured at cost or, if the impact is material, at amortized cost using the effective interest method.

### 2.10 Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that a financial asset or a group of financial assets is impaired, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been impacted. Impairment losses are written off to the profit or loss or if previously a provision was made, it is written off against the provision.

MOORE STEPHENS CHARTERED ACCOUNTANTS

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of previously recognised impairment loss is recognised in the profit or loss.

**2.11 Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and bank deposits free of encumbrance with a maturity date of three months or less from the date of deposit and other short-term highly liquid investments with a maturity date of three months or less from the date of investment, net of temporary bank overdrafts.

**2.12 Provisions**

Provisions are recognised when the Establishment has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is recognised in the profit or loss, net of any reimbursement.

**2.13 Provision for employees' end of service benefits**

Provision for employees' end of service benefits is made in accordance with the Jebel Ali Free Zone Regulations and is based on current remuneration and periods of service at the end of the reporting period.

**2.14 Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Establishment and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable for the services rendered in the ordinary course of activities of the Establishment. Revenue is reduced for estimated customer, rebates and other similar allowances.

Revenue is recognised based on the following specific recognition criteria:

*Sale of goods*

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

*Interest income*

Interest income is recognized using the effective interest method. Interest income included in other income in the statement of comprehensive income.

*Trade margin*

Trade margin is recognized using the difference between the difference in selling price of the goods sold by a related party on behalf of the Establishment.

## 3. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Establishment's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

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

*a) Depreciation of property and equipment*

Management assigns useful lives and residual values to property and equipment based on the intended use and the economic lives of those assets. Subsequent changes in circumstances could result in the actual useful lives or residual values differing from initial estimates. Where management determines that the useful life or residual value of an asset requires amendment, the net book amount in excess of the residual value is depreciated over the revised remaining useful life.

*b) Impairment of assets*

Assessments of net recoverable amounts of property and equipment and all financial assets other than trade and other receivables are based on assumptions regarding future cash flows expected to be received from the related assets.

*c) Impairment of trade receivables*

The management regularly undertakes a review of the recovery status of amounts due from either third parties or related parties. Such review is made based on variety of factors, including the overall quality and ageing of the receivables, continuing credit evaluation of the customers' financial conditions and collateral requirements from customers in certain circumstances. Based on the review, assumptions are made regarding the extent of impairment allowance required.

*d) Valuation of investment properties*

The Establishment fair values its investment properties at regular intervals. Should the significant assumptions used for the purposes of valuation and the fair values change, then the new fair values of investment properties are recorded and disclosed in these financial statements as the Establishment has adopted fair value model to account for its investment properties.

**IOC MIDDLE EAST FZE**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MARCH 2018**

## 4. PROPERTY AND EQUIPMENT

| | Furniture & fixtures AED | Office equipment AED | Total AED |
|---|---|---|---|
| **Cost** | | | |
| At 1 April 2016 | 74,888 | 44,739 | 119,627 |
| Additions | 23,384 | 5,534 | 28,918 |
| Disposals | - | (399) | (399) |
| At 31 March 2017 | 98,272 | 49,874 | 148,146 |
| Additions | 13,504 | 7,605 | 21,109 |
| At 31 March 2018 | 111,776 | 57,479 | 169,255 |
| **Accumulated depreciation** | | | |
| At 1 April 2016 | 62,245 | 39,736 | 101,981 |
| Charge for the year (Note 16) | 7,129 | 4,307 | 11,436 |
| On disposals | - | (329) | (329) |
| At 31 March 2017 | 69,374 | 43,714 | 113,088 |
| Charge for the year (Note 16) | 13,838 | 4,352 | 18,190 |
| At 31 March 2018 | 83,212 | 48,066 | 131,278 |
| **Carrying amount** | | | |
| **At 31 March 2018** | **28,564** | **9,413** | **37,977** |
| At 31 March 2017 | 28,898 | 6,160 | 35,058 |

## 5. INVENTORIES

| | 31.03.2018 AED | 31.03.2017 AED |
|---|---|---|
| Packing materials (Note 14) | 217,118 | 155,357 |

## 6. TRADE AND OTHER RECEIVABLES

| | 31.03.2018 AED | 31.03.2017 AED |
|---|---|---|
| Trade receivables | 3,774,962 | 4,129,342 |
| Prepayments | 161,116 | 143,423 |
| Refundable deposits | 18,646 | 19,866 |
| VAT receivable | 7,028 | - |
| Other receivables | 141,426 | 135,506 |
| | 4,103,178 | 4,428,137 |

The average credit period is 60 days.

Trade receivables disclosed above include AED 73,811 (2017: AED 2,194,265) (see below for aged analysis) which are past due at the end of the reporting period but against which the Establishment has not recognised any allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts are still considered recoverable.

An age analysis of trade receivables those were past due but not impaired is as follows:

| | 31.03.2018 AED | 31.03.2017 AED |
|---|---|---|
| 61 to 90 days | 73,811 | 396,411 |
| 91 to 180 days | - | 566,625 |
| 181 to 365 days | - | 697,144 |
| Above 365 days | - | 534,085 |
| | 73,811 | 2,194,265 |

Trade receivables which are neither past due nor impaired amounted to AED 3,701,151 (2017 : AED 1,935,077).

The Establishment has subsequently collected AED 659,879 of the outstanding receivables upto 16 April 2018.

## 7. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties include the shareholders, subsidiaries, directors and entities which are controlled directly or indirectly by the shareholders or directors or over which they exercise significant management influence. Balances and transactions between the Establishment and its related parties are described below. Transactions with related parties were entered into on terms as agreed by the management.

MADISON MENON CHARTERED ACCOUNTANTS

The ultimate parent and controlling party is Indian Oil Corporation Ltd which is incorporated in India.

During the year, the Establishment entered into the following transactions with related parties:

| | 31.03.2018 AED | 31.03.2017 AED |
|---|---|---|
| Purchases (Note 14) | 1,564,740 | 2,024,958 |
| Royalty expenses (Note 14) | 56,515 | 12,986 |
| Trade margin (Note 13) | 431,724 | - |
| Branding expense (Note 17) | 162,650 | 240,323 |
| Dividend paid (Note 19) | 2,000,000 | 1,000,000 |

The following balances were outstanding at the end of the reporting period :

| **Due from related parties** | 31.03.2018 AED | 31.03.2017 AED |
|---|---|---|
| Indian Oil Corporation Ltd, India | - | 578,191 |
| Indian Oil Corporation, Sri Lanka | 431,724 | - |
| | 431,724 | 578,191 |

| **Due to a related party** | 31.03.2018 AED | 31.03.2017 AED |
|---|---|---|
| Indian Oil Corporation Ltd, India | 494,633 | - |

The above related party balances are unsecured and are expected to be settled by cash.

**Compensation of key managerial personnel**

Key managerial remuneration represents the compensation paid or payable to key management for employee services. The key management includes directors and other members of senior management. The compensation of key management for the year is shown below:

| | 31.03.2018 AED | 31.03.2017 AED |
|---|---|---|
| Salaries and allowances | 434,942 | 378,633 |

Compensation of key managerial personnel is included in the employee costs (Note 18).

## 8. OTHER CURRENT FINANCIAL ASSETS

| | 31.03.2018 AED | 31.03.2017 AED |
|---|---|---|
| Fixed deposit | 20,828,208 | 16,749,823 |
| Margin deposit | 65,081 | 65,081 |
| | 20,893,289 | 16,814,904 |

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## 9. CASH AND CASH EQUIVALENTS

| | 31.03.2018 AED | 31.03.2017 AED |
|---|---|---|
| Cash at bank : Current accounts | 375,898 | 1,962,695 |

## 10. SHARE CAPITAL

| | 31.03.2018 AED | 31.03.2017 AED |
|---|---|---|
| Authorised, issued and fully paid; | | |
| 2 ordinary shares of AED 1,000,000 each | 2,000,000 | 2,000,000 |

## 11. PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS

| | 31.03.2018 AED | 31.03.2017 AED |
|---|---|---|
| Balance at the beginning of the year | 53,532 | 46,837 |
| Provision made during the year (Note 18) | 9,700 | 6,695 |
| Balance at the end of the year | 63,232 | 53,532 |

## 12. TRADE AND OTHER PAYABLES

| | 31.03.2018 AED | 31.03.2017 AED |
|---|---|---|
| Trade payables | 3,633,852 | 3,765,210 |
| Advance from customers | 584,124 | 1,070,766 |
| Other payables | 28,783 | 25,000 |
| | 4,246,759 | 4,860,976 |

## 13. REVENUE

| | 31.03.2018 AED | 31.03.2017 AED |
|---|---|---|
| Revenue from sale of goods | 30,249,863 | 26,128,498 |

Revenue from sale of goods includes margin earned for sales made by a related party on behalf of the Establishment AED 431,724 (2017 : Nil) (Note 7).

## 14. COST OF SALES

| | 31.03.2018 AED | 31.03.2017 AED |
|---|---|---|
| Opening inventories | 155,357 | 112,707 |
| Purchases | 24,260,391 | 21,087,888 |
| Closing inventories (Note 5) | (217,118) | (155,357) |
| | 24,198,630 | 21,045,238 |
| Royalty fees (Note 7) | 56,515 | 12,986 |
| Freight charges | 81,036 | 30,648 |
| Sales commission | 250,734 | - |
| | 24,586,915 | 21,088,872 |

MADISON MENON CHARTERED ACCOUNTANTS

The above purchases include purchases from a related party amounting to AED 1,564,740 (2017: AED 2,024,958) (Note 7).

Royalty is paid to the parent company for using the brand name "Servo" which is 3% of the sales by direct shipment from parent company of such brand.

## 15. OTHER INCOME

| | 31.03.2018 AED | 31.03.2017 AED |
|---|---|---|
| Interest income | 321,592 | 241,535 |
| Exchange (loss)/gain | (748) | 68,881 |
| | 320,844 | 310,416 |

## 16. ADMINISTRATIVE EXPENSES

| | 31.03.2018 AED | 31.03.2017 AED |
|---|---|---|
| Employee costs (Note 18) | 769,022 | 690,617 |
| Transportation expenses | 199,758 | 262,466 |
| Legal and professional fees | 100,574 | 172,619 |
| Rent | 93,213 | 92,947 |
| Bank charges | 59,574 | 8,278 |
| Communication | 55,256 | 55,894 |
| Insurance | 42,184 | 29,477 |
| Depreciation (Note 4) | 18,190 | 11,436 |
| Membership fees | 15,415 | 30,154 |
| Office expenses | 12,079 | 21,104 |
| Loss on sale of property and equipment | - | 70 |
| Transfer expenses | - | 15,516 |
| Miscellaneous expenses | 25,630 | 26,188 |
| | 1,390,895 | 1,416,766 |

## 17. MARKETING AND BRANDING EXPENSES

| | 31.03.2018 AED | 31.03.2017 AED |
|---|---|---|
| Marketing & business promotion | 235,521 | 238,483 |
| Branding expenses (Note 7) | 162,650 | 240,323 |
| | 398,171 | 478,806 |

HODGSON MEIRON CHARTERED ACCOUNTANTS

## 18. EMPLOYEE COSTS

| | 31.03.2018 AED | 31.03.2017 AED |
|---|---|---|
| Salaries and allowances | 601,725 | 522,654 |
| End of service benefits (Note 11) | 9,700 | 6,695 |
| Other benefits | 157,597 | 161,268 |
| | 769,022 | 690,617 |

Managerial remuneration is included in employee costs (Note 7).

The entire employee costs have been allocated to administrative expenses (Note 16).

## 19. DIVIDEND

During the year, a dividend of AED 2,000,000 (2017 : AED 1,000,000) was declared and paid (Note 7).

## 20. FINANCIAL INSTRUMENTS

The net carrying amounts of the financial assets and financial liabilities at the reporting date are classified as follows :

| | Loans and receivables | |
|---|---|---|
| | 31.03.2018 AED | 31.03.2017 AED |
| **Financial assets** | | |
| Trade and other receivables (excluding prepayments and VAT receivable) (Note 6) | 3,935,034 | 4,284,714 |
| Due from related parties (Note 7) | 431,724 | 578,191 |
| Other current financial assets (Note 8) | 20,893,289 | 16,814,904 |
| Cash and cash equivalents (Note 9) | 375,898 | 1,962,695 |
| | 25,635,945 | 23,640,504 |

| | At amortised cost | |
|---|---|---|
| | 31.03.2018 AED | 31.03.2017 AED |
| **Financial liabilities** | | |
| Trade and other payables (excluding advance from customers) (Note 12) | 3,662,635 | 3,790,210 |
| Due to a related party (Note 7) | 494,633 | - |
| | 4,157,268 | 3,790,210 |

## 21. CAPITAL RISK MANAGEMENT

The Establishment manages its capital to ensure that the Establishment will be able to continue as a going concern while providing maximum return to stakeholders through the optimisation of the debt and equity balance and to maintain an optimal capital structure to reduce the cost of capital. The Establishment's overall strategy on capital risk management remains unchanged from the previous year.

The capital structure of the Establishment consists of equity funds as presented in the statement of financial position together with shareholder's current account. Debt comprises total amounts owing to third parties, net of cash and cash equivalents.

## 22. FINANCIAL RISK MANAGEMENT

### Financial risk factors

The Establishment's activities expose to a variety of financial risks: market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Establishment's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Establishment's financial performance.

Risk management is carried out by the Establishment's management. The management identifies and evaluates financial risks on regular basis to minimise the adverse impact over the Establishment's operation.

### *(a) Market risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as commodity price risk and equity risk. The Establishment's activities are exposed primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

### (i) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Establishment's exposure to the risk of changes in foreign exchange rates relates primarily to the Establishment's operating activities, when revenue or expense are denominated in a different currency from the Establishment's functional currency which is Arab Emirates Dirham (AED).

There are no significant exchange risks as substantially all financial assets and liabilities are denominated in UAE Dirhams or US Dollars to which the UAE Dirham is pegged.

**(ii) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

As of the reporting date, the Establishment has fixed deposit. If the interest rate had strengthened by 1% against the effective rate with all other variables held constant, profit for the year would have been AED 208,282 (2017 : AED 167,498) higher.

***(b) Credit risk***

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Establishment is exposed to credit risk from its operating activities (primarily for trade receivables and committed transactions) and from its financing activities, including deposits with banks, foreign exchange transactions and other financial instruments.

The Establishment deals only with highly reputed local and international banks. In respect of major customers, credit risk is managed by assessing the credit quality of these major customers, taking into account their financial position, past experience and other factors including regular follow up.

***(c) Liquidity risks***

Liquidity risk refers to the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities at maturity date.

The Establishment manages the liquidity risk through risk management framework for the Establishment's short, medium and long-term funding and liquidity management requirements by maintaining adequate reserves, sufficient cash and cash equivalent to ensure funds are available to meet its commitments for liabilities as they fall due.

The table below analyses the Establishment's remaining contractual maturity for its financial liabilities based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. The contractual maturity is based on the earliest date on which the Establishment may be required to pay.

| | **Less than 1 year** | |
|---|---|---|
| | **31.03.2018** | **31.03.2017** |
| | **AED** | **AED** |
| Trade and other payables (excluding advance from customers) (Note 12) | 3,662,635 | 3,790,210 |
| Due to a related party (Note 7) | 494,633 | - |
| | 4,157,268 | 3,790,210 |

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## 23. FAIR VALUE

The fair value of a particular asset or liability 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 values of the financial assets and liabilities approximate their carrying amounts as reflected in these financial statements.

## 24. CONTINGENT LIABILITIES

Details of the commitments and outstanding contingent liabilities of the Establishment which are in the normal course of the business activities are as follows:

**Contingent liabilities**

| | 31.03.2018<br>AED | 31.03.2017<br>AED |
|---|---|---|
| Letter of credit | 20,700,488 | 4,052,702 |
| Labour guarantee (Note 8) | 65,081 | 65,081 |

## 25. COMPARATIVE FIGURES

Previous year figures have been regrouped and reclassified wherever necessary to conform with the current year presentation.

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