



## Annual Report

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Agility Public Warehousing Company  
K.S.C.P And Subsidiaries

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## Board of Directors

**Henadi Anwar  
Al-Saleh**

**Chairperson**

**Tarek Abdulaziz  
Sultan Al-Essa**

**Vice Chairman**

**Sultan Anwar  
Al-Essa**

**Board Member**

**Ahmed Hamad  
Al-Thunayan**

**Board Member**

**Naser Mohammed  
Al-Rashed**

**Board Member**

**Faisal Jameel  
Al-Essa**

**Board Member**

**Essam Musaeed  
Al-Mailam**

**Board Member**

## Vice Chairman and CEO's Message



### Dear Shareholders,

We would like to welcome you to our annual assembly meeting to discuss Agility's operational and financial performance.

Agility continues to deliver growth despite regional and economic challenges. In 2019, EBITDA grew by 5.6% (pre-IFRS16), following three consecutive years of double-digit growth. Global trade tensions, regional economic uncertainty, and financial market pressure in emerging markets all contributed to a challenging year for our logistics business. Given this environment, we continue to focus on driving operational efficiency and better customer service through digitization. This is an investment in our future.

Beyond digital, emerging markets also remain a key investment focus. This includes building logistics parks across the Middle East and Africa, the Reem mega-mall project in Abu Dhabi, bringing on new ocean vessels and fuel farms through our fuel logistics subsidiary,

and growing rapidly in Africa through our airport services subsidiary.

We move into 2020 cognizant that we are likely to see volatility in the global economy that may impact our logistics business, as well as slower market activities in certain markets in the Middle East and Africa that may affect certain portfolio companies. That said, we are confident that despite these challenges, we are well-positioned to navigate through them.

It's worth mentioning that since 2011, Agility's EBITDA reported a 14% compounded annual growth rate and generated a 25% IRR to its shareholders.

Financially, Agility reported in 2019 a net profit of KD 86.8 million, or 52.14 fils per share, an increase of 7% from 2018. Revenue for the year reached KD 1,578.6 million and EBITDA was KD 193.1 million, increases of 1.8% and 24.7%, respectively and the company's Board confirms the integrity of the prepared financial reports.

### Board of Directors Recommendation

Agility's Board of Directors had recommended a cash dividend distribution of 20% (20 fils per share), along with 10% bonus shares (10 shares for every 100 shares), but given the current conditions the world is facing as a result of the Covid-19 and the impact it had on the local and global economy and its potential future repercussions, and to retain the Company's financial flexibility in these unprecedented and unexpected circumstances, the Board of Directors decided to revise the previous recommendation to be a cash dividend distribution of 5% (5 fils per share) and distribution of 15% bonus shares (15 shares for every 100 shares), subject to approval of General Assembly.

### Agility Global Integrated Logistics (GIL)

*(All numbers in this section are pre-IFRS 16)*

For the full year 2019, GIL EBITDA was KD 35.4 million, a 1.4% decline from 2018. This decline was mainly driven by the costs associated to the acceleration of the digital transformation.

Year-to-date net revenue improved 2.9%. Net revenue growth was driven by strong Freight Forwarding yields; higher warehouse utilization and new facilities in Contract Logistics; and greater contributions from specialty products (Project Logistics and Fairs & Events). GIL consistently executed well on its commercial strategy, showing growth with selected industry verticals that are strategic priorities such as Life Sciences.

Full year 2019 revenue fell 2.5% and remained flat on a constant currency basis. 2019 was a challenging year for the freight forwarding industry as a whole.

According to IATA, 2019 witnessed the lowest air freight volumes since 2009. Full Year Air and Ocean Freight volumes decreased by 6.8% and 0.6% vs. 2018 driven by declining market demand, but were offset by higher yields.

To strengthen performance and its market differentiation, GIL is implementing its digital strategy. By accelerating its digital transformation, GIL intends to enhance customer and supplier connectivity, create innovative customer solutions, increase the efficiency of its business processes, and enable comprehensive business insight.

### Agility's Infrastructure Companies

*(All numbers in this section are pre-IFRS 16)*

For full year 2019, Infrastructure group's EBITDA grew 7.7% and revenue increased 14% and for the last quarter of 2019, EBITDA grew 6.1% and revenue increased 12.8%. Agility is investing in these companies to drive its future growth.

Agility Logistics Parks (ALP) reported 14.9% revenue growth

for the year, despite challenging market conditions. In Kuwait, ALP's focus is driving the efficiency and optimizing the use of existing assets. In Riyadh, Saudi Arabia, ALP completed another 120K sqm of warehousing space in 2019. In Africa, developments in ALP Ghana Phase III and Phase I in both Mozambique and Ivory Coast are approaching completion.

Tristar, a fully integrated liquid logistics company, posted 10.9% revenue growth in 2019, mainly from Fuel and Maritime improvements. Fuel sales increased mainly in Africa and Yemen. Additionally, improvements were realized in the Road Transport and Warehousing (RTW) segment coming from new contracts. Tristar is focusing on a growth strategy across all business segments. New vessels in the Maritime segment are expected in second half of 2020. RTW will continue to ramp-up existing contracts with mining companies and oil majors. In addition, Tristar is investing in new fuel farms in Africa.

National Aviation Services (NAS), the fastest growing aviation services provider in emerging markets, grew revenue by 7.8% in 2019. Favourable market conditions in some markets where NAS operates, coupled with successful turnaround efforts, contributed to this growth. As part of its strategy to expand within the African Continent, NAS is in the process of launching new operations in several new markets.

United Projects for Aviation Services Company (UPAC), a leading real estate and facilities management company operating in Kuwait, posted 2.2% revenue decline in 2019 compared with same period

in 2018. UPAC operations are still being affected by the shift in passenger traffic to dedicated airline terminals at Kuwait International Airport. UPAC has been able to partially offset the impact by generating new revenue from car park management operations in (T4) and through the strong performance of its real estate management operations in Kuwait. In Abu Dhabi, construction continues to progress on Reem Mall, a \$1.2 billion project.

GCS, Agility's customs modernization company, posted 8.8% growth in revenue in 2019. This was driven by new brokerage business and other services to support its core business. GCS is implementing initiatives to drive efficiency and improve profitability.

Finally, we are proud that in addition to our financial performance, we are focused on driving innovation in our industry and enhancing our digital logistics offering. We also continue to make strides in our sustainability goals. We will continue to invest in the business to drive efficiency and seed future growth, even as we confront concerns about downward pressure on global trade volumes, uncertain growth prospects, and ongoing trade frictions between large economies.

As always, we thank our employees, our customers, our shareholders and our partners for their engagement and support. And wish you a prosperous year ahead.



**Tarek Abdulaziz Sultan Al-Essa**  
Vice Chairman and CEO



# Financial Highlights

## Financial Highlights

### Revenue

2019 **1,579** KD Mn  
+1.8% vs 2018

### EBITDA

2019 **164** KD Mn  
+5.6% vs 2018

### EPS

2019 **53.64** Fils  
+10.0% vs 2018

### Operating Cashflow

2019 **121** KD Mn  
+24.1% vs 2018

### Total Assets

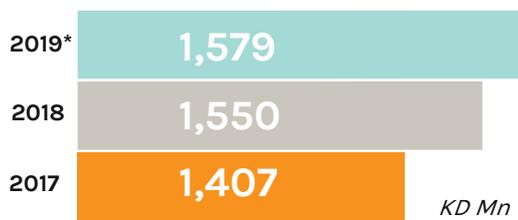
2019 **1,971** KD Mn  
+6.9% vs 2018

### Equity attributable to Shareholders of the parent

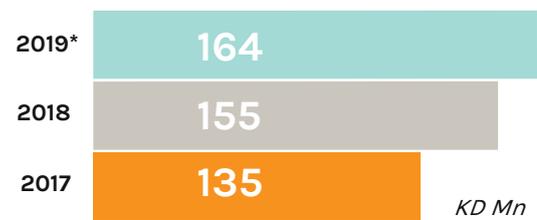
2019 **1,103** KD Mn  
+8.8% vs 2018

*(All numbers in this page are pre-IFRS 16)*

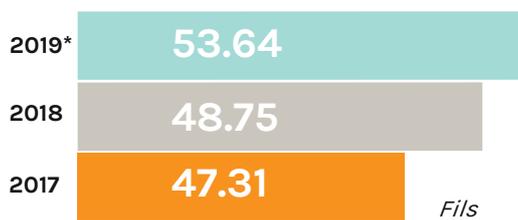
### Revenue



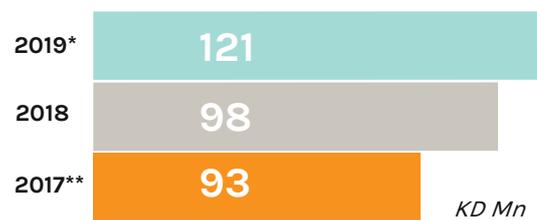
### EBITDA



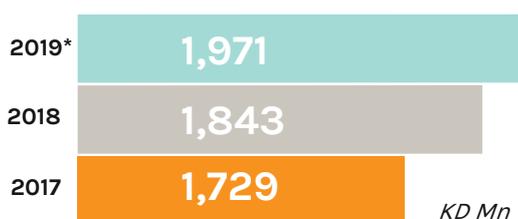
### EPS



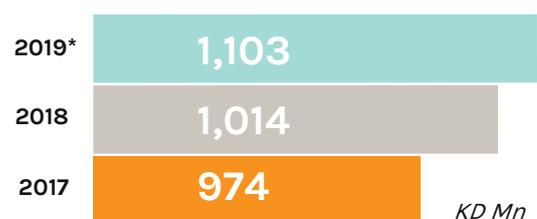
### Operating Cashflow



### Total Assets



### Equity attributable to Shareholders of the parent

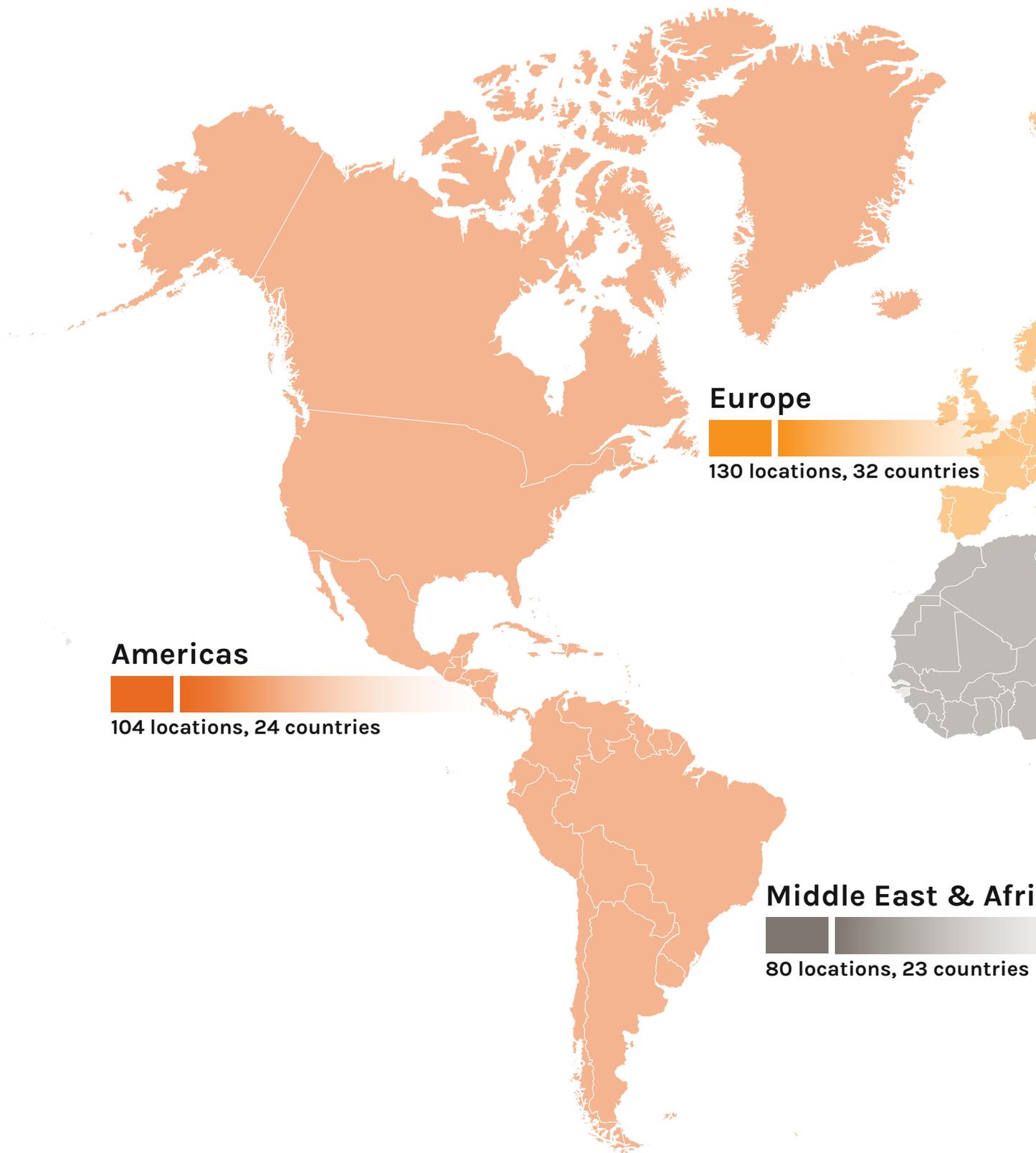


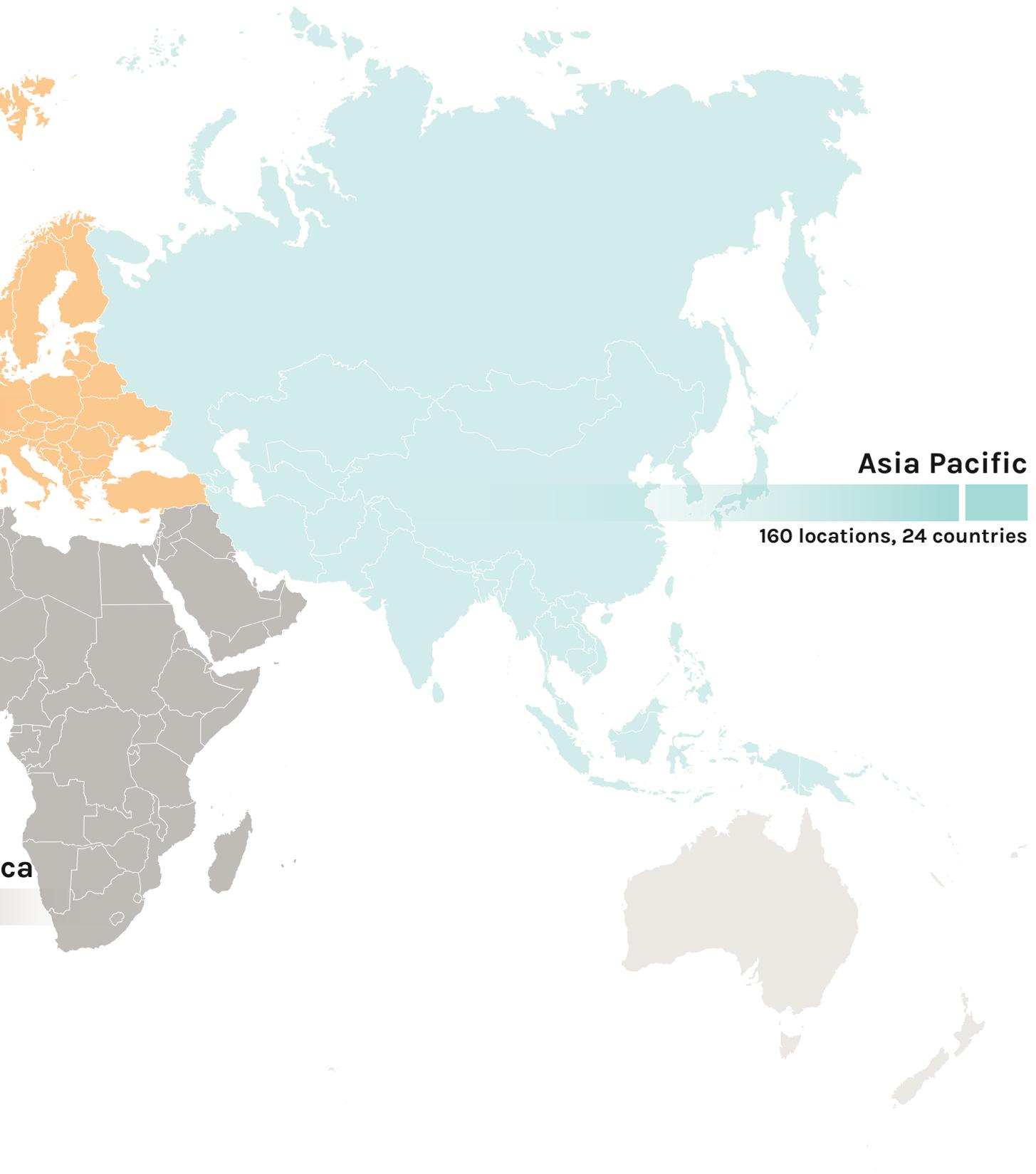
\* Excluding IFRS 16 Impact

\*\*Adjusted for US Gov Settlement



# Geographic Presence





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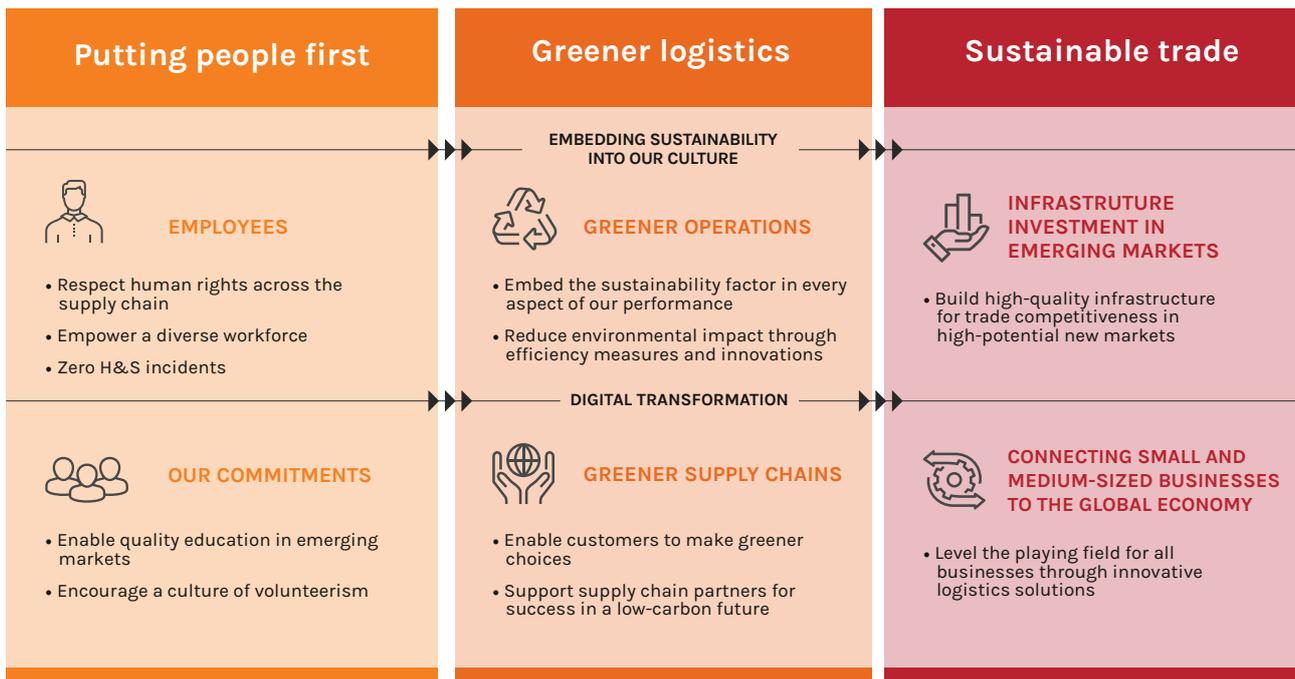
# Social Responsibility and Sustainability

# Our Approach to Sustainability

Agility's approach to sustainability means focusing on the areas where we believe we can best contribute to a more sustainable future. By putting people first, with both our employees and in the communities where we operate, we can contribute to a more equitable world, and help to address poverty and low levels of education.

Second, by innovating to improve energy efficiency in our operations, as well as sourcing more renewable energy, we can reduce our direct environmental impact. Our large footprint means that as we work with suppliers and supply chain partners, we can advocate for change. Finally, Agility's success depends on the successful integration of emerging markets into global supply chains. Addressing gaps in infrastructure, as well as designing services to level the playing field for small and medium-sized businesses, is good for our business and a more sustainable, equitable trade system.

## Our strategic framework



Agility has four sustainability programs that are becoming more and more integrated into our business each year: fair labor, community investments, humanitarian assistance and environment. The different programs within our sustainability strategy have their own separate management approaches based on how they are embedded into the business.



## Fair Labor

The Agility Fair Labor Program embeds respect for human rights into our organization, ensuring that all employees know their rights and how to exercise them. Driven from the highest leadership in the business, the program includes a comprehensive Global Human Rights Policy and implementation tools. The program has been growing steadily since its inception in 2007.

### How it works



For our largest operations in Asia and the Middle East, HR managers submit a human rights self-assessment for their country. All country management and HR employees go through a management training session, where they apply our policies through real scenarios taken from across our operations. A select group of Fair Labor trainers rollout the program to all employees, including those hired by a 3rd party, and ensures each site has a responsible person and fair labor posters, and that the anonymous grievance reporting channels are clearly posted. Once the training is complete, all non-compliance areas are addressed and an audit follows. The cycle repeats every 2 years.

### Our Progress

For our Fair Labor Program, by 2025, we aim to have 100% to undergo training as appropriate for their context, and 100% of full-scale operations in emerging market countries undergo a 3rd party audit every two years. We are ahead of schedule to achieve our targets. For the update list of training and audit status by country, please visit [sustainability.agility.com](http://sustainability.agility.com)

#### OUR 2025 GOALS

-  **100% of countries identify their own human rights risks**
-  **100% of employees trained on human rights**
-  **100% of largest emerging market operations are audited every two years**

#### PROGRESS TOWARDS OUR GOALS



## Community Investments

Agility’s community investments are driven by the commitment and passion of our people. Any Agility employee can apply for a company grant to support a community project that he or she believes will make a difference, allowing the employee to identify the social issues most relevant to his or her community. Agility supports projects that involve partnership with registered charities who adopt humane and impartial approach to service. We aim to build long-term partnerships with established organizations to support youth and education, health, disaster response or environmental action.

# Project Highlights 2019

In 2019, Agility volunteers contributed to 78 projects in 29 countries, reaching more than 44,000 people in need. We don't have space to feature them all. Here are 18 examples of the type of work we do in our communities.

To learn about more projects, please visit the Community Investments page on [sustainability.agility.com](http://sustainability.agility.com).



Project Number	Project Description	Country	Beneficiary Count	Volunteer Count
1	Mozambique cyclone relief through World Food Program	Mozambique	15,398	0
2	USA's monthly pledge campaign	United States	11,190	32
3	Kuwait's "machla" donation	Kuwait	10,000	17
4	Notebooks and school supplies	India	2,494	17
5	Computer lab setup in São Paulo	Brazil	560	5
6	Literacy program continues	Bangladesh	460	12
7	Adoption of Kuknoor Village	India	315	25
8	Shipping school equipment to Albania	The Netherlands	220	1
9	Hurricane relief with World Central Kitchen	United States	200	43
10	Supporting education with school supplies	China	180	6
11	Computer lab established at a local high school	Indonesia	174	13
12	Classroom renovation	Indonesia	168	40
13	Food bank contribution	United States	152	1
14	Pyjamas for winter	United Kingdom	146	4
15	Vocational training and job placement	Ghana	145	3
16	Computer donation	Colombia	120	1
17	Supporting The Citizens' Foundation for the ninth year	Pakistan	107	1
18	Collaborating with scouts to support disabled youth and adults	Romania	95	3

Beneficiary
 Volunteer

## Humanitarian Operations

Major humanitarian emergencies, both natural and man-made, are exacerbated by the enormous logistics challenges they create. Quick, effective, coordinated responses save lives and reduce unnecessary suffering, both for natural and man-made disasters. Agility partners with the humanitarian community and other like-minded organizations in the private sector to donate logistics expertise, assets and services when and where they are needed the most.

### Agility Humanitarian Operations and Preparedness Projects 2019

#### Lebanon Fleet Management Training

Workshop for 25 humanitarian logisticians to help them better manage fleet operations so they can safely deliver more aid to people in need.

#### Malaysia Flood victim support in Johor Bahru

Employee volunteers donated and distributed relief materials to support 15 flood-affected families.

#### Bangladesh Customs Workshop in Cox's Bazaar with the Logistics Emergency Team

Provided customs clearance training to humanitarian logisticians to help them speed up delivery of refugee aid materials. Worked with humanitarians, private sector organizations and government agencies to prepare for future humanitarian emergencies.

#### Mozambique Cyclon Idai Flood Relief Donation

Provided important customs clearance requirements and information to the humanitarian community to enable quicker delivery of emergency aid materials.

#### Bahamas Hurricane Dorian Relief Fundraising for World Food Kitchen

Collected donations to support 200 families affected by Hurricane Dorian.

#### South Sudan Safer and more efficient warehousing and distribution operation

Agility Tristar provided warehouse safety training to humanitarian logisticians to enable a safer and more efficient warehousing and distribution operation.

#### Malaysia Partnership with the UNHCR to support 12,000 refugees

In 2019, Agility began a partnership with the UNHCR, the UN Refugee Agency that will strengthen the delivery of essential services to refugees in Malaysia, in particular for vulnerable communities living outside of the country's capital.

The partnership will establish pilot programs in Johor and Penang, Malaysia, which will bring critically needed services to more than 12,000 refugees, most of them Rohingyas from Myanmar.

With local engagement and support, Agility and UNHCR will eliminate the need for vulnerable refugees to travel 300+ kilometers from their homes to Kuala Lumpur to have access to vital services, including refugee card renewal, essential information related to protection, and to receive counseling on available services.



A refugee family checks their biometrics information at the UNHCR office in Kuala Lumpur.

## ENVIRONMENT



### Our Goals

Offer our customers the most sustainable solution possible, given their unique needs

Reduce our direct carbon footprint by 25% by 2025.  
Achieve zero supply chain waste by 2030

Lead the transformation to low-carbon supply chains through innovation

### Highlights 2019

#### 150+

customers receive verified emissions reports

#### Optimizing to reduce emissions

our internal Green Team uses network rationalization, air freight densification, and other techniques to reduce costs and emissions

#### Industry engagement

Clean Cargo Working Group (CCWG), Sustainable Air Freight Alliance (SAFA), the World Economic Forum's Getting to Zero Coalition, and more

#### 90%

of headcount covered by 39 country operations voluntarily report electricity and fuel usage

#### 6 MWp

solar installation at Agility Singapore

#### 100%

renewable sourcing at Agility Spain

#### 42%

reduction in paper usage across 3 branches participating in Paperless Branch initiative

#### Waste-Free Agility underway

including no more plastic water bottles in APAC regional headquarters, all of India, Italy, and many other branches

#### Top 4%

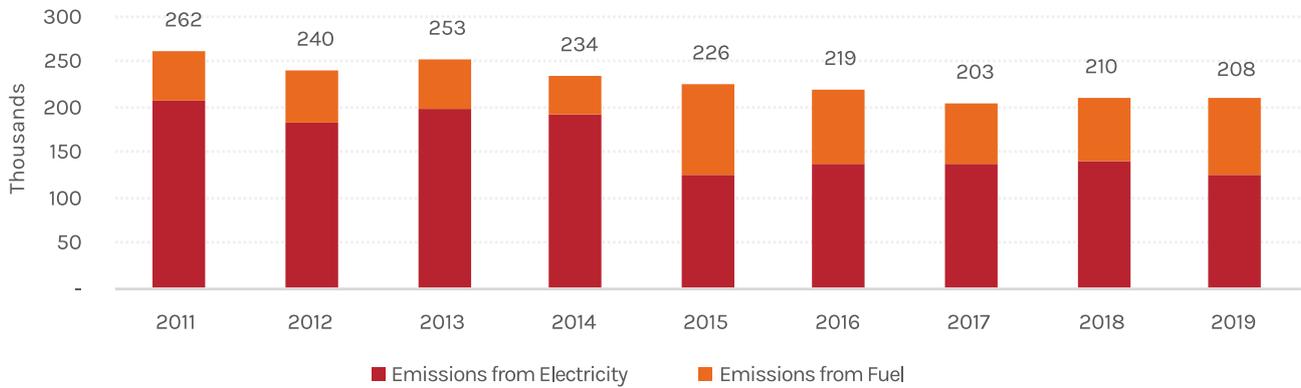
of our industry for environmental sustainability (Ecovadis 2018)

#### \$18 million

committed to green supply chain tech over 3 years

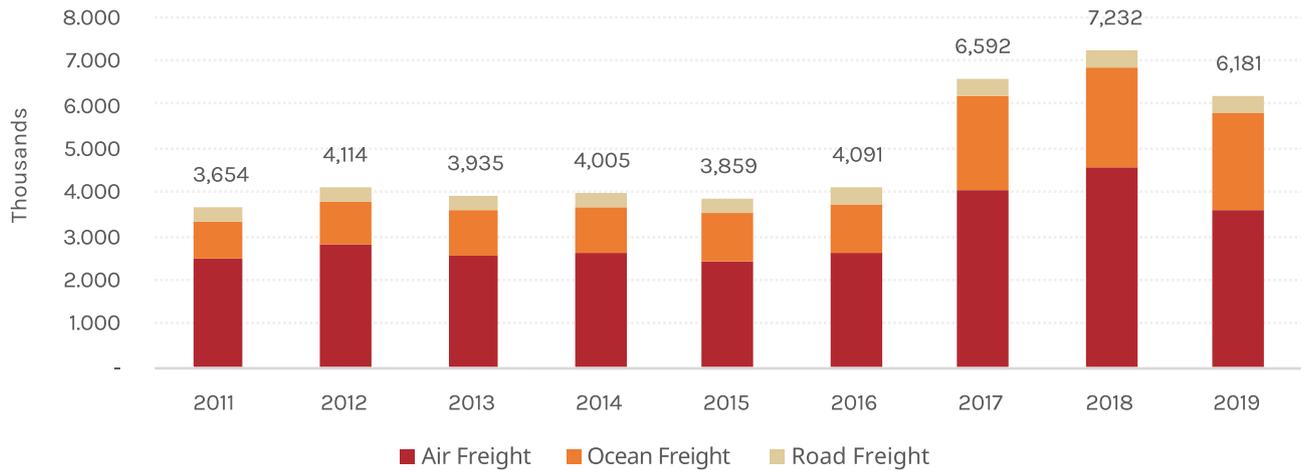
## Agility Direct Emissions 2011 - 2019

*from facilities and vehicles operated by GIL  
in metric tons of CO<sub>2</sub>e*



## Agility Outsourced Emissions 2011 - 2018

*from shipments coordinated by GIL  
in metric tons of CO<sub>2</sub>e*



For more information on our emissions footprint and what we are doing to reduce emissions, please review our 2019 Sustainability Report, or visit us at [sustainability.agility.com](http://sustainability.agility.com)



# Corporate Governance Report

## Introduction

Agility Public Warehousing Company KSCP continuously strives to comply with the international best practices in Corporate Governance and all the applicable rules and regulations set by the regulatory authorities. In addition, the company ensures compliance with all its legal obligations in accordance with its articles of association and commitment to its duties towards all stakeholders.

Agility approaches its corporate governance implementation through its Board of Directors, a majority of which is comprised of non-executive Directors. The Board focuses on effective oversight of management's operation of the business and maintains a sound and transparent governance framework by utilizing the different committees formed by the Board.

The Board of Director's has formed four committees - Audit, Risk, Nomination and Remuneration and Sustainability- those in addition to the Executive Management and internal and external auditors of the company support the Board in carrying its duties and responsibilities.

In addition to help improve and maintain the soundness and transparency of its governance, the company separates the Chairman's function from that of the Chief Executive Officer; maintains what the company believes is an appropriate Board size, which enables the members of the Board to actively contribute to discussion; and advances the proper function of the committees.

## Corporate Governance Rules and Regulations

### Rule I: Construct a Balanced Board

#### Board Composition

Agility's Board of Directors is committed to improve the corporate governance and compliance culture across the Group. It adheres to all the applicable and relevant international best practices of corporate governance and recognizes that good governance is vital for the long-term success and sustainability of the Company.

The Board of Directors aims to protect the interests of all stakeholders. The Board, directly and indirectly through its committees, leads and provides direction to management by laying down strategic frameworks and overseeing their implementation reflected through the overall performance of the Company. Moreover, the Board of Directors works to enhance the competitiveness of the Company to achieve high growth rates.

Agility has a balanced Board structure with diverse backgrounds, expertise and qualified skills to positively impact the Company's performance and enhance its financial position and market share taking into account the nature and size of its business structure.

The Board of Directors consists of seven members with a majority of non-executive Directors and one independent member. When it comes to duties, the company makes sure that the Board of Directors has sufficient time to perform their duties and responsibilities.

Agility Board Members are:

Name	Position	Type	Background	Date of appointment
Henadi Al-Saleh	Chairperson	Executive	Bachelor in Economics	02 April 2019
Tarek Sultan	Vice Chairman	Executive	Master in Business Administration	02 April 2019
Sultan Al-Essa	Member	Non-Executive	Bachelor in Business Administration	02 April 2019
Ahmed Al-Thunayan	Member	Non-Executive	Bachelor in Accounting	02 April 2019
Naser Al Rashed	Member	Independent	Master in Business Administration	02 April 2019
Faisal Al-Essa	Member	Non-Executive	Bachelor in Business Administration	02 April 2019
Essam Al-Mailam	Member	Non-Executive	Bachelor in Architectural Engineering	02 April 2019
Sonia Al-Sharafi	Board Secretary	Board Secretary	More than 25 years of experience	02 April 2019

### Summary of registering, coordinating, and archiving the Board's minutes of meetings:

The Board secretary, who is elected by the Board, ensures that all Board members receive the required information, documents and records related to the Company in a timely manner. The Board Secretary is also responsible for all matters related to the Board's meetings including agendas, invitations to members, minutes of discussions and tallying results of the votes, in-addition to ensuring the Board members are notified of meeting dates ahead of time, taking into account emergency meetings.

The secretary archives the minutes of meetings and numbers the minutes accordingly, noting the date, place, and the time of the meeting. The secretary also ensures proper communication between the Board members and Company's stakeholders.

During 2019, Agility's Board secretary was certified by the world-class Corporate Governance Institute, Hawkamah.

The Board of Directors held 6 meetings during 2019, and attendance was as follows:

Name	Meeting record						Attendance	Absence
	Feb 2019	Feb 2019	Mar 2019	May 2019	Aug 2019	Nov 2019		
Henadi Al-Saleh	√	√	√	√	√	√	6/6	0
Tarek Sultan	√	√	√	√	√	√	6/6	0
Sultan Al-Essa	√	√	√	√	√	√	6/6	0
Ahmed Al-Thunayan	-	-	-	√	√	√	3/3	0
Naser Al-Rashed	√	√	√	√	√	√	6/6	0
Faisal Al-Essa	√	√	√	√	√	√	6/6	0
Essam Al-Mailam	-	-	-	√	√	√	3/3	0

\*\* A √ is indicated for the member's presence and X for his / her absence to determine attendance and commitment

### Rule II: Establish Appropriate Roles and Responsibilities

During the current year, Agility's Board of Directors exercised its oversight to ensure that the company complied and enforced all Corporate Governance requirements as set by the Capital Markets Authority. When performing their duties, members of the Board follow a Charter that outlines the roles and responsibilities of the members, Chairman, and Executive Management in accordance with the rules and regulations of Corporate Governance.

#### Roles and responsibilities of the Board of Directors:

- Approving the company's strategies, goals, plans and policies
- Acknowledging annual estimated budgets and approving periodic and annual financial statements
- Supervising company's main capital expenditure, assets acquisitions and disposal of the same
- Safeguarding accuracy and validity of information to be disclosed in accordance with applicable disclosure and transparency policies and procedures
- Ensuring company's compliance with policies and procedures that are in line with internal applicable rules and regulations
- Ensuring validity of financial and accounting systems, including those related to financial reporting
- Preparing annual Corporate Governance report to be cited in the Annual General Assembly for the company
- Forming committees where term, structure and responsibilities of each committee are clarified
- Preparing and approving job descriptions that portray the roles and responsibilities of each member of the Board of Directors
- Defining the authority and scope of work of the Executive Management
- Holding periodic meetings with Executive Management to discuss work obstacles and challenges
- Evaluating the performance of each member of the Board of Directors and Executive Management based on preapproved Key Performance Indicators (KPIs)
- Supervising and monitoring the performance of the Executive Management, and ensuring the application of approved policies and regulations
- Setting a policy for governing the relationship with stakeholders and regulating transactions with related parties
- Ensuring appropriate control systems are used to measure and manage risk

#### Roles and responsibilities of the Board Chairman:

- Ensuring Board discussions of all major matters are carried effectively and timely
- Encouraging effective contribution by all members of the Board of Directors during meetings
- Representing the company to third parties in accordance with the company's articles of association
- Ensuring effective communication with shareholders and reflect their views to the Board
- Encouraging constructive relations and effective cooperation between the Board of Directors and Executive Management
- Promoting a culture of constructive criticism

#### Board main achievements in 2019:

In line with their roles and responsibilities, the Board has:

- 1- Approved the Company's full year budget and monitored regularly the performance of the company compared to the plan
- 2- Monitored the performance of the Board committees
- 3- Established Sustainability Board Committee and approved its charter
- 4- Reviewed and approved all the required reports for the shareholders meetings
- 5- Attended workshops including the Hawkamah workshop required by Dubai Financial Market
- 6- A proper introduction and induction program was done for new Board members

#### Roles and responsibilities of the Executive Management:

The company has a team of highly qualified Executive Management members able to carry out all the major duties entrusted to them in accordance with the Corporate Governance framework. Responsibilities of Executive Management include:

- Executing company's strategic plans, as well as ensuring adequacy and efficiency of the strategic frameworks established by the Board of Directors
- Preparing periodic reports (financial and non-financial) demonstrating company's performance during a specified period in comparison to certain KPIs set by the Board
- Establishing a complete and integrated accounting system and preparing financial statements in accordance with the International Accounting Standards approved by the Authority
- Managing daily business affairs and activities, in addition to managing company resources optimally
- Participating actively in building and developing a culture of ethical values across the company
- Establishing internal audit and risk management systems and ensuring its efficiency and sufficiency

#### Board Committees

Part of the Board's responsibilities is to establish Board committees to support and fulfill their roles effectively, in line with the company's needs and work conditions. The Board of Directors has formed committees in accordance with the rules and regulations of the Corporate Governance policy set by the Capital Markets Authority. The Board Committees are:

- Audit Committee
- Risk Management Committee
- Nominations and Remuneration Committee
- Sustainability Committee

Audit Committee	Formed	Period	Members	Meetings
	9 May 2019	3 years	3	4
Members	Name	Role	Classification	Attendance
	Naser Al-Rashed	Chairman	Independent	4/4
	Sultan Al-Essa	Member	Non-executive	4/4
	Faisal Al-Essa	Member	Non-executive	4/4

### Roles and responsibilities

- Review periodic financial statements prior to their submission to the Board of Directors and provide the Board with opinions and recommendations in order to ensure fairness and transparency of financial statements
- Study accounting issues and their impact on financial statements
- Evaluate the effectiveness of the internal audit systems in place, and prepare a report including opinions and recommendations of the committee in this regard
- Review internal audit and regulatory bodies' reports
- Review the work of the external auditors

Committee main achievements in 2019:

- 1- Monitored the performance of the internal audit department
- 2- Reviewed internal audit reports periodically
- 3- Reviewed quarterly financials before submitting them to the Board
- 4- Reviewed applicable accounting policies and the impact of the implementation of IFRS 16 on the financials
- 5- Reviewed the Quality Assurance Report on the internal audit committee done by an independent auditor.

Risk Management Committee	Formed	Period	Members	Meetings
		9 May 2019	3 years	4
Members	Name	Role	Classification	Attendance
	Naser Al-Rashed	Chairman	Independent	4/4
	Ahmed Al-Thunayan	Member	Non-executive	2/2
	Tarek Sultan	Member	Executive	4/4
	Essam Al-Mailam	Member	Non-executive	2/2

### Roles and responsibilities:

- Prepare and review risk management strategies and policies prior to getting them approved by the Board of Directors and verifying application of such strategies and policies in a manner appropriate to the company's nature and level of activities
- Ensure availability of resources and systems sufficient for risk management
- Ensure that the risk management employees fully understand the risks surrounding the company and work to increase employees' awareness of the risk culture

Committee main achievements in 2019:

- 1- Monitored the performance of the risk management function
- 2- Monitored the execution of the risk-management function action plan
- 3- Review the reports prepared by the risk-management function

Nomination and Remuneration Committee	Formed	Period	Members	Meetings
		9 May 2019	3 years	3
Members	Name	Role	Classification	Attendance
	Faisal Al-Essa	Chairman	Non-executive	2/2
	Naser Al-Rashed	Member	Independent	2/2
	Tarek Sultan	Member	Executive	2/2

### Roles and responsibilities:

- Recommending nomination and re-nomination for Board members and Executive Management
- Setting a clear remuneration policy for members
- Conducting annual review of the required skills needed for Board membership

Committee main achievements in 2019:

- 1- The Committee reviewed and approved the latest changes to the Company's remuneration policy
- 2- Conducted the annual review of the needed requirements and skills for Board membership and Executive Management
- 3- Nominated members for the board election done in 2019
- 4- Supported the Board during the performance self-assessment review

Sustainability Committee:	Formed	Period	Members	Meetings
		9 May 2019	3 years	3

Members	Name	Role	Classification	Attendance
	Tarek Sultan	Chairman	Executive	2/2
	Nasser Al-Rashed	Member	Independent	2/2
	Ahmed AL-Thunayan	Member	Non-executive	2/2

Roles and responsibilities:

- Review Agility's significant strategies, performance, activities and policies regarding sustainability and provide recommendations to the Board
- Monitor the Company's relationships with external stakeholders regarding significant ethics & compliance, health & safety, labor practices, environmental performance, community engagement, and charitable activities matters
- Advise the Board and management on strategies that affect and enhance the Company's role and reputation among its stakeholders

Committee main achievements in 2019:

- 1- Reviewed the charter of the committee to be presented to the Board for approval
- 2- Reviewed the results of the survey carried by the sustainability team
- 3- Agreed with the sustainability team members on the strategy going forward based on the results of the survey

### Ensuring Board Members receive information and data accurately and in a timely manner

The Board Secretary ensured effective flow of information and coordination between members of the Board of Directors. The company has an advanced information technology infrastructure that ensures Board members obtain information in a timely and accurate manner in accordance with relevant laws. Additionally, during Board meetings, the Board of Directors has the right to access any information they seek related to the company or its activity.

### Rule III: Recruit Highly Qualified Candidates for Members of a Board of Directors and the Executive Management

Board members' biographies:

#### Henadi Al- Saleh - Chairperson

Henadi Al-Saleh is the Chairperson of Agility's Board of Directors, and has been designated one the most powerful businesswoman in the Middle East by Forbes Magazine. Al-Saleh oversees the company's corporate governance program while safeguarding the interests of investors and stakeholders. She also leads the company's technology ventures team, which partners with start-ups and entrepreneurs that are reshaping the supply chain. Before joining Agility, Al-Saleh was the head of debt/equity capital markets at NBK Capital in Kuwait. Al-Saleh earned a Bachelor of Economics from Tufts University. She sits on the Board of the Gulf Warehousing Company in Qatar.

#### Tarek Sultan - Vice Chairman

Tarek Sultan is the Chief Executive Officer and Vice Chairman of Agility. Sultan assumed leadership of Agility in 1997, spearheading the company's expansion from a regional logistics company into a \$4+ billion global business that has been designated a 3PL industry leader by Gartner. Sultan holds an MBA from the Wharton School at the University of Pennsylvania and a Bachelor of Economics from Williams College. Sultan sits on the Board of Trustees for Kuwait's Silk City and Boubyan Island Development Project. Sultan is an active supporter of the World Economic Forum (WEF). He is a member of the WEF's Global Future Council on Humanitarian Systems, sits on the Boards of the WEF's Supply Chain & Transport Industry Governors and Future of Production initiative, as well as serving as a trustee for the Global Alliance for Trade Facilitation.

### Ahmed Al-Thunayan – Board Member

Ahmad H. Al Thunayan, is a Chief Operations Officer in the Public Institute for Social Security. His responsibilities include design and implementation of business strategies, policies and procedures and the overall management of the operations division. Mr. Al Thunayan evaluates performance by analyzing and interpreting data and metrics. His experience exceeds 27 years in operations, finance and accounting. Mr. Al Thunayan earned his B.A. in 1991 from Kuwait University.

### Sultan Anwar Al-Essa – Board Member

Sultan Anwar Al-Essa is the Chief Executive Officer and Vice Chairman of Union Real Estate Co. (UREC), a leader in developing, leasing and managing luxury apartments within Kuwait. Founded in 1975, UREC remains focused on providing the best service for its loyal customers.

Mr. Sultan has been with UREC since 2008. Prior to that, he worked at Petroleum Services Co., a privately owned company focused on supplying and servicing the oil & gas sector. Mr. Sultan graduated from Northeastern University in Boston with a degree in Business Administration.

### Faisal Jamil Al-Essa – Board Member

Faisal Jamil Al-Essa is the Vice Chairman and Chief Executive Officer of Kuwait based National Real Estate Company K.P.S.C., one of the leading publicly traded real estate companies in the Middle East with more than \$US 2 billion in assets under management and projects and offices in more than ten countries. Before becoming Vice Chairman and Chief Executive Officer, Al-Essa served NREC by leading its business development function and as a Board member, chairman and MD of various subsidiary organizations. He is also Chairman of Kuwait Agro Holding one of the leading fruits and vegetable, poultry and dairy companies in the Middle East. Al-Essa is a graduate of US based Barry University with a degree in Business Administration.

### Nasser Al-Rashed – Board Member

Nasser Mohammed Al-Rashed is Chairman of Aswaq Trading Company, a leading privately held retailer in Kuwait that carries successful in-house brands. Under his leadership, Al-Rashed established the company as a reputable retailer that offers high quality fashion brands to Kuwait and the Middle East markets.

Al-Rashed has strong management experience in both public and private sectors, with previous senior roles in the Civil Aviation Authority and the Kuwait Fund for Arab Economic Development. He also served as a director in several boards of publicly listed companies in Kuwait.

Prior to his current role in Aswaq Trading Company, he was with the Public Warehousing Company where he held positions of increasing responsibility, serving as its Deputy General Manager, Managing Director, and Chairman.

### Essam Al-Mailam – Board Member

Essam MUSAED Al Mailam has more than 20 years of experience in real estate development in Kuwait and abroad, held several positions in a number of shareholding companies as well as governmental institutions. He has also served as Chairman and Managing Director of Nakheel United Real Estate Company, and Chief Executive Officer of the Public Utilities Management Company, among other executive positions.

Mr. Al Mailam is also the Chairman of Ahjar Holding Company, a Board member of Kuwait Petroleum International (Q8), and a member of the Committee for General Projects and Housing at the Kuwait Chamber of Commerce and Industry.

Mr. Al Mailam holds a Bachelor degree in Architectural Engineering from the University of Miami, USA.

## Nomination and Remuneration

The Board of Directors has formed the Nomination and Remuneration Committee in accordance with the rules stipulated in article 41- of the Corporate Governance Module. Committee's main responsibilities are:

- Recommending nomination and re-nomination for members of the Board of Directors and Executive Management
- Setting clear remuneration policy for members of the Board and Executive Management, along with annual review of the required skills needed for the Board membership
- Preparing detailed annual report of all remuneration given to members of the Board and Executive Management
- Preparing job descriptions for the members of the Board of Directors

The Company, in compliance with the highest standards of transparency set forth in leading practices and Corporate Governance regulation, has prepared a detailed report on all the benefits awarded to the members of the Board and the Executive Management is as follows:

## Board of Directors Remuneration

Board remuneration is recommended by the Board Nomination and Remuneration Committee and approved by the shareholders during the general assembly meeting. And as stipulated by the Articles of Associations of the company, Board remuneration should not exceed 10% of the company's net profits after deducting depreciation and reserves. Based on the recommendation of the Nominations and Remuneration Committee, Total Board remuneration for the year 2019 was 140 thousand Kuwaiti Dinars, equally distributed between all Board members. In addition, to other benefits and allowances of 350 thousand Kuwaiti Dinars distributed among the members according to their performance and the amount of work done.

## Executive Management Remuneration

Executive Management remuneration consists of two components. The first component is fixed compensation based on the level of responsibilities. The second component is variable remuneration linked to the achievement of previously approved targets. Both types of compensation are reviewed by the Nomination and Remuneration Committee and relative departments on an annual basis. The total remuneration given to Executive Management for the year 2019 is as follows:

Category	Fixed remuneration KD 000's	Variable Remuneration KD 000's	Total KD 000's
Executive Management	1,419	2,725	4,144

## Rule IV: Safeguard the Integrity of Financial Reporting

### Financial statements and external auditors

The Board of Directors and Executive Management provide a written undertaking affirming the soundness of financial statements, which represent all financial and operational aspects of the company, and that they have been prepared in line with International Standards approved by the Authority.

Financial Reports:

The company issues a set of financial reports on a regular basis, and they include:

- Periodic and annual financial information
- Earnings reports
- Annual reports

Audit Committee

The Audit Committee is considered one of the main pillars in applying sound Corporate Governance as the committee works to incorporate the culture of accountability inside the company by ensuring the soundness and integrity of financial reporting of the company.

The Board of Directors appointed an Audit Committee according to the regulations in Article 56- of the Corporate Governance Module 15. The Audit Committee consists of three non-executive members and an independent member with diverse backgrounds consistent with the nature of the company's activity and their responsibility. The Board charter sets out the term, structure and responsibilities of the committee.

During 2019, the committee met four times during the year on a quarterly basis, and no contradictory views were noticed between the committee's recommendations and Board of Directors' resolutions.

Audit Committee responsibilities:

The Audit Committee has many regulatory functions in the company such as:

- Review periodic and annual financial statements prior to their submission to the Board of Directors
- Recommend to the Board the appointment, re-appointment, or replacement of the external auditors, and specify their remuneration
- Follow up on the work of the external auditors
- Evaluate the efficiency of internal audit systems, and prepare reports and recommendations
- Review the results of the internal audit reports
- Review the outcome of regulatory bodies' reports
- Verify company compliance with relevant laws, policies and regulations

With regard to the external auditor, the Audit Committee works to:

- Recommend to the Board of Directors the appointment and re-appointment of the external auditor, as well as, specify the appropriate remuneration. Moreover, the Audit Committee should ensure that the auditor is among the approved and licensed auditors by the relevant authorities.
- Verify the independence of the external auditor periodically before his or her appointment or reappointment. The committee should ensure that the external auditor does not perform any additional tasks which may affect the external auditor's independence.

Based on the above, the Audit Committee has recommended to the Board the reappointment of the company's current external auditors: Mr. Bader Adel Al Abduljader / Ernst & Young and Mr. Shuaib Abdullah Shuaib / RSM-Al Bazei and Partners which was later approved by the AGM.

## Rule V: Apply Sound Systems of Risk Management and Internal Audit

The company has appointed an external consultant, reporting directly to the risk committee, to perform its risk management responsibilities which includes, identifying and measuring the risks the company may face and gauging its risk appetite. The consultant has identified adequate internal control systems relevant to the activity of the company and the nature of its work. The risk manager has also worked on the development of regular periodic reporting systems to assist the company in performing its core functions.

### Risk Management Committee

The Board of Directors has formed a Risk Management Committee according to the Corporate Governance regulations as outlined in Article 64- of Module 15. The committee consists of four members from the Board of Directors: an executive member, an independent member, and two non-executive members, one of them chairing the committee.

The Risk Management Committee has a number of responsibilities:

- Assist the Board of Directors in identifying and evaluating the company's acceptable risk level, and ensuring that the company does not exceed the set level
- Prepare and review risk management strategies and policies and ensure they are appropriate to the company's nature and level of activities prior to getting them approved by the Board of Directors;
- Verify application of those strategies and policies;
- Verify independence of the risk management employees from activities that exposes the company to risks
- Review the organizational structure of risk management and provide recommendations in this regard prior to the approval by the Board of Directors
- Prepare periodic reports concerning the nature of risks facing the company and submit such reports to the Board of Directors

### Summary of the efficiency of company Systems of Control and Internal Audit:

The company has efficient internal control systems that cover all of its activities and maintain the company's financial soundness, data accuracy, and operations effectiveness in various aspects. Within its organizational structure, the company implements the dual control audit (Four Eyes Principles), which are:

1. Sound identification of authorities and responsibilities
2. Clear separation of roles to eliminate conflict of interest
3. Inspection and dual audit
4. Dual signature
5. An approved authority matrix and segregation of duties
6. Implementing policies and procedures to be followed while doing business
7. Advanced IT systems (trasfora approval process) for approval process and separation of duties
8. Advanced IT systems for protection (next generation firewalls, network intrusion detection systems, Unified Threat Management (UTM) Appliances, Trend Micro Antivirus)

The company has hired an independent company (Deloitte) to evaluate and review the internal audit systems in place and prepare a report in this regard (Internal Control Report) to be presented to the Capital Markets Authority. The report was concluded with minor observations, and the Board has delegated the responsible departments to take actions accordingly.

The company has also hired Baker Telly as an independent auditor to revise and evaluate the internal audit department/office/ unit periodically every three years, result of this audit came satisfactory.

## Internal Audit Department

Agility's Internal Audit Department enjoys full technical independency by reporting directly to the Internal Audit Committee. The department should ensure that all policies and procedures are followed properly within all departments and the current systems are capable to evaluate the efficiency of the company's daily operations and its ability to encounter the unforeseen market changes. Furthermore, the department evaluates performance of the Executive Management in applying internal audit systems. The department prepares periodic reports on all the work done including their recommendations to be presented to the internal audit committee, which then presents its report to the Board

### Rule VI: Promote Code of Conduct and Ethical Standards

The company, represented by the Board of Directors, the Executive Management and its employees, believes that the professional and ethical standards are of the most important aspect in the company's success. Upon this belief, the company complies with the approved policies of the Board of Directors in this regards. The policies touch upon important aspects, such as the relationship with trading partners, the integrity of financial data, as well as the safety of information and the environment. The Board of Directors, Executive Management, and employees are required to follow these policies in all of their job functions and duties.

Summary of the policies and mechanisms to reduce the conflicts of interest:

The Conflict of Interest policy is an integral part of the Company's compliance to the principles of integrity and fairness in dealing with stakeholders and sets out the disclosure mechanisms and procedures for dealing with conflicts of interest. The policy verifies that all the decisions taken by the Board of Directors are in the best interest of the company and that the Board is appropriately dealing with expected and potential conflict of interest. The policy also articulates the roles of the Board of Directors, Executive Management, the internal audit department, and the company's general assembly in the case of a conflict of interest.

### Rule VII: Ensure Timely and High-Quality Disclosures and Transparency

Summary of applying disclosure and presentation mechanisms that are accurate and transparent:

Disclosures are meant to outline material information (financial and non-financial) that concern investors and stakeholders. Disclosures are released regularly (specific financial periods) or immediately when a significant event happens to ensure that all related parties receive the news of the events and so that no party is able to exploit the information.

The company is committed to a work environment that is transparent and in accordance with the best Corporate Governance practices and in compliance with the instructions of regulatory authorities. The company has approved a detailed policy related to disclosures and transparency that outlines material information that requires disclosures. This policy is reviewed regularly to reflect any amendments issued by the regulators. Detailed disclosures are considered essential for evaluating company's performance and contribute to the understanding of the shareholders and investors towards the structures, activities, and processes applied by the company in regards to ethical standards.

The disclosure policy outlines all kinds of disclosures related to the company and gives general guidance to the disclosure department in carrying out its duties effectively and efficiently. The company has prepared a special document that illustrates all the periodic reports and records that are related to regulatory bodies.

Brief on the application of the disclosures record and its requirements:

The company has created a record of disclosures for the members of Board of Directors and Executive Management, which is updated on a regular basis and can be accessed by any shareholder without any fee or charge. The disclosures report includes Board and Executive Management members' ownership in all listed securities on Boursa Kuwait and any trade done by them on company's stock, in addition to all other disclosures outlined by the Capital Markets Authority executive bylaws.

A brief summary on the requirements to form the investor relations department:

The company has an [Investor Relations department](#) that is responsible for providing all the necessary data, information, and reports that are relevant for its investors. The department is appropriately independent, being able to provide whatever information or data when requested. All company's disclosures are available on the website with the department's contact information if required.

Brief on the development of a basic structure of IT systems that are required the disclosures

The company has developed an advanced IT system that is used for its financial and nonfinancial activities. The company's financial, human resource, and legal departments have a unique IT system between them, in addition to a software that was created by the IT department to identify and segregate duties.

The company has also developed a frequently updated website that efficiently displays all appropriate data, information, and disclosures of its activities that help shareholders and investors exercise their rights and evaluate the company's performance.

During 2019, the Investor Relations department has developed with the support of the IT team, a shareholders' application that can track all shareholders activities and information.

### **Rule VIII: Respect the Rights of Shareholders**

Summary on applying the requirements of identifying and protecting the general rights of shareholders to ensure the fairness and equality:

A sound governance system ensures that all shareholders are treated with fairness. The company strives to treat all shareholders equally and discloses all information necessary according to the regulations of the Capital Markets Authority executive bylaws. The company seeks to achieve the highest level of transparency, accountability, and effective management through the application of efficient strategies, objectives, and policies in compliance with the regulatory and ethical responsibilities.

The company's articles of association and regulations clearly states all the rights of the shareholders, in a manner that achieves fairness and equality without contradiction with the applicable laws, regulations, resolutions and instructions issued in this regard.

Moreover, the company strives to strengthen its communication with its investors and financial analysts. The Investor Relations Department is the point of contact between the company and its shareholders or potential investors.

Summary on creating and retaining a special record from the Clearing Agency to include the requirements of monitoring shareholder data:

For purposes of ongoing monitoring of all matters related to shareholders' data, the company created and maintains a special record at the Kuwait Clearing Company (KCC), containing all the necessary information related to shareholders. The KCC updates this record on a regular basis. The data is maintained with the highest degree of protection and confidentiality.

Brief on how to encourage the shareholders to participate and vote in the company's general assembly meetings:

The articles of association include all shareholder rights with regard to the general meetings and attendance of the general assembly meeting. The articles also include the work agenda, voting rights, and voting procedures of the general shareholder meetings as well as participation. The company has developed a policy for the protection of shareholders' rights that is available for all shareholders to view.

### **Rule IX: Recognize the Roles of Stakeholders**

Brief on the conditions and policies that ensure the protection of the rights of stakeholders:

The company works to respect and protect the rights of stakeholders in all their dealings, whether internally or externally, as contributions of stakeholders are important in establishing company's competitiveness and in supporting the levels of its profitability. In order to prevent conflicts of interest between dealings of stakeholders, whether they are agreements or transactions with the company, and the interest of shareholders, the following is considered:

- No stakeholders shall be given any advantages or preference in any transactions that are part of the company's activities.
- The company implements and follows clear policies and procedures including a clear mechanism of awarding agreements and transactions of various types.

Brief on how to encourage Stakeholders to keep track of the company' various activities:

The company has developed a policy to ensure the acknowledgement and protection of the rights of stakeholders through various rules and measures. The policy is available for stakeholders in order to help them understand their rights and obligations. The policy also sheds some light on how to provide stakeholders access to all necessary information and data related to their activities.

The company also maintains a complaints section on its website and a hotline to report any mistreatment ([complaints](#)). Any concern is reviewed by the Compliance Department in order to take appropriate action.

## Rule X: Encourage and Enhance Performance

Summary on the development of mechanisms that allow the Board members and Executive Management to attend training programs and courses regularly:

Continuous training of the Board members and Executive Management is a cornerstone of good governance rules and enhances the company's performance.

The company has a clear policy that allows Executive Management members access to training programs, internally and externally, on a regular basis. As for the Board members, they are encouraged to regularly attend events and conferences to help them be up to date with the company's business and standing. These programs are meant to keep the Board members and Executive Management up to date with all new regulations and their impact on the company's business.

During 2019, members of the Board of Directors have attended a corporate governance workshop organized by Dubai Financial Market - Hawkamah team. The workshop was to present the latest practices on corporate governance and the role of the Board of Directors and Board Secretary.

Brief on the evaluating the performance of the Board of Directors as a whole as well as the performance of each Board member and Executive Management:

As per the Board of Directors' charter, an annual self-assessment exercise has to be done by Board and committee members to evaluate the performance of the Board and the committees during the year. The evaluation is based on certain financial and non-financial set of performance measurement indicators tied to the achievement of strategic goals of the company.

As for the Executive Management members, their performance is evaluated by the Executive Compensation Committee on a regular basis through indicators set by the committee that are consistent with the company's goals.

Brief on the Board of Directors' effort to assert the importance of corporate value creation with the employees at the company through continuous endeavor to achieve the company strategic goals, and key performance indicators:

The Board of Directors work continuously to assert and encourage corporate value creation in the short, medium, and long term through developing processes and procedures to achieve company's strategic objectives and improve levels of employees' performance and stimulating them to work continually to contribute to Company's performance.

## Rule XI: Focus on the Importance of Corporate Social Responsibility

Summary on the application of a policy intended to accomplish a balance between the company's business goals and corporate social responsibility goals:

Social responsibility is the commitment by the company to act ethically and contribute to achieving sustainable development. It is achieved by laws, norms, particularly through the following steps:

- Attract national labor.
- Improve the quality of living conditions of the workforce, families, and society.
- Undertake dedicated social services and projects.

The Corporate Social Responsibility Department was rebranded in the [Sustainability Department](#) to cover contemporary concepts that are integrated into the business.

Being aware of the increasing importance of ESG (Environment, Social and Governance) practices, the Board has established a Sustainability committee to be responsible for setting the strategy and the way forward for the department.

Brief on the programs and mechanisms that help to highlight company efforts in the field of social work:

The company strives to achieve balance between the company goals and those of society. It undertakes efforts to improve the living, social, and economic conditions of the society (for more details, please see the [CR report](#) on the company's website and the company's annual report.)



# Auditors' Report



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## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AGILITY PUBLIC WAREHOUSING COMPANY K.S.C.P.

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

#### *Qualified Opinion*

We have audited the consolidated financial statements of Agility Public Warehousing Company K.S.C.P (the "Parent Company") and its subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity 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 possible effects 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 consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### *Basis for Qualified Opinion*

As stated in Note 11 to the consolidated financial statements, the Group's investment in and loan to Korek Telecom ("Korek") is carried at KD 109,183 thousand (2018: KD 109,246 thousand) and KD 35,259 thousand (2018: KD 35,321 thousand) respectively in the consolidated statement of financial position as at 31 December 2019. The Group has filed an arbitration related to its investment in Korek. We were unable to obtain sufficient appropriate audit evidence about the investment in Korek and the recoverability of the loan due to the nature and significant uncertainty around the investment and outcome of the arbitration. Consequently, we were unable to determine whether any adjustments to the carrying value of the investment and loan to Korek was necessary.

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' *Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

#### *Emphasis of Matter*

We draw attention to:

- (i) Note 26 (a) to the consolidated financial statements, which describes the contingencies relating to cost reimbursable contracts with U.S. Coalition Provisional Authority ("CPA");



## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AGILITY PUBLIC WAREHOUSING COMPANY K.S.C.P. (continued)

### Report on the Audit of the Consolidated Financial Statements (continued)

#### *Emphasis of Matter (continued)*

(ii) Note 26 (b) to the consolidated financial statements, which describes the contingencies and claims relating to the litigations with the General Administration of Customs for Kuwait; and

(iii) Note 26 (c) to the consolidated financial statements which describes the uncertainty relating to renewal of the lease contract with Public Authority for Industry of the State of Kuwait.

Our opinion is not modified in respect of the matters set out above.

#### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for *Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report. For each matter below, our description of how our audit addressed the matter is provided in that context.

##### *a) Impairment of goodwill*

Impairment testing of goodwill performed by the management is significant to our audit because the assessment of the recoverable amount of goodwill under the value-in-use basis is complex and requires considerable judgment on the part of the management. Estimates of future cash flows are based on management's views of variables such as the growth in the logistics sector, economic conditions such as the economic growth, expected inflation rates, impact of the competition on expected revenue and margin development and discount rates. Therefore, we identified the impairment testing of goodwill as key audit matter.

As part of our audit procedures, we assessed the knowledge and expertise of the management of the Group to perform such valuations and obtained management's impairment calculations and key assumptions, including profit forecasts and basis of selection of growth rates and discount rates. We also involved our valuation team to assist us in assessing the appropriateness of the valuation model and reviewing the reasonableness of key assumptions used in the impairment analysis, such as the discount rate and terminal growth rate. We reviewed the sensitivity analysis performed by management around key assumptions noted above and the outcomes of the assessment. Future cash flow assumptions were also reviewed through comparison to current trading performance against budget and forecasts, considering the historical consistency of budgeting and forecasting and the understanding of the reasons for growth profiles used.

We also reviewed the adequacy of the Group's disclosures included in Note 9 to the consolidated financial statements about those assumptions to which the outcome of the impairment test is more sensitive.

##### *b) Contingent liabilities and provisions from claims and proceedings*

The Parent Company and certain of its group companies are involved as a party in legal proceedings with third parties as well as investigations with certain governmental entities. As the ultimate disposition of asserted investigations, claims and proceedings cannot be determined with certainty, an adverse outcome could have a material effect on the Group's consolidated financial position, results from operations and cash flows.



## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AGILITY PUBLIC WAREHOUSING COMPANY K.S.C.P. (continued)

### Report on the Audit of the Consolidated Financial Statements (continued)

#### *Key Audit Matters (continued)*

##### *b) Contingent liabilities and provisions from claims and proceedings (continued)*

The determination of (contingent) liabilities from investigations, claims and proceedings is judgmental and the amounts involved are, or can be material to the Group's consolidated financial statements as a whole. Details of Group's investigations and legal claims are presented in Note 11 and Note 26 of the consolidated financial statements. Due to the significant judgment and estimation uncertainty with respect to the ongoing investigations and legal claims, we identified this as key audit matter.

In response to this matter, our audit procedures included, amongst others, understanding of the Group's processes around the identification and evaluation of investigations, claims and proceedings at different levels in the organization, the recording and continuous re-assessment of the related (contingent) liabilities, provisions and disclosures in accordance with IFRS. We also inquired with management in respect of ongoing investigations or claims, proceedings and read relevant correspondence and minutes of the meetings of the Board of Directors, requested internal and external legal confirmation letters of the Group. We also assessed the appropriateness of disclosure regarding (contingent) liabilities from investigations, claims and proceedings and as shown in Note 11 and Note 26 to the consolidated financial statements.

#### *Other information included in the Group's 2019 Annual Report*

Management is responsible for the other information. Other information consists of the information included in the Group's 2019 Annual Report, other than the consolidated financial statements and our auditor's report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

As described in the Basis for *Qualified Opinion* section above, we were unable to obtain sufficient appropriate audit evidence about the carrying value of Group's investment and loan to Korek as at 31 December 2019. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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.



## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AGILITY PUBLIC WAREHOUSING COMPANY K.S.C.P. (continued)

### Report on the Audit of the Consolidated Financial Statements (continued)

#### *Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements (continued)*

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 scepticism throughout the audit. We also:

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



**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF  
AGILITY PUBLIC WAREHOUSING COMPANY K.S.C.P. (continued)**

**Report on the Audit of the Consolidated Financial Statements (continued)**

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

• 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.

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

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.

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 year 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 reasonably be expected to outweigh the public interest benefits of such communication.

**Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion, proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that, except for the possible effect of the matters described in the Basis for *Qualified Opinion* section above, we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No.1 of 2016, as amended, and its Executive Regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No.1 of 2016, as amended, and its Executive Regulations, as amended, nor of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2019 that might have had a material effect on the business of the Parent Company or on its financial position.

**BADER A. AL-ABDULJADER**  
LICENCE NO. 207 A  
EY  
AL-AIBAN, AL-OSAIMI & PARTNERS

**Dr. SHUAIB A. SHUAIB**  
LICENCE NO. 33- A  
RSM Albazie & Co.

20 February 2020  
Kuwait



# Consolidated Financial Statements

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
As at 31 December 2019

	Notes	31 December 2019 KD 000's	31 December 2018 KD 000's
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	215,458	296,690
Projects in progress	5	56,313	42,087
Right-of-use assets	6	182,947	-
Investment properties	7	371,190	301,568
Intangible assets	8	25,052	25,536
Goodwill	9	254,007	249,708
Investment in associates and joint ventures	10	101,352	101,228
Financial assets at fair value through profit or loss	11	112,148	112,831
Financial assets at fair value through other comprehensive income	12	15,856	15,150
Other non-current assets		22,610	36,176
Loan to a related party	27	98,732	42,054
Loan to an associate	27	35,259	35,321
<b>Total non-current assets</b>		<b>1,490,924</b>	<b>1,258,349</b>
<b>Current assets</b>			
Inventories	13	28,674	20,989
Trade receivables	14	331,616	338,245
Other current assets	15	99,988	99,649
Bank balances, cash and deposits	16	130,932	125,927
<b>Total current assets</b>		<b>591,210</b>	<b>584,810</b>
<b>TOTAL ASSETS</b>		<b>2,082,134</b>	<b>1,843,159</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	17	176,294	153,299
Share premium	17	152,650	152,650
Statutory reserve	17	85,368	76,279
Treasury shares	17	(49,239)	(49,239)
Treasury shares reserve		44,366	44,366
Foreign currency translation reserve	17	(39,548)	(38,428)
Hedging reserve	17	(19,842)	(18,897)
Investment revaluation reserve	17	60	351
Other reserves	17	(706)	(24,848)
Retained earnings		750,977	718,006
<b>Equity attributable to equity holders of the Parent Company</b>		<b>1,100,380</b>	<b>1,013,539</b>
Non-controlling interests	3	49,190	52,695
<b>Total equity</b>		<b>1,149,570</b>	<b>1,066,234</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Provision for employees' end of service benefits	18	50,351	46,837
Interest bearing loans	19	247,708	207,448
Lease liabilities	6	131,319	1,693
Other non-current liabilities	20	12,708	14,472
<b>Total non-current liabilities</b>		<b>442,086</b>	<b>270,450</b>
<b>Current liabilities</b>			
Interest bearing loans	19	23,148	53,534
Lease liabilities	6	36,974	1,473
Trade and other payables	21	422,213	443,245
Dividends payable		8,143	8,223
<b>Total current liabilities</b>		<b>490,478</b>	<b>506,475</b>
<b>Total liabilities</b>		<b>932,564</b>	<b>776,925</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,082,134</b>	<b>1,843,159</b>



**Tarek Abdul Aziz Sultan**  
Vice Chairperson and CEO

The attached notes 1 to 31 form part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF INCOME**  
For the year ended 31 December 2019

	<i>Notes</i>	2019 KD 000's	2018 KD 000's
<b>Revenues</b>			
Logistics and freight forwarding revenues		1,253,995	1,267,620
Rental revenues		70,606	62,784
Other services		253,962	219,786
<b>Total revenues</b>		<b>1,578,563</b>	1,550,190
<b>Cost of revenues</b>		<b>(1,047,164)</b>	(1,052,380)
Net revenues		531,399	497,810
General and administrative expenses	22	(349,648)	(352,583)
Change in fair value of investment properties	7	3,642	1,320
Share of results of associates and joint ventures	10	3,018	4,914
Miscellaneous income		4,719	3,380
<b>Profit before interest, taxation, depreciation, amortisation and Directors' remuneration (EBITDA)</b>		<b>193,130</b>	154,841
Depreciation	4,6	(60,502)	(31,362)
Amortisation	8	(6,084)	(4,632)
<b>Profit before interest, taxation and Directors' remuneration (EBIT)</b>		<b>126,544</b>	118,847
Interest income		8,492	5,130
Finance costs		(21,494)	(14,132)
<b>Profit before taxation and Directors' remuneration</b>		<b>113,542</b>	109,845
Taxation	23	(13,383)	(9,929)
Directors' remuneration		(140)	(140)
<b>PROFIT FOR THE YEAR</b>		<b>100,019</b>	99,776
<b>Attributable to:</b>			
Equity holders of the Parent Company		86,759	81,110
Non-controlling interests		13,260	18,666
		<b>100,019</b>	99,776
<b>BASIC AND DILUTED EARNINGS PER SHARE – ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (fi/s)</b>	24	<b>52.14</b>	48.75

The attached notes 1 to 31 form part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**For the year ended 31 December 2019**

	2019 KD 000's	2018 KD 000's
<b>Profit for the year</b>	<b>100,019</b>	<b>99,776</b>
<b>Other comprehensive income (loss):</b>		
<i>Items that are or may be reclassified to consolidated statement of income in subsequent periods:</i>		
Gain (loss) on hedge of net investments (Note 19)	258	(874)
Loss on cash flow hedges	(438)	(109)
Share of other comprehensive loss of associates and joint venture (Note 10)	(765)	(372)
Foreign currency translation adjustments	(3,770)	(11,688)
<b>Net other comprehensive loss that are or may be reclassified to consolidated statement of income in subsequent periods</b>	<b>(4,715)</b>	<b>(13,043)</b>
<i>Items that will not be reclassified to consolidated statement of income</i>		
Revaluation surplus from transfer of land (Note 7)	26,972	-
Re-measurement (loss) gain on defined benefit plans (Note 18)	(1,368)	590
Changes in fair value of equity instruments at fair value through other comprehensive income	(291)	477
<b>Net other comprehensive income that will not be reclassified to consolidated statement of income</b>	<b>25,313</b>	<b>1,067</b>
<b>Other comprehensive income (loss)</b>	<b>20,598</b>	<b>(11,976)</b>
<b>Total comprehensive income for the year</b>	<b>120,617</b>	<b>87,800</b>
<b>Attributable to:</b>		
Equity holders of the Parent Company	110,007	70,836
Non-controlling interests	10,610	16,964
	<b>120,617</b>	<b>87,800</b>

The attached notes 1 to 31 form part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

### For the year ended 31 December 2019

	Notes	2019 KD 000's	2018 KD 000's
<b>OPERATING ACTIVITIES</b>			
Profit before taxation and Directors' remuneration		113,542	109,845
Adjustments for:			
Change in fair value of investment properties	7	(3,642)	(1,320)
Share of results of associates and joint ventures	10	(3,018)	(4,914)
Expected credit losses of trade receivables	14	7,014	905
Provision for employees' end of service benefits	18	11,628	11,187
Foreign currency exchange gain		(872)	(507)
Miscellaneous income		(4,719)	(3,380)
Interest income		(8,492)	(5,130)
Finance costs		21,494	14,132
Depreciation	4,6	60,502	31,362
Amortisation	8	6,084	4,632
Operating profit before changes in working capital		199,521	156,812
Inventories		(7,701)	(4,521)
Trade receivables		(522)	(50,094)
Other current assets		(2,007)	(8,069)
Trade and other payables		(10,525)	26,344
		178,766	120,472
Taxation paid		(15,686)	(13,904)
Directors' remuneration paid		(140)	(140)
Employees' end of service benefits paid	18	(11,413)	(8,691)
Net cash flows from operating activities		151,527	97,737
<b>INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment	4	(43,238)	(46,881)
Proceeds from disposal of property, plant and equipment		4,000	1,525
Additions to projects in progress	5	(20,009)	(21,585)
Net movement in other non-current assets		89	(1,255)
Additions to investment properties	7	(8,446)	(8,200)
Additions to intangible assets		(329)	(170)
Acquisition of additional interest in a joint venture	10	-	(5,125)
Acquisition of additional interests in subsidiaries		(390)	(1,858)
Acquisition of subsidiaries net of cash acquired		(1,664)	(2,842)
Disposal of a subsidiary		548	-
Net movement in financial assets at fair value through profit or loss		460	1,394
Net movement in financial assets at fair value through other comprehensive income		(1,247)	(2,057)
Loan to a related party		(50,471)	(8,603)
Dividends received from associates	10	2,006	2,054
Interest income received		1,086	893
Net cash flows used in investing activities		(117,605)	(92,710)
<b>FINANCING ACTIVITIES</b>			
Net movement in interest bearing loans		59,972	40,897
Payment of lease obligations	6	(36,796)	-
Finance costs paid		(17,369)	(14,011)
Dividends paid to equity holders of the Parent Company		(21,784)	(18,993)
Dividends paid to non-controlling interests		(12,927)	(12,529)
Increase of non-controlling interests in subsidiaries		260	414
Net cash flows used in financing activities		(28,644)	(4,222)
Net foreign exchange translation differences		(273)	(568)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		5,005	237
Cash and cash equivalents at 1 January		125,927	125,690
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	16	130,932	125,927

The attached notes 1 to 31 form part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 31 December 2019**

Attributable to equity holders of the Parent Company

	Share capital KD 000's	Share premium KD 000's	Statutory reserve KD 000's	Treasury shares KD 000's	Treasury shares reserve KD 000's	Foreign currency translation reserve KD 000's	Hedging reserve KD 000's	Investment revaluation reserve KD 000's	Other reserves KD 000's	Retained earnings KD 000's	Sub total KD 000's	Non-controlling interests KD 000's	Total equity KD 000's
As at 1 January 2019	153,299	152,650	76,279	(49,239)	44,366	(38,428)	(18,897)	351	(24,848)	718,006	1,013,539	52,695	1,066,234
Profit for the year	-	-	-	-	-	-	-	-	-	86,759	86,759	13,260	100,019
Other comprehensive (loss) income	-	-	-	-	-	(1,120)	(945)	(291)	25,604	-	23,248	(2,650)	20,598
Total comprehensive (loss) income for the year	-	-	-	-	-	(1,120)	(945)	(291)	25,604	86,759	110,007	10,610	120,617
(Dividends (Note 17	-	-	-	-	-	-	-	-	-	(21,704)	(21,704)	-	(21,704)
(Issue of bonus share (Note 17	22,995	-	-	-	-	-	-	-	-	(22,995)	-	-	-
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(14,039)	(14,039)
Transfer to statutory reserve	-	-	9,089	-	-	-	-	-	-	(9,089)	-	-	-
Increase of non-controlling interest in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	260	260
Acquisition of additional interest in Subsidiaries	-	-	-	-	-	-	-	-	(1,462)	-	(1,462)	(336)	(1,798)
<b>As at 31 December 2019</b>	<b>176,294</b>	<b>152,650</b>	<b>85,368</b>	<b>(49,239)</b>	<b>44,366</b>	<b>(39,548)</b>	<b>(19,842)</b>	<b>60</b>	<b>(706)</b>	<b>750,977</b>	<b>1,100,380</b>	<b>49,190</b>	<b>1,149,570</b>

The attached notes 1 to 31 form part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 31 December 2019**

Attributable to equity holders of the Parent Company

	Share capital KD 000's	Share premium KD 000's	Statutory reserve KD 000's	Treasury shares KD 000's	Treasury shares KD 000's	Treasury shares reserve KD 000's	Foreign currency translation reserve KD 000's	Hedging reserve KD 000's	Investment revaluation reserve KD 000's	Other reserves KD 000's	Retained earnings KD 000's	Sub total KD 000's	Non-controlling inter- ests KD 000's	Total equity KD 000's
As at 1 January 2018, Impact of adopting IFRS 9 at 1 January 2018	133,303	152,650	67,781	(49,239)	44,366	(28,775)	(17,542)	2,280	(2,406)	(9,141)	693,404	973,805	49,787	1,023,592
As at 1 January 2018 (restated )	133,303	152,650	67,781	(49,239)	44,366	(28,775)	(17,542)	(126)	(24,423)	684,263	962,591	47,951	1,010,542	
Profit for the year	-	-	-	-	-	-	-	-	-	81,110	81,110	81,110	18,666	99,776
Other comprehensive (loss) income	-	-	-	-	-	(9,986)	(1,355)	477	590	-	(1,702)	(10,274)	(1,702)	(11,976)
Total comprehensive (loss) income for the year	-	-	-	-	-	(9,986)	(1,355)	477	590	81,110	70,836	16,964	-	87,800
Dividends (Note 17)	-	-	-	-	-	-	-	-	-	(18,873)	(18,873)	-	-	(18,873)
Issue of bonus share (Note 17)	19,996	-	-	-	-	-	-	-	-	(19,996)	-	-	-	-
Dividends to non- controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(12,529)	(12,529)
Transfer to statutory reserve	-	-	8,498	-	-	-	-	-	-	(8,498)	-	-	-	-
Increase of non- controlling interest in a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	414	414
Acquisition of additional interest in subsidiaries	-	-	-	-	-	-	-	-	(1,015)	-	-	(1,015)	(105)	(1,120)
<b>As at 31 December 2018</b>	<b>153,299</b>	<b>152,650</b>	<b>76,279</b>	<b>(49,239)</b>	<b>44,366</b>	<b>(38,428)</b>	<b>(18,897)</b>	<b>351</b>	<b>(24,848)</b>	<b>718,006</b>	<b>1,013,539</b>	<b>52,695</b>	<b>1,066,234</b>	

The attached notes 1 to 31 form part of these consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at 31 December 2019

### 1 CORPORATE INFORMATION

Agility Public Warehousing Company K.S.C.P. (the "Parent Company") is a public shareholding company incorporated in 1979 and listed on Boursa Kuwait and Dubai Stock Exchange. The Parent Company's Head office is located at Sulaibia, beside Land Customs Clearing Area, P.O. Box 25418, Safat 13115, Kuwait. The Group operates under the brand name of "Agility".

The main objectives of the Parent Company are as follows:

- Construction, management and renting of all types of warehouses.
- Warehousing goods under customs' supervision inside and outside customs areas.
- Investing the surplus funds in investment portfolios.
- Participating in, acquiring or taking over companies of similar activities or those that would facilitate in achieving the Parent Company's objectives inside or outside Kuwait.
- All types of transportation, distribution, handling and customs clearance for goods.
- Customs consulting, customs automation, modernisation and decision support.

The principal subsidiaries and their activities are explained in Note 3.

The consolidated financial statements of the Parent Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Board of Directors on 20 February 2020, and are issued subject to the approval of the Annual General Assembly of the shareholders of the Parent Company. The Annual General Assembly of the shareholders has the power to amend these consolidated financial statements after issuance.

### 2 SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 BASIS OF PREPARATION

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

The consolidated financial statements are prepared on a historical cost basis, except for investment properties, financial assets carried at fair value through profit or loss, financial assets at fair value through other comprehensive income, loan to a related party, loan to an associate and derivative financial instruments that are measured at fair value.

The consolidated financial statements are presented in Kuwaiti Dinars which is the Parent Company's functional currency and all values are rounded to the nearest thousand (KD '000) except when otherwise indicated.

Certain prior year amounts have been reclassified to conform to the current year presentation. There is no effect of these reclassifications on the previously reported equity and profit for the year then ended.

#### 2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries (investees which are controlled by the Group) including special purpose entities as at 31 December 2019. 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, and
- 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, including:

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### As at 31 December 2019

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 BASIS OF CONSOLIDATION (continued)

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 when 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 financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Parent Company of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies 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 on 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 derecognises, the related assets (including goodwill), liabilities, non-controlling interest and other component of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

The results of the subsidiaries acquired or disposed during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

### 2.3 CHANGE IN ACCOUNTING POLICIES

The accounting policies applied are consistent with those used in the previous year except for the adoption of IFRS 16: Leases ("IFRS 16").

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

#### Adoption of IFRS 16: Leases

IFRS 16 supersedes IAS 17 Leases ("IAS 17"), IFRIC 4 Determining whether an Arrangement contains a Lease ("IFRIC 4"), SIC-15 Operating Leases-Incentives ("SIC 15") and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease ("SIC 27"). The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method and accordingly, the comparative information is not restated with the date of initial application of 1 January 2019. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The Group's accounting policies for right-of-use assets and lease liabilities is explained in Note 2.5.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
As at 31 December 2019

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3 CHANGE IN ACCOUNTING POLICIES (continued)**

**Adoption of IFRS 16: Leases (continued)**

*Nature of the effect of adoption of IFRS 16*

The Group has lease contracts for various items of land and building, machinery, vehicles and other equipment. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in the consolidated statement of income on a straight-line basis over the lease term. Any prepaid rent and accrued rent is recognised under 'Other current assets' and 'Trade and other payables', respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases where it is the lessee, except for short-term leases and leases of low-value assets. The Group recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

The Group has applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

The effect of adoption of IFRS 16 is as follows:

*Impact on the statement of financial position [increase/(decrease)] as at 1 January 2019:*

KD 000's

**Assets**

Right-of-use assets (Note 6)	<b>180,905</b>
Property, plant and equipment (Note 4)	<b>(68,656)</b>
Projects in progress (Note 5)	<b>(1,078)</b>
Other non-current assets	<b>(2,400)</b>

**Total assets**

**108,771**

**Liabilities**

Lease liabilities (Note 6)	<b>161,939</b>
Interest bearing loans	<b>(49,105)</b>
Other non-current liabilities	<b>(2,084)</b>
Other current liabilities	<b>(1,979)</b>

**Total liabilities**

**108,771**

The Group discounted lease payments using its incremental borrowing rate at 1 January 2019 between the range of 1% to 24%.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### As at 31 December 2019

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3 CHANGE IN ACCOUNTING POLICIES (continued)

#### Adoption of IFRS 16: Leases (continued)

##### *Nature of the effect of adoption of IFRS 16 (continued)*

A reconciliation of the operating lease commitments at 31 December 2018, disclosed in the Group's annual consolidated financial statements, to the lease liabilities recognised in the statement of financial position at 1 January 2019 is as follows:

	KD 000's
Operating lease commitments disclosed as at 31 December 2018	132,014
Discounted using the incremental borrowing rate at 1 January 2019	(23,243)
Recognition exemptions for short-term leases and low-value leases	(4,506)
Contracts reassessed as service agreements	(4,147)
Adjustments as a result of extension options reasonably certain to be exercised or termination options	8,653
Reclassification of finance lease obligations as at 1 January 2019	53,168
<b>Lease obligations recognised at 1 January 2019</b>	<b>161,939</b>

#### Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group.

#### Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the year.

#### Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

These amendments had no impact on the consolidated financial statements as the Group does not have any long-term interests in its associate and joint venture to which the equity method is not applied.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As at 31 December 2019**

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3 CHANGE IN ACCOUNTING POLICIES (continued)**

**Annual improvements 2015-2017 cycle**

*IAS 12: Income Taxes*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to shareholders. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

*IAS 23: Borrowing Costs*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

**2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE**

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

**Amendments to IFRS 3: Definition of a Business**

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3: Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

**Amendments to IAS 1 and IAS 8: Definition of Material**

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition.* The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### As at 31 December 2019

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9: Financial Instruments ("IFRS 9"), is measured at fair value with the changes in fair value recognised in the consolidated statement of income in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in consolidated statement of income.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed in this circumstance is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

#### Current versus non-current classification

The Group presents assets and liabilities in consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle; or
- Held primarily for the purpose of trading; or
- Expected to be realised within twelve months after the reporting period, or
- Bank balances, cash and deposits unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle; or
- It is held primarily for the purpose of trading; or
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As at 31 December 2019**

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. The initial cost of property, plant and equipment comprises their cost and any directly attributable costs of bringing an item of property, plant and equipment to its working condition and location. Expenditure incurred after the property, plant and equipment has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the consolidated statement of income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditure is capitalised as an additional cost of property, plant and equipment.

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Buildings and improvements	15 to 30 years
Tools, machinery and equipment	2 to 10 years
Vehicles and ships	2 to 10 years
Furniture and office equipment	3 to 5 years

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 values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair values less costs to sell and their value in use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income in the period the asset is derecognised. The assets residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively if appropriate.

**Leases**

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

*Group as a lessee*

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

**i. Right-of-use assets**

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and the lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Land and buildings	2 to 48 years
Tools, machinery and equipment	2 to 8 years
Vehicles and ships	2 to 10 years
Office equipment	2 to 7 years

If the ownership of the leased asset is transferred to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment in accordance with the Group's impairment of non-financial assets policy.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### As at 31 December 2019

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Leases (continued)

##### *Group as a lessee (continued)*

#### ii. Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentive receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental interest rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

#### iii. Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of assets that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

A property interest that is held by the Group under an operating lease may be classified and accounted for as an investment property when the property otherwise meets the definition of an investment property, evaluated property by property, and based on management's intention. The initial cost of a property interest held under a lease and classified as an investment property is determined at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount is recognised as a liability.

##### *Group as a lessor*

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental revenues arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the consolidated statement of income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental revenues. Contingent rents are recognised as revenue in the period in which they are earned.

#### Projects in progress

Projects in progress are carried at cost less impairment, if any. Costs are those expenses incurred by the Group that are directly attributable to the construction of assets. Once completed, the assets are transferred to either investment properties or to property, plant and equipment, depending on the management's intended use of the asset.

#### Investment properties

Investment properties comprise completed properties held to earn rentals or for capital appreciation or both. Property held under a lease is classified as investment property when the definition of an investment property is met. Investment properties are initially recorded at cost being the fair value of the consideration given and including acquisition charges associated with the investment property.

After initial recognition, the properties are re-measured to fair value annually on an individual basis with any gain or loss arising from a change in fair value being included in the consolidated statement of income in the period in which it arises.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Investment properties (continued)

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of income in the period of retirement or disposal. The amount of consideration to be included in the gain or loss arising from the derecognition of the investment property is determined in accordance with the requirements for the determining the transaction price in IFRS 15.

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

The Group has classified certain assets held under long term operating leases as investment properties.

#### Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised software development costs, are not capitalised and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income.

#### *Build-own-transfer ("BOT") projects and concessions*

BOT projects and concessions are amortised over the duration of the individual contracts in the range of 4 to 20 years.

#### *Customer lists*

Customer lists are amortised over a period of 15 years, which is determined to be the expected period of benefit from holding these lists.

Intangible assets with indefinite useful lives are not amortised but are tested for impairment annually or more frequently if events or change in circumstances indicate the carrying value may be impaired, either individually or at the cash generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income when the asset is derecognised.

#### *Brand*

The brand is assumed to have an indefinite useful life and is subject to impairment testing on at least an annual basis.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

As at 31 December 2019

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Intangible assets (continued)***Goodwill*

Accounting policy relating to goodwill is documented in the accounting policy “Business combinations and goodwill”.

**Investment in associates and joint ventures**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group’s investments in its associate and joint venture are either accounted for using the equity method or is measured at fair value.

*a. Equity method*

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group’s share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of income reflects the Group’s share of the results of operations of the associate or joint venture. Any change in other comprehensive income of those investees is presented as part of the Group’s other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group’s share of profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of income and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group. After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss in the consolidated statement of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in consolidated income statement.

*b. Measured at fair value*

The Group’s investment in an associate held through a Venture Capital Organisation, is measured at fair value. This treatment is permitted by IAS 28 ‘Investment in Associates and Joint Ventures’, which allows investments held by Venture Capital Organisations to be accounted for at fair value through profit or loss in accordance with IFRS9 ‘Financial Instruments’, with changes in fair value recognised in the consolidated statement of income in the period of the change.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As at 31 December 2019**

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

*Date of recognition*

Financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

*Initial measurement of financial instruments*

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value except in the case of financial assets and financial liabilities recorded at FVTPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price.

*Measurement categories of financial assets and liabilities*

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVTPL)

Financial liabilities, other than commitments and guarantees, are measured at amortised cost or at FVTPL when they are held for trading and derivative instruments when the fair value designation is applied.

**i) Financial assets**

The Group determines the classification of financial assets based on the business model it uses to manage the financial assets and the contractual cash flow characteristics of the financial assets.

*Business model assessment*

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'Sell' business model and measured at FVTPL. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

As at 31 December 2019

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial instruments (continued)****i) Financial assets (continued)***Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)*

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent Solely Payments of Principal and Interest (the 'SPPI test').

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition that may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

The Group reclassifies when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

The Group classifies its financial assets upon initial recognition into the following categories:

*Debt instruments at amortised cost*

A financial asset which is a debt instrument, is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Bank balances and short-term deposits and trade receivables are classified as debt instruments at amortised cost.

Debt instruments at amortised cost are subsequently measured at amortised cost using the effective interest method adjusted for impairment losses, if any. Interest income, foreign exchange gains and losses and impairment are recognised in the consolidated statement of income. Any gain or loss on derecognition is recognised in the consolidated statement of income.

*Debt instruments at FVTPL*

Debt instruments at FVTPL includes debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell.

Loan to a related party and loan to an associate is classified as debt instrument at FVTPL.

FVTPL debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value along with interest income and foreign exchange gains and losses recognised in consolidated statement of income.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**

**i) Financial assets (continued)**

*Equity instruments at FVOCI*

Upon initial recognition, the Group may elect to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Equity investments at FVOCI are subsequently measured at fair value. Changes in fair values including foreign exchange component are recognised in other comprehensive income and presented in the cumulative changes in fair values as part of equity. Cumulative gains and losses previously recognised in other comprehensive income are transferred to retained earnings on derecognition and are not recognised in the consolidated statement of income. Dividends are recognised in statement of income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity investments at FVOCI are not subject to impairment assessment.

*Equity instruments at FVTPL*

The Group classifies equity instruments at fair value through profit and loss when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets are recorded and measured in the statement of financial position at fair value. In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Changes in fair values and dividends are recorded in consolidated statement of income when the right to payment has been established.

Included in this classification are certain equity securities and funds.

The Group has determined the classification and measurement of its financial assets as follows:

*a. Financial assets at fair value through profit or loss*

The Group's financial assets at fair value through profit or loss consists of certain investment in funds, unquoted equity securities and investment in an associate held through venture capital organisation.

Investment in an associate held directly or indirectly through venture capital organisation are not accounted for using equity method, as the Group has elected to measure these investments at fair value through statement of income in accordance with IFRS 9, using the exemption of IAS 28: Investments in associates and joint ventures. This is carried in the consolidated statement of financial position at fair value with net changes in fair value recorded as unrealized gain (loss) in the consolidated statement of income.

*b. Loan to an associate and related party*

Loan to an associate and related party are non-derivative financial assets with fixed or determinable payments which is not quoted in an active market. After initial measurement, such financial assets are subsequently measured at FVTPL.

*c. Trade receivables*

Trade receivables are measured at transaction price, as disclosed in the Group's accounting policy regarding revenue from contracts with customers, less expected credit losses and are stated at amortised cost.

Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

*d. Bank balances, cash and deposits*

Bank balances, cash and deposits in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less. These are stated at amortised cost using effective interest rate.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### As at 31 December 2019

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial instruments (continued)

##### i) Financial assets (continued)

###### e. Other current assets

Other current assets are carried at their carrying value, less impairment, if any.

###### *Reclassification of financial assets*

The Group does not reclassify its financial assets subsequent to their initial recognition except under circumstances in which the Group changes the business model for managing financial assets.

###### *Derivative financial instruments and hedge accounting*

The Group uses derivative financial instruments such as forward currency contracts, interest rate swaps and forward rate agreements to hedge its foreign currency risks and interest rate risks respectively. Derivatives are recorded at fair value. Derivatives with positive fair values (unrealised gains) are included in other assets and derivatives with negative fair values (unrealised losses) are included in other liabilities in the consolidated statement of financial position. For hedges, which do not qualify for hedge accounting and for held for trading derivatives, any gains or losses arising from changes in the fair value of the derivative are taken directly to the consolidated statement of income.

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument. A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in consolidated statement of income. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. Also, at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed each quarter. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to be offset in a range of 80% to 125%. For situations where that hedged item is a forecast transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated statement of income.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As at 31 December 2019**

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**i) Financial assets (continued)**

*Derivative financial instruments and hedge accounting (continued)*

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

*a) Fair value hedges*

The change in the fair value of a hedging derivative is recognised in the consolidated statement of income. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying value of the hedged item and is also recognised in the consolidated statement of income.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the consolidated statement of income over the remaining term to maturity. Amortisation may begin as soon as an adjustment exists and shall end no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in the consolidated statement of income.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the consolidated statement of income.

*b) Cash flow hedges*

The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income, while any ineffective portion is recognised immediately in the consolidated statement of income. Amounts taken to other comprehensive income are transferred to consolidated statement of income when the hedged transaction affects the consolidated statement of income, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability. If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in other comprehensive income are transferred to the consolidated statement of income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment occurs.

*c) Hedges of a net investment*

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the consolidated statement of income. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised in other comprehensive income is transferred to consolidated statement of income.

The Group uses interest bearing loans to hedge its exposure to foreign exchange risk on its investments in overseas subsidiaries. Refer to Note 19 for more details.

*Derecognition of financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As at 31 December 2019**

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**i) Financial assets (continued)**

*Derecognition of financial assets (continued)*

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

**ii) Financial liabilities**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, interest bearing loans and derivative financial instruments.

The Group has determined the classification and measurement of its financial liabilities as follows:

*a. Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the consolidated statement of income.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

*b. Interest bearing loans*

After initial recognition, interest bearing loans are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of income.

Installments due within one year are shown as current liabilities. Interest is charged as an expense as it accrues in the consolidated statement of income, with unpaid amounts included in accrued expenses under 'trade and other payables'.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### ii) Financial liabilities (continued)

##### *c. Trade and other payables*

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

##### *Derecognition of financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of income.

#### iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

#### Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECL) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Debt instruments and financial assets at FVTPL are not subject to ECL.

The Group considers a financial asset in default when contractual payments are 180 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

#### Fair values

The Group measures certain financial instruments (including derivatives) and non-financial assets such as investment properties, at fair value at each reporting date.

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at 31 December 2019

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Fair values

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, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

The Group's management determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation.

External valuers are involved for the valuation of Group's investment properties. Involvement of external valuers is decided upon annually by the management. Selection criteria include regulatory requirements, market knowledge, reputation, independence and whether professional standards are maintained. The management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

For unquoted financial instruments fair value is determined by reference to the market value of a similar investment, discounted cash flows, other appropriate valuation models or brokers' quotes.

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The management, in conjunction with the Group's external valuers, also compares changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

##### Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are those expenses incurred in bringing each product to its present location and condition and are determined on the weighted average basis. Net realisable value is based on estimated selling price in the ordinary course of the business, less any further costs expected to be incurred on completion and disposal.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Impairment of non-financial assets**

The carrying amounts of the Group's non-financial assets, other than, investment property and inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to 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. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on the Group's segment information reporting format determined in accordance with IFRS 8: Operating Segment.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the consolidated statement of income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro-rata basis.

**Treasury shares**

Treasury shares consist of the Parent Company's own issued shares that have been, subsequently reacquired by the Group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the cost of the shares acquired is charged to treasury shares account in equity. When the treasury shares are reissued, gains are credited to a separate account in equity, the treasury shares reserve, which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to the statutory reserve. Gains realised subsequently on the sale of treasury shares are first used to offset any provisional recorded losses in order of reserves, retained earnings and treasury share reserve account. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

**Foreign currency translation**

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange prevailing at reporting date. All differences are taken to the consolidated statement of income with the exception of differences on foreign currency borrowings accounted for as a hedge of a net investment in foreign operations.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at 31 December 2019

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Foreign currency translation (continued)

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. In case of non-monetary assets whose change in fair values are recognized directly in other comprehensive income, foreign exchange differences are recognized directly in other comprehensive income and for non-monetary assets whose change in fair value are recognized directly in the consolidated income statement, foreign exchange differences are recognized in the consolidated statement of income.

Assets (including goodwill) and liabilities, both monetary and non-monetary, of foreign operations are translated at the Parent Company's presentation currency KD at the exchange rates prevailing at the reporting date. Operating results of such operations are translated at average rates of exchange for the foreign operation's period of operations. The resulting foreign currencies translation differences are accumulated in a separate section of equity (foreign currency translation reserve) until the disposal of the foreign operation. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of income.

##### Provisions

A provision is recognised when, and only when the Group has a present legal or constructive obligation as a result of a past event and 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. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be incurred to settle the obligation.

##### Employees' end of service benefits

###### *Local*

Expatriate and Kuwaiti employees are entitled to an end of service indemnity payable under the Kuwait Labor Laws based on the employees' accumulated periods of service and latest entitlements of salaries and allowances. Provision for this unfunded commitment which represents a defined benefit plan under International Accounting Standard IAS 19 – Employee Benefits, is made by calculating the notional liability had all employees left at the reporting date.

In addition to above, pensions and other social benefits for Kuwaiti employees are covered by the Public Institution for Social Security Scheme, to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Group's share of contributions to this scheme, which is a defined contribution scheme under International Accounting Standard (IAS) 19 – Employee Benefits are charged to the consolidated statement of income in the year to which they relate.

###### *International*

The Group has a number of defined benefit pension plans that cover a substantial number of employees other than Kuwaiti and expatriates in Kuwait. Retirement benefits are provided based on compensation as defined by local labour laws or employee contracts. The Group's policy is to fund some of these plans in accordance with local practice and contributions are made in accordance with independent actuarial valuations.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling excluding net interest and the return on plan assets (excluding net interest), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to 'other reserve' through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to consolidated statement of income in subsequent periods.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As at 31 December 2019**

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Employees' end of service benefits (continued)**

*International (continued)*

Past service costs are recognised in consolidated statement of income on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'salaries and employee benefits' in consolidated statement of income:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

**Revenue from contracts with customers**

The Group is primarily engaged in providing the following services:

*Logistics revenue*

Logistics revenue primarily comprises inventory management, order fulfilment, transportation and warehousing services.

Logistics revenues are recognised at the point in time when the services are rendered to the customer except for warehousing services that are recognised over time, using an input method to measure progress towards complete satisfaction of the service.

*Freight forwarding and project forwarding revenues*

The Group generates freight forwarding revenues by purchasing transportation capacity from independent air, ocean and overland transportation providers and reselling that capacity to customers. Revenues reported in this segment include revenues generated from the principal service as well as revenues generated from brokerage services as such customs clearance, documentation and arrangement of complex logistics supply movement that are incidental to the principal service.

The Group concluded that revenue from the freight forwarding and project forwarding revenues will continue to be recognised over time, using an input method to measure progress towards complete satisfaction of the service except for brokerage services that are recognised at the point in time when the services are rendered to the customer.

*Rental services*

Rental income arising on investment properties is recognised over time, using an input method to measure progress towards complete satisfaction of the service.

*Interest income*

Interest income is recognised as interest accrues using the effective interest method ("EIR") that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

*Dividend income*

Dividend income is recognised when the right to receive payment is established.

The significant accounting judgements related to the revenue from contracts with customers is detailed in Note 2.6.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

As at 31 December 2019

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Taxation***National Labour Support Tax (NLST)*

The Parent Company calculates NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at the rate of 2.5% of taxable profit for the year. As per the law, income from associates, subsidiaries and cash dividends from companies listed in Kuwait Stock Exchange which are subjected to NLST have been deducted from the profit for the year.

*Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)*

The Parent Company calculates the contribution to KFAS in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

*Zakat*

Contribution to Zakat is calculated at 1% of the taxable profit for the year in accordance with the Ministry of Finance resolution No. 58/2007. As per law, income from associates and subsidiaries, cash dividends received from companies listed in Kuwait Stock Exchange which are subjected to Zakat have been deducted from the profit for the year.

*Taxation on overseas subsidiaries*

Certain of the Parent Company's subsidiaries are subject to taxes on income in various foreign jurisdictions. Taxes payable are provided on taxable profits at the current rate in accordance with the fiscal regulations in the country where the subsidiary is located.

**2.6 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

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

**Judgements**

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

*Revenue from contracts with customers*

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

## a. Identifying performance obligations in a bundled contract

The Group provides certain freight forwarding and project forwarding services to its customers as part of a single arrangement and these arrangements may include various performance obligations that represents performing a contractually agreed-upon task(s) for a customer. The Group determined that each of these performance obligations are capable of being distinct as these services are separately identifiable from other obligations in the contract and the customer can benefit from each service on its own.

Furthermore, the Group also determined that the promises of such services are distinct within the context of each contract, the transaction price is determined separately based on each obligation and these services are not highly interdependent or highly interrelated.

The transaction prices is allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, the Group estimates separate transaction price for each performance obligation based on expected cost plus margin.

## b. Determine transaction price

The transaction price is the amount of consideration that is enforceable and to which the Group expects to be entitled in exchange for services promised to the customer. The Group determines the transaction price by considering the terms of the contract and business practices that are customary.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

**Judgements (continued)**

*Revenue from contracts with customers (continued)*

c. Determining the timing of satisfaction of services

i. Freight forwarding and project forwarding services

The Group concluded that revenue from freight forwarding and project forwarding services (excluding brokerage services), warehousing services and rental services to its customers is to be recognised over time because the customer simultaneously receives and consumes the benefits provided by the Group. The fact that another entity would not need to re-perform such services that the Group has provided to date demonstrates that the customer simultaneously receives and consumes the benefits of the Group's performance as it performs. The Group has a right to payment for the performance completed to date as, under each contractual agreement with a customer, the Group is entitled to an amount that at least compensates the Group for its performance completed to date in the event that the customer terminates the contract for reasons other than the Group's failure to perform as promised. Furthermore, the Group's performance does not create an asset with an alternative use to the entity.

The Group has determined to utilize the input method for measuring progress of such services because there is a direct relationship between the Group's effort and the transfer of service to the customer. In respect to freight forwarding and project forwarding services (excluding brokerage services) the Group recognises revenue on these services on the basis of the costs incurred relative to the total expected costs to complete the performance obligations. Whereas, in respect to warehousing services and rental services, the Group recognises revenue on a straight-line basis as the Group's efforts being evenly expended throughout the performance period.

ii. Logistics revenue

The Group concluded that revenue from logistics services (excluding warehousing services) to its customers is to be recognised at the point in time when the services are rendered to the customer.

d. Principal versus agent considerations

During the performance of freight forwarding and project forwarding services to its customer, the Group involves certain third parties in providing certain services. The Group has concluded that it is a principal in such arrangements as the Group retains the right to a service to be performed by the other party, which gives the Group the ability to direct that party to provide the service to the customer on the Group's behalf and the Group is primarily held responsible for fulfilling each obligation to the customer.

e. Consideration of significant financing component in a contract

The Group does not expect to have any contracts where the period between the transfer of promised services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

*Classification of financial assets*

The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

*Determining the lease term of contracts with renewal and termination options - Group as lessee*

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination option. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at 31 December 2019

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.6 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

##### Judgements (continued)

###### *Operating lease commitments - Group as lessor*

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property, that it retains substantially all the risks and rewards incidental to ownership of these properties and accounts for the contracts as operating leases.

###### *Fair values of assets and liabilities acquired*

The determination of the fair value of the assets, liabilities and contingent liabilities as a result of business combination requires significant judgement.

###### *Contingencies*

Contingent assets and liabilities are not recognised in the consolidated financial statements, but are disclosed unless the possibility of inflow or outflow respectively of resources embodying economic benefits is remote, which requires significant judgement.

###### *Consolidation of entities in which the Group holds less than majority of voting rights*

The Group considers that it controls Agility Abu Dhabi PJSC even though it owns less than 50% of the voting rights. This is because the Group manages and controls the operations of the entity and all operational and strategic decisions require the approval of the Group.

Based on these facts and circumstances, management determined that, in substance, the Group controls this entity.

##### Estimates and assumptions

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:

###### *Impairment of goodwill and intangible assets (with indefinite life)*

The Group determines whether goodwill and indefinite life intangible assets are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the respective asset is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of intangible asset and goodwill with indefinite life at 31 December 2019 were KD 4,721 thousand and KD 254,007 thousand respectively (2018: KD 4,721 thousand and KD 249,708 thousand, respectively). More details are given in Notes 8 and 9.

###### *Valuation of investment properties*

The Group carries its investment properties at fair value, with change in fair values being recognised in the consolidated statement of income. Fair value is determined based on comparative analysis based on the assessment made by an independent real estate appraiser using values of actual deals transacted recently by other parties for properties in a similar location and condition, discounted cash flow and based on the knowledge and experience of the real estate appraiser.

###### *Fair value measurements of financial instruments*

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the Discounted Cash Flow ("DCF") model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 30 for further disclosures.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As at 31 December 2019**

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.6 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

**Estimates and assumptions (continued)**

*Provision for expected credit losses of trade receivables*

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in Note 2.5.

*Pension and other post employment benefits*

The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality corporate bonds.

The mortality rate is based on publicly available mortality tables for the specific countries. Future salary increases and pension increases are based on expected future inflation rates for the respective countries.

Further details about defined benefit obligations are given in Note 18.

*Valuation of inventories*

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

*Leases - Estimating the incremental borrowing rate*

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
As at 31 December 2019

**3 GROUP INFORMATION**

Principal subsidiaries of the Group are as follows:

Name of company	Ownership % as at 31 December		Country of incorporation
	2019	2018	
Agility Transport Company W.L.L.	100.00 %	100.00 %	State of Kuwait
Agility DGS Logistics Services company K.S.C.C.	100.00 %	100.00 %	State of Kuwait
Gulf Catering Company for General Trading and Contracting W.L.L. *	100.00 %	100.00 %	State of Kuwait
The Metal and Recycling Company K.S.C.P. ("MRC")*	66.48 %	66.48 %	State of Kuwait
Global Clearing House Systems K.S.C.C.*	60.60 %	60.60 %	State of Kuwait
National Aviation Services Company W.L.L.*	95.00 %	95.00 %	State of Kuwait
United Projects Company For Aviation Services K.S.C. P* ("UPAC")	94.38 %	94.38 %	State of Kuwait
Agility GIL for Company's Business Management W.L.L.	100.00 %	100.00 %	State of Kuwait
Agility GIL for Warehousing and Third Party Inventory Management S.P.C.	100.00 %	100.00 %	State of Kuwait
NAS Ivoire S.A.*	100.00 %	100.00 %	Ivory Coast
Tristar Holdings Limited ("Tristar")	65.12 %	65.12 %	United Arab Emirates
Agility Logistics L.L.C.	100.00 %	100.00 %	United Arab Emirates
Agility Abu Dhabi P.J.S.C. (Note 2.6)	49.00 %	49.00 %	United Arab Emirates
Agility Distriparks FZE	100.00 %	100.00 %	United Arab Emirates
Agility International Investment L.L.C	100.00 %	100.00 %	United Arab Emirates
Agility Logistics Corp.	100.00 %	100.00 %	United States of America
Agility Project Logistics Inc.	100.00 %	100.00 %	United States of America
Tristar Terminals Guam Inc	82.56 %	82.56 %	Guam
Agility Company L.L.C.	100.00 %	100.00 %	Saudi Arabia
Agility Logistics Park	100.00 %	100.00 %	Saudi Arabia
Agility Logistics Private Limited	100.00 %	100.00 %	India
Agility E-Services private Ltd.	100.00 %	100.00 %	India
GIL Shared Services Private Ltd	100.00 %	100.00 %	India
Agility Logistics GmbH	100.00 %	100.00 %	Germany
Agility Logistics Limited	100.00 %	100.00 %	Hong Kong
Agility Logistics International B.V	100.00 %	100.00 %	Netherlands
Agility International Logistics Pte Ltd.	100.00 %	100.00 %	Singapore
Agility Logistics Holdings Pte Ltd.	100.00 %	100.00 %	Singapore
Agility Logistics Limited	100.00 %	100.00 %	United Kingdom
Agility Do Brazil logistica Internacional S.A.	100.00 %	100.00 %	Brazil
Agility Project Logistics Pty Ltd.	100.00 %	100.00 %	Australia
Agility Limited	100.00 %	100.00 %	Papua New Guinea
Agility Logistics (Shanghai) Ltd.	100.00 %	100.00 %	China
Agility Logistics AG	100.00 %	100.00 %	Switzerland
Agility Spain SA	100.00 %	100.00 %	Spain
Agility AB	100.00 %	100.00 %	Sweden
Agility Company Ltd	100.00 %	100.00 %	Thailand

The principal activities of the subsidiaries as set out above are logistics and related services with the exception of the subsidiaries denoted by (\*) whose principal activities are infrastructure.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As at 31 December 2019**

**3 GROUP INFORMATION (continued)**

**Material partly-owned subsidiary**

Tristar is the only subsidiary with non-controlling interests that is material to the Group. Summarised financial information of Tristar is provided below. This information is based on amounts before inter-company eliminations.

	<i>2019</i> <i>KD 000's</i>	<i>2018</i> <i>KD 000's</i>
<b><i>Summarised statement of income:</i></b>		
Revenues	<b>156,781</b>	141,316
Profit for the year	<b>10,781</b>	14,590
Allocated to non-controlling interests	<b>4,653</b>	4,596
<b><i>Summarised statement of financial position:</i></b>		
Total assets	<b>274,499</b>	248,915
Total liabilities	<b>(159,796)</b>	(140,571)
Total equity	<b>114,703</b>	108,344
Accumulated balances of non-controlling interests	<b>38,017</b>	35,005
<b><i>Summarised cash flow information:</i></b>		
Operating	<b>23,608</b>	28,506
Investing	<b>(25,578)</b>	(23,922)
Financing	<b>(1,764)</b>	(7,089)
Net decrease in cash and cash equivalents	<b>(3,734)</b>	(2,505)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As at 31 December 2019**

**4 PROPERTY, PLANT AND EQUIPMENT**

	Land, buildings and improvements KD 000's	Tools, machinery and equipment KD 000's	Vehicles and ships KD 000's	Furniture and office equipment KD 000's	Total KD 000's
<b>Cost:</b>					
As at 31 December 2018	184,035	100,508	183,540	104,802	572,885
Transfer to right-of-use assets	(11,810)	(57)	(63,509)	(80)	(75,456)
<b>As at 1 January 2019</b>	<b>172,225</b>	<b>100,451</b>	<b>120,031</b>	<b>104,722</b>	<b>497,429</b>
Additions	17,550	415	14,289	10,984	43,238
Transfer from projects in progress (Note 5)	1,968	-	-	-	1,968
Transfer to investment property (Note 7)	(29,086)	-	-	-	(29,086)
Disposal of subsidiary	-	-	(273)	(16)	(289)
Disposals	-	(4,871)	-	-	(4,871)
Exchange differences	(4,822)	(3,249)	1,661	1,053	(5,357)
<b>As at 31 December 2019</b>	<b>157,835</b>	<b>949</b>	<b>1,909</b>	<b>795</b>	<b>7,279</b>
<b>Depreciation:</b>					
As at 31 December 2018	(69,428)	(66,627)	(54,719)	(85,421)	(276,195)
Transfer to right-of-use assets	1,184	-	5,616	-	6,800
<b>As at 1 January 2019</b>	<b>(68,244)</b>	<b>(66,627)</b>	<b>(49,103)</b>	<b>(85,421)</b>	<b>(269,395)</b>
Charge for the year	(9,188)	(3,137)	(10,128)	(7,254)	(29,707)
Disposals	-	1,375	-	-	1,375
Transfer to investment property (Note 7)	936	-	-	-	936
Disposal of subsidiary	-	-	273	16	289
Exchange differences	5,060	4,358	(419)	(71)	8,928
<b>As at 31 December 2019</b>	<b>(71,436)</b>	<b>(64,031)</b>	<b>(59,377)</b>	<b>(92,730)</b>	<b>(287,574)</b>
<b>Net book value:</b>					
<b>As at 31 December 2019</b>	<b>86,399</b>	<b>28,715</b>	<b>76,331</b>	<b>24,013</b>	<b>215,458</b>
<b>Cost:</b>					
As at 1 January 2018	183,093	95,596	167,598	100,006	546,293
Additions	11,930	12,102	19,743	9,298	53,073
Transfer from projects in progress (Note 5)	1,049	321	1,221	1,322	3,913
Disposals	(4,137)	(1,137)	(2,000)	(814)	(8,088)
Exchange differences	(7,900)	(6,374)	(3,022)	(5,010)	(22,306)
<b>As at 31 December 2018</b>	<b>184,035</b>	<b>100,508</b>	<b>183,540</b>	<b>104,802</b>	<b>572,885</b>
<b>Depreciation:</b>					
As at 1 January 2018	(72,277)	(66,578)	(49,112)	(81,491)	(269,458)
Charge for the year	(7,653)	(5,971)	(8,612)	(9,126)	(31,362)
Disposals	3,626	949	1,909	795	7,279
Exchange differences	6,876	4,973	1,096	4,401	17,346
<b>As at 31 December 2018</b>	<b>(69,428)</b>	<b>(66,627)</b>	<b>(54,719)</b>	<b>(85,421)</b>	<b>(276,195)</b>
<b>Net book value:</b>					
<b>As at 31 December 2018</b>	<b>114,607</b>	<b>33,881</b>	<b>128,821</b>	<b>19,381</b>	<b>296,690</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
As at 31 December 2019

**5 PROJECTS IN PROGRESS**

Projects in progress comprise the cost of assets acquired and under construction that are not available for use at the reporting date. These assets, once completed, will be used for the Group's operations

	<i>2019</i> <i>KD 000's</i>	<i>2018</i> <i>KD 000's</i>
As at 31 December	<b>42,087</b>	30,065
Transfer to right-of-use assets	<b>(1,078)</b>	-
As at 1 January	<b>41,009</b>	30,065
Additions	<b>20,009</b>	21,585
Transfer from other non-current assets	-	3,122
Transfer to property, plant and equipment (Note 4)	<b>(1,968)</b>	(3,913)
Transfer to investment property (Note 7)	<b>(2,423)</b>	(8,203)
Exchange differences	<b>(314)</b>	(569)
As at 31 December	<b>56,313</b>	42,087

**6 LEASES**

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the year:

	<i>Right-of-use assets</i>					<i>Lease liabilities</i> <i>KD 000's</i>
	<i>Land, buildings and improvements</i> <i>KD 000's</i>	<i>Tools, machinery and equipment</i> <i>KD 000's</i>	<i>Vehicles and ships</i> <i>KD 000's</i>	<i>Furniture and office equipment</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>	
At 1 January 2019	112,268	4,665	62,897	1,075	180,905	161,939
Additions	25,493	1,706	5,951	-	33,150	33,150
Depreciation	(24,172)	(1,549)	(4,882)	(192)	(30,795)	-
Finance cost	-	-	-	-	-	6,684
Lease payments	-	-	-	-	-	(36,796)
Exchange	-	-	-	-	-	-
Differences	(217)	79	(34)	(141)	(313)	(558)
At 31 December 2019	<b>113,372</b>	<b>4,901</b>	<b>63,932</b>	<b>742</b>	<b>182,947</b>	<b>164,419</b>
Current portion						36,607
Non-current portion						127,812
						<b>164,419</b>

The lease liabilities reported in the consolidated statement of financial position includes liabilities amounting to KD 3,874 thousand related to service concession arrangements recognised as intangible assets.

Set out below, are the amounts recognised in the consolidated statement of income related to leases:

	<i>December 31</i> <i>2019</i> <i>KD 000's</i>
Depreciation expense of right-of-use assets	<b>(30,795)</b>
Finance cost on lease liabilities	<b>(6,684)</b>
Expense relating to short-term leases and low-value assets (included in administrative expenses)	<b>(9,229)</b>
Expense relating to short-term leases (included in cost of revenues)	<b>(1,523)</b>
	<b>(48,231)</b>

For the year ended 31 December 2019, the Group reported total cash outflows for leases of KD 36,796 thousand. Additionally, the Group reported non-cash additions to right-of-use assets and lease liabilities of KD 33,150 thousand during the year.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As at 31 December 2019**

**7 INVESTMENT PROPERTIES**

	<i>2019</i> <i>KD 000's</i>	<i>2018</i> <i>KD 000's</i>
As at 1 January	<b>301,568</b>	283,845
Additions	<b>8,446</b>	8,200
Transfer from property, plant and equipment (Note 4)	<b>28,150</b>	-
Revaluation surplus from transfer of land	<b>26,972</b>	-
Transfer from projects in progress (Note 5)	<b>2,423</b>	8,203
Change in fair value	<b>3,642</b>	1,320
Exchange differences	<b>(11)</b>	-
	<hr/>	<hr/>
As at 31 December	<b>371,190</b>	301,568
	<hr/> <hr/>	<hr/> <hr/>

The Group has classified certain properties amounting to KD 298,874 thousand (2018: KD 299,137 thousand) held under long term operating leases as investment properties. These investment properties are located in Kuwait.

The fair values of investment properties as at 31 December 2019 and 31 December 2018 were determined by independent valuers who have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair values were determined based on market approach. In estimating the fair values of the properties, the highest and the best use of the properties is their current use. There has been no change to the valuation techniques during the year. The fair value of investment properties is measured under the Level 3 fair value hierarchy.

The significant assumption used in the determination of fair value was the market price (per sqm).

Under market approach, fair value is estimated based on comparable transactions. The market approach is based upon the principle of substitution under which a potential buyer will not pay more for the property than it will cost to buy a comparable substitute property. The unit of comparison applied by the Group is the price per square metre ('sqm').

A 5% increase or decrease in the estimated market price (per sqm) will increase or reduce the value of the investment properties by KD 18,560 thousand (2018: KD 15,078 thousand).

On 1 January 2019, the Group transferred certain properties that were previously classified under property, plant and equipment with a carrying value of KD 28,150 thousand, to investment properties on account of their change in use from owner-occupation to income generation and/or capital appreciation. The fair value of these lands as of the transfer date reported at KD 55,122 thousand. Accordingly, the Group recognised a revaluation surplus of KD 26,972 thousand through other comprehensive income representing the difference between the carrying value of these properties and their fair value on the date of transfer. This revaluation surplus has been reported in 'other reserves' in the consolidated statement of financial position.

Investment properties include a property with a carrying value of KD 28,000 thousand representing land located in South Amghara which is held on a lease with the Public Authority of Industry ("PAI") and the Parent Company is in a legal dispute with PAI in regard to the termination of the lease contract [Note 26 (c)].

Investment properties also includes properties with carrying value of KD 74,400 thousand which are leased from the PAI. The contracts under which these properties were leased have expired as of the reporting date. The Parent Company is in the process of negotiating the renewal of these contracts with PAI and (after consulting the external counsel) is of the opinion that the lease contracts with PAI will be renewed in accordance with the Industry law and its executive regulations.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
As at 31 December 2019

**8 INTANGIBLE ASSETS**

	<i>BOT projects and concessions KD 000's</i>	<i>Customer lists KD 000's</i>	<i>Brand KD 000's</i>	<i>Total KD 000's</i>
<i>Cost:</i>				
As at 1 January 2019	42,751	7,271	4,721	54,743
Additions	5,600	-	-	5,600
<b>As at 31 December 2019</b>	<b>48,351</b>	<b>7,271</b>	<b>4,721</b>	<b>60,343</b>
<i>Amortisation:</i>				
As at 1 January 2019	(22,549)	(6,658)	-	(29,207)
Charge for the year	(5,586)	(498)	-	(6,084)
<b>As at 31 December 2019</b>	<b>(28,135)</b>	<b>(7,156)</b>	<b>-</b>	<b>(35,291)</b>
<b>Net book value:</b>				
<b>As at 31 December 2019</b>	<b>20,216</b>	<b>115</b>	<b>4,721</b>	<b>25,052</b>
	<i>BOT projects and concessions KD 000's</i>	<i>Customer lists KD 000's</i>	<i>Brand KD 000's</i>	<i>Total KD 000's</i>
<i>Cost:</i>				
As at 1 January 2018	38,527	7,271	4,721	50,519
Transfer from Goodwill (Note 9)	4,054	-	-	4,054
Additions	170	-	-	170
<b>As at 31 December 2018</b>	<b>42,751</b>	<b>7,271</b>	<b>4,721</b>	<b>54,743</b>
<i>Amortisation:</i>				
As at 1 January 2018	(18,415)	(6,160)	-	(24,575)
Charge for the year	(4,134)	(498)	-	(4,632)
<b>As at 31 December 2018</b>	<b>(22,549)</b>	<b>(6,658)</b>	<b>-</b>	<b>(29,207)</b>
<b>Net book value:</b>				
<b>As at 31 December 2018</b>	<b>20,202</b>	<b>613</b>	<b>4,721</b>	<b>25,536</b>

Certain intangible assets were acquired through business combinations in previous years. BOT projects represent costs incurred on the construction of the car park and commercial complex of Kuwait International Airport, Sheikh Saa'd Terminal, Discovery Mall. Concessions represents fee incurred for providing Ground handling services in Cote d' Ivoire and Uganda. The brand is assumed to have an indefinite useful life and is tested for impairment at the reporting date. In the opinion of the management, no impairment is required (2018: Nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### As at 31 December 2019

#### 9 GOODWILL

	<i>2019</i> <i>KD 000's</i>	<i>2018</i> <i>KD 000's</i>
<i>Cost:</i>		
As at 1 January	276,926	285,486
Additions	2,439	-
Transfer to intangible assets (Note 8)	-	(4,054)
Exchange differences	1,860	(4,506)
As at 31 December	<u>281,225</u>	<u>276,926</u>
<i>Impairment:</i>		
As at 1 January and 31 December	<u>(27,218)</u>	<u>(27,218)</u>
Net carrying value	<u>254,007</u>	<u>249,708</u>

The goodwill acquired through business combinations has been allocated to the cash generating units as follows:

	<i>Carrying amount of goodwill</i>	
	<i>2019</i> <i>KD 000's</i>	<i>2018</i> <i>KD 000's</i>
<i>Cash generating units</i>		
Global Integrated Logistics	222,903	222,694
Infrastructure	31,104	27,014
<b>Total</b>	<u>254,007</u>	<u>249,708</u>

The recoverable amounts of the cash generating units have been determined based on a value in use calculation using cash flow projections based on financial budgets approved by the management for 2020 and assuming an average annual growth rate of 5.4 % (2018: 5.1%) for the four year period thereafter, which is in the range of the current short term growth rate for the logistics industry. The pre-tax discount rate applied to cash flow projections is 10% (2018: 10%) and cash flows beyond the 5 year period are extrapolated using a growth rate of 3% (2018: 3%). As a result of the exercise, the management has concluded that no impairment provision is considered necessary in the consolidated statement of income.

Key assumptions used in value in use calculations

The calculation of value in use is sensitive to the following assumptions:

- Revenue;
- Earning Before Interest, Tax, Depreciation and Amortisation ("EBITDA");
- Discount rates; and
- Growth rate used to extrapolate cash flows beyond the 5 year period.

Sensitivity to changes in assumptions

With regard to the assessment of value in use of the cash generating units, the management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

#### 10 INVESTMENT IN ASSOCIATES AND JOINT VENTURES

The movement in carrying value of investment in associates and joint ventures during the year is as follows:

	<i>2019</i> <i>KD 000's</i>	<i>2018</i> <i>KD 000's</i>
As at 1 January	101,228	62,814
Impact on adoption of IFRS 9 by an associate	-	(621)
As at 1 January (restated)	101,228	62,193
Additions to investment in associates	-	31,504
Additions to investment in joint ventures	-	5,125
Share of results	3,018	4,914
Share of other comprehensive loss	(765)	(372)
Dividend received	(2,006)	(2,054)
Foreign currency translation adjustments	(123)	(82)
As at 31 December	<u>101,352</u>	<u>101,228</u>

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**10 INVESTMENT IN ASSOCIATES AND JOINT VENTURES (continued)**

The Group determines that Gulf Warehousing Company Q.S.C. ("GWC") and National Real Estate Company K.P.S.C. ("NREC") as the material associates of the Group and the following table provides summarised financial information of the Group's investment in associates and joint ventures:

	GWC		NREC		Joint ventures	
	2019 KD '000s	2018 KD '000s	2019 KD '000s	2018 KD '000s	2019 KD '000s	2018 KD '000s
<b>Summarised statement of financial position:</b>						
Current assets	68,576	71,877	47,623	64,562	7,609	523
Non-current assets	269,408	237,428	419,762	417,495	258,784	189,153
Current liabilities	(46,123)	(38,856)	(64,069)	(75,876)	(8,871)	(9,662)
Non-current liabilities	(134,891)	(125,593)	(131,390)	(182,967)	(180,783)	(97,658)
Equity	156,970	144,856	271,926	223,214	76,739	82,356
Proportion of the Group's ownership	% 21.59	% 21.59	% 20	% 20		
Group's share in the equity	33,889	31,274	29,783	31,504	12,081	13,177
Goodwill	20,345	20,345	-	-	-	-
Carrying value of investment	54,234	51,619	29,783	31,504	12,081	13,177
<b>Summarised statement of income:</b>						
Revenue	101,885	99,464	11,689	18,417	5	2
Profit (loss)	20,806	19,172	9,201	10,409	(1,615)	(1,088)

Other associates of the Group amount to KD 5,254 thousand (31 December 2018: KD 4,928 thousand).

As at 31 December 2019, the fair market value of the Group's interest in GWC, which is listed on the Qatar Stock Exchange, is KD 57,783 thousand (2018: KD 40,632 thousand) and NREC, which is listed on Kuwait Stock Exchange is KD 24,934 thousand (2018: KD 24,825 thousand).

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**11 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<i>2019</i> <i>KD 000's</i>	<i>2018</i> <i>KD 000's</i>
Investment in an associate – outside Kuwait	<b>109,183</b>	109,246
Equity securities – in Kuwait	<b>104</b>	106
Investment in funds – outside Kuwait	<b>2,861</b>	3,479
	<hr/> <b>112,148</b> <hr/>	<hr/> 112,831 <hr/>

During the year ended 31 December 2011, the Group (through its wholly owned subsidiary, a Venture Capital Organisation) jointly with France Telecom acquired 44% equity interest in Korek Telecom L.L.C. (“Korek Telecom”), a limited liability company incorporated in Iraq, via a joint company owned 54% by the Group and 46% by France Telecom. As a result, the Group owns 23.7% indirect interest in Korek Telecom.

The investment in Korek Telecom has been classified as an investment in an associate as the Group exercises significant influence over financial and operating policies of Korek Telecom. As this associate is held as part of Venture Capital Organization’s investment portfolio, it is carried in the consolidated statement of financial position at fair value. This treatment is permitted by IAS 28 “Investment in Associates and Joint Ventures” which allows investments held by Venture Capital Organisations to be accounted for at fair value through profit and loss in accordance with IFRS 9, with changes in fair value recognised in the consolidated statement of income in the period of change.

As at 31 December 2019, interest bearing loan provided by the Group to Korek Telecom amounted to KD 35,259 thousand (2018: KD 35,321 thousand) (Note 27).

*Korek Litigation*

In February 2017, the Group filed a request for arbitration against the Republic of Iraq pursuant to Article 36 of the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (“ICSID”), and Article 10 of the Agreement between the Government of the State of Kuwait and the Government of the Republic of Iraq for Reciprocal Promotion and Protection of Investments (the “2015 BIT”). The claim arises from a series of actions and inactions of the Iraqi government, including its regulatory agency Communications & Media Commission (“CMC”) relating to an alleged decision by the CMC to annul the previous written consent granted in connection with the Group’s investment in Korek Telecom, as well as the CMC’s order to transfer the shares acquired by the Group back to the original Iraqi shareholders (which was implemented in March 2019). Without limitation, the Group’s claims relate to Iraq’s failure to treat the Group’s investment of over USD 380 million fairly and equitably, its failure to accord the Group with due process, as well as the indirect expropriation of that investment, each in breach of the 2015 BIT. On 24 February 2017, the Group’s request for arbitration was formally registered with ICSID. The arbitration tribunal was formally constituted on 20 December 2017 and an initial procedural hearing was held on 31 January 2018.

The Group’s memorial was submitted on 30 April 2018. On 6 August 2018, Iraq submitted objections to jurisdiction and requested that they be determined as a preliminary matter before the case proceeds further on the merits. The tribunal bifurcated the proceedings on 31 October 2018 and the Group submitted its counter-memorial on jurisdiction on 10 January 2019. The reply of the respondents was submitted on 25 February 2019 and the Group’s rejoinder was submitted on 21 March 2019. The hearings were held on 24 and 25 April 2019. On 9 July 2019, the tribunal issued its decision on jurisdiction in which it found that it had jurisdiction over certain (but not all) of the Group’s claims. The case will now go forward on the merits of the claims over which the tribunal has jurisdiction. Iraq has yet to submit its Statement of Defense and has requested an extension until 24 March 2020. The tribunal will decide on such request imminently. The parties will then submit sequential replies with the hearing on the merits scheduled in the month of October 2020. As the dispute remains pending without legal resolution and in the absence of clarity, the financial impact of this case may not be assessed.

In conjunction with the foregoing claims related to Korek Telecom, Iraq Telecom Limited (“IT Ltd.”) (in which the Group holds an indirect 54% stake) commenced the following proceedings:

• *Share Subscription Agreement Arbitration*

On 29 June 2017, IT Ltd. commenced arbitration proceedings before The International Chamber of Commerce (“ICC”) against Korek International (Management) Ltd. (“CS Ltd.”) and Mr. Sirwan Saber Mustafa. The dispute is in relation to the monies owed by CS Ltd. and guaranteed by Mr. Sirwan Saber Mustafa under a subscription agreement relating to the Group’s investment in Korek Telecom. The amount in dispute is approximately USD 75 million (excluding interest). The tribunal was constituted on 2 February 2018, with terms of reference and a procedural timetable to be issued by the tribunal in due course.

IT Ltd.’s statement of claim was submitted on 17 May 2018 and the respondents’ statement of defense was submitted on 12 September 2018.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**11 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)**

*Korek Litigation (continued)*

• *Share Subscription Agreement Arbitration (continued)*

IT Ltd. submitted its reply on 8 March 2019 and the respondents submitted their rejoinder on 3 May 2019. The hearings were held on 16 and 17 September 2019 and a final award is expected at any time.

• *Shareholders Agreement Arbitration*

On 4 June 2018, IT Ltd. commenced ICC arbitration proceedings against CS Ltd. and Mr. Sirwan Saber Mustafa. The dispute is in relation to various contractual breaches by the respondents under a shareholders' agreement relating to the Parent Company's investment in Korek Telecom. The amount in dispute is to be determined during the course of the proceedings. The request for arbitration was submitted on 4 June 2018, and the respondents' reply was submitted on 10 September 2018. IT Ltd. filed an amended request for arbitration on 15 January 2019 and the tribunal was constituted on 29 March 2019. IT Ltd.'s Statement of Claim was submitted on 28 August 2019 and CS Ltd.'s Statement of Defense was submitted on 22 January 2020. The hearings are scheduled to be held in early 2021.

• *IBL Subordination Agreement Arbitration :Arbitration proceedings against IBL Bank SAL, Korek Telecom and International Holdings Ltd.*

The dispute is in relation to alleged fraud orchestrated by certain Korek Telecom stakeholders with the knowledge and cooperation of IBL Bank in connection with a subordination agreement relating to a USD 150 million loan extended by IBL Bank to Korek Telecom. The amount in dispute is to be determined during the course of the proceedings. The request for arbitration was submitted on 26 June 2018, and the respondents' reply and counterclaim was submitted on 8 October 2018. The counterclaim seeks damages for losses (still unquantified) allegedly suffered by the respondents in relation to their reputation and good standing. IBL's answer and counterclaim was submitted on 8 November 2018. Korek's and IH's answer was submitted on 14 December 2018. The tribunal was constituted on 15 May 2019. IT Ltd.'s Statement of Claim was submitted on 22 November 2019, and respondents' Statement of Defense is due on 21 February 2020. The hearings are scheduled for November and December 2020.

• *DIFC Director Claims*

On 12 March 2018 IT Ltd. commenced proceedings in the courts of the Dubai International Financial Centre ("DIFC") against certain directors of International Holdings Limited (the holding company of Korek in which IT Ltd. holds a 44% interest). The defendant directors are Abdulhameed Aqrabi, Nozad Jundi and Raymond Zina Rahmeh. The claim alleges breach of the defendants' duties as directors of International Holdings. IT Ltd. is in the process of effecting service of the claims in Lebanon and Iraq.

On 20 February 2019, IT Ltd. filed an application for interim relief to appoint an 'authorised representative' of International Holdings with sufficient power to investigate the affairs of International Holdings' subsidiary, Korek Telecom Company LLC (the 'Protector Application'). The Protector Application was dismissed by the DIFC Court on 7 August 2019.

Separately, on 5 September 2017, Modern Global Company for General Trading of Equipment, Supplier for Construction and Real Estate WLL (a wholly owned subsidiary of the Parent Company) commenced arbitration proceedings against Korek Telecom in relation to Korek's alleged failure to pay servicing fees due to Modern Global under a services agreement. On 20 March 2019, Modern Global was awarded its full claim, interest and legal costs, amounting to approximately USD 4.5 million. The Group is currently in the process of enforcing the award against Korek Telecom.

Consequently, as a result of the ongoing litigation relating to Korek, the Group's management was unable to determine the fair value of this investment and the recoverability of interest bearing loan as at 31 December 2019 and 31 December 2018 and accordingly the investment is carried at its fair value as at 31 December 2013 of USD 359 million equivalent to KD 109,183 thousand (2018: KD 109,246 thousand).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**12 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

	<i>2019</i> <i>KD 000's</i>	<i>2018</i> <i>KD 000's</i>
Unquoted equity securities:		
- In Kuwait	5,481	5,491
- Outside Kuwait	10,375	9,659
	<u>15,856</u>	<u>15,150</u>

**13 INVENTORIES**

	<i>2019</i> <i>KD 000's</i>	<i>2018</i> <i>KD 000's</i>
Goods for resale	29,571	21,228
Provision for obsolete and slow-moving inventories	(897)	(239)
	<u>28,674</u>	<u>20,989</u>

Inventories mainly include items held in stock for delivery to logistics clients as part of logistics supply contracts.

**14 TRADE RECEIVABLES**

	<i>2019</i> <i>KD 000's</i>	<i>2018</i> <i>KD 000's</i>
Gross trade receivables	397,481	397,665
Allowance for expected credit losses	(65,865)	(59,420)
	<u>331,616</u>	<u>338,245</u>

Movement in the provision for impairment of trade receivables is as follows:

	<i>2019</i> <i>KD 000's</i>	<i>2018</i> <i>KD 000's</i>
As at 1 January	59,420	53,078
Impact on recognition of ECL on financial assets	-	6,659
As at 1 January (restated)	59,420	59,737
Expected credit losses for the year (Note 22)	7,014	905
Amounts written-off	(715)	(1,224)
Others (including exchange differences)	146	2
As at 31 December	<u>65,865</u>	<u>59,420</u>

**15 OTHER CURRENT ASSETS**

	<i>2019</i> <i>KD 000's</i>	<i>2018</i> <i>KD 000's</i>
Prepaid expenses	34,314	31,712
Advances to suppliers	27,056	23,324
Claims in dispute [Note 26 (b)]	10,092	10,092
Deposits	7,621	7,122
Sundry receivables	7,731	10,170
Accrued income	6,296	4,340
Jobs in progress	1,911	1,471
Other claims receivable	2,046	2,648
Staff receivables	1,839	1,327
Other	1,082	7,443
	<u>99,988</u>	<u>99,649</u>

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**16 BANK BALANCES, CASH AND DEPOSITS**

	<i>2019</i> <i>KD 000's</i>	<i>2018</i> <i>KD 000's</i>
Cash at banks and on hand	96,112	76,852
Short term deposits	34,820	49,075
<b>Cash and cash equivalents</b>	<b>130,932</b>	<b>125,927</b>

**17 SHARE CAPITAL, RESERVES AND DIVIDEND**

**a) Share capital**

	<i>Number of shares</i>		<i>Amount</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i> <i>KD '000s</i>	<i>2018</i> <i>KD '000s</i>
Authorized, issued and fully paid up shares of 100 fils each	<u>1,762,930,558</u>	<u>1,532,983,094</u>	<u>176,294</u>	<u>153,299</u>

**b) Share premium**

The share premium is not available for distribution.

**c) Statutory reserve**

In accordance with the Companies' Law, as amended, and the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, a minimum of 10% of the profit for the year before tax and board of directors' remuneration shall be transferred to the statutory reserve. The annual general assembly of the Parent company may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital. The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when profits become available in the following years, unless such reserve exceeds 50% of the issued share capital.

**d) Treasury Shares**

	<i>2019</i>	<i>2018</i>
Number of treasury shares	<u>98,978,642</u>	<u>86,062,497</u>
Percentage of issued shares	<u>5.61 %</u>	<u>5.61 %</u>
Market value in KD 000's	<u>80,965</u>	<u>69,022</u>

**e) Dividend**

The shareholders at the Annual General Meeting ("AGM") and the Extraordinary General Meeting held on 2 April 2019 approved the distribution of cash dividends of 15 fils per share (31 December 2017: 15 fils per share) and bonus shares of 15% (31 December 2017: 15%) in respect of the year ended 31 December 2018.

On 20 February 2020, the Board of Directors of the Parent Company recommended distribution of cash dividend of 20 fils per share (2018: 15 fils per share) and bonus shares of 10% (2018: 15%) for the year ended 31 December 2019. This proposal is subject to the approval by the shareholders' at the Annual General Assembly of the Parent Company.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**f) Other comprehensive income**

The disaggregation of changes of other comprehensive income by each type of reserve in equity is shown below:

	<i>Foreign currency translation reserve KD 000's</i>	<i>Hedging reserve KD 000's</i>	<i>Investment revaluation reserve KD 000's</i>	<i>Other reserves KD 000's</i>	<i>Non- controlling interests KD 000's</i>	<i>Total KD 000's</i>
<b>2019:</b>						
Changes in fair value of equity instruments at fair value through	-	-	(291)	-	-	(291)
Gain on hedge of net investments (Note 19)	-	258	-	-	-	258
Loss on cash flow hedge	-	(438)	-	-	-	(438)
Share of other comprehensive loss of associates and joint ventures	-	(765)	-	-	-	(765)
Foreign currency translation adjustments	(1,120)	-	-	-	(2,650)	(3,770)
Re-measurement losses on defined benefit plans (Note 18)	-	-	-	(1,368)	-	(1,368)
Revaluation surplus from transfer of land (Note 7)	-	-	-	26,972	-	26,972
	<u>(1,120)</u>	<u>(945)</u>	<u>(291)</u>	<u>25,604</u>	<u>(2,650)</u>	<u>20,598</u>
<b>2018:</b>						
Changes in fair value of equity instruments at fair value through other comprehensive income	-	-	477	-	-	477
Loss on hedge of net investments (Note 19)	-	(874)	-	-	-	(874)
Loss on cash flow hedge	-	(109)	-	-	-	(109)
Share of other comprehensive loss of associates and joint ventures	-	(372)	-	-	-	(372)
Foreign currency translation adjustments	(9,986)	-	-	-	(1,702)	(11,688)
Re-measurement gains on defined benefit plans (Note 18)	-	-	-	590	-	590
	<u>(9,986)</u>	<u>(1,355)</u>	<u>477</u>	<u>590</u>	<u>(1,702)</u>	<u>(11,976)</u>

**18 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS**

	<i>2019 KD 000's</i>	<i>2018 KD 000's</i>
Defined benefit plans	20,958	21,586
Other benefit plans	29,393	25,251
As at 31 December	<u>50,351</u>	<u>46,837</u>

The following table summarise the movement in the provision for employees' end of service benefits recognised in the consolidated statement of financial position:

	<i>2019 KD 000's</i>	<i>2018 KD 000's</i>
As at 1 January	46,837	45,431
Provided during the year	11,628	11,187
Paid during the year	(11,413)	(8,691)
Actuarial loss (gain) in respect of defined benefit plans	1,368	(590)
Others (including exchange differences)	1,931	(500)
As at 31 December	<u>50,351</u>	<u>46,837</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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18 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS (continued)

The Group assumed responsibility for defined benefit plans for the employees of subsidiaries acquired in the prior years. The plans are governed by the employment laws of the respective countries. The level of benefits provided depends on the length of employee service and salary at the retirement age, and require, in some cases, contributions to be made to separately administered funds.

Changes in defined benefit obligation and fair value of plan assets are as follows:

	Pension cost charged to statement of income				Re-measurement gain (losses) recognised in other comprehensive income								
	1 January 2019	Service cost	Net interest	Past service benefit (cost)/ benefit	Return on plan assets*	Actuarial changes on demographic assumptions	Actuarial changes on financial assumptions	Experience adjustments	Sub-total	Contributions by employer-differences	Others (including exchange differences)		
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's		
Defined benefit obligation	(107,894)	(1,012)	(1,665)	-	(2,677)	6,334	927	(5,565)	(3,605)	(8,243)	-	(1,054)	(113,534)
Fair value of plan assets	86,308	-	1,362	-	1,362	(5,807)	-	-	-	6,875	2,058	1,780	92,576
Net benefit obligation	(21,586)	(1,012)	(303)	-	(1,315)	527	927	(5,565)	(3,605)	(1,368)	2,058	726	(20,958)
	Pension cost charged to statement of income				Re-measurement gain (losses) recognised in other comprehensive income								
	1 January 2018	Service cost	Net interest	Past service benefit (cost)/ benefit	Return on plan assets*	Actuarial changes on demographic assumptions	Actuarial changes on financial assumptions	Experience adjustments	Sub-total	Contributions by employer-differences	Others (including exchange differences)		
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's		
Defined benefit obligation	(115,625)	(1,008)	(1,509)	-	(2,517)	6,347	855	1,984	(1,065)	1,774	-	2,127	(107,894)
Fair value of plan assets	92,190	-	1,201	-	1,201	(5,802)	-	-	-	(1,184)	1,823	(1,920)	86,308
Net benefit obligation	(23,435)	(1,008)	(308)	-	(1,316)	545	855	1,984	(1,065)	590	1,823	207	(21,586)

\* excluding amount included in net interest.

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**18 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS (continued)**

The actual return on plan assets for the year ended 31 December 2019 was KD 8,237 thousand (2018: KD 17 thousand).

The major categories of the total plan assets at fair value are, as follows:

	<i>2019</i> <i>KD 000's</i>	<i>2018</i> <i>KD 000's</i>
Quoted investments		
- Equity	39,346	29,457
- Bonds	28,219	30,343
Unquoted investments		
- Real Estate	11,659	16,318
- Insurance Policies	7,840	6,637
- Others	5,512	3,553
	<u>92,576</u>	<u>86,308</u>

The principal actuarial assumptions used for the plan referred to above, which forms the most significant component of the liability for employees' end of service benefits, are as follows:

	<i>2019</i>	<i>2018</i>
Discount rate at 31 December	1.55 %	2.58 %
Expected rate of increase of employee remuneration	2.53 %	2.37 %
Future pension increase	1.50 %	1.43 %
Life expectation for pensioners at the age of 65 (years)	23	23

A quantitative sensitivity analysis for significant assumption as at 31 December 2019 and 31 December 2018 is as shown below. The sensitivity analysis above have been determined based on a method that extrapolates the impact on net defined benefit obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

	<i>Impact on the net defined benefit obligations</i>	
	<i>2019</i> <i>KD 000's</i>	<i>2018</i> <i>KD 000's</i>
Discount rate		
- 1% increase	(14,345)	(13,424)
- 1% decrease	17,716	15,853
Expected rate of increase of employee remuneration		
- 1% increase	354	46
- 1% decrease	(341)	(578)
Future pension cost increase		
- 1% increase	12,999	11,324
- 1% decrease	(5,950)	(5,444)
Life expectancy		
- increase by 1 year	5,281	4,600
- decrease by 1 year	(5,280)	(5,115)

The expected employer contributions to be made in the future years for the defined benefit plan obligations are as follows:

	<i>2019</i> <i>KD 000's</i>	<i>2018</i> <i>KD 000's</i>
Within the next 12 months	2,753	2,586
Between 2 and 5 years	9,806	10,026
Between 5 and 10 years	7,170	8,474
Beyond 10 years	14,060	14,230
	<u>33,789</u>	<u>35,316</u>

The average duration of the defined benefit plan obligation at the end of the reporting period is 15 years (2018: 14 years).

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**19 INTEREST BEARING LOANS**

	<i>2019</i> <i>KD 000's</i>	<i>2018</i> <i>KD 000's</i>
Committed multicurrency revolving loan facility obtained from a Group of banks - Maturing in April 2021	138,961	104,862
Committed Term Loan obtained from a foreign bank and is repayable in quarterly instalments commencing from March 2016.	35,276	29,407
Committed Revolving loan facility from a local bank repayable in July 2023	24,576	21,580
Term facility obtained from a group of local banks repayable in March 2023	25,752	-
Murabaha facility obtained from a local bank repayable in February 2024	6,000	-
Uncommitted facilities from a local bank repayable on demand.	1,500	13,000
Committed Term Loan obtained from a foreign bank and is repayable in monthly instalments commencing from May 2016 *	-	49,105
Committed Term facility from a local bank repayable in July 2019.	-	4,400
Other loans	38,791	38,628
	<u>270,856</u>	<u>260,982</u>

*Committed facility*

A committed borrowing facility is one in which the lender is legally obliged to provide the funds subject to the Group complying with the terms of the loan facility agreement. A commitment fee is usually charged to the Group on any undrawn part of the facility.

*Uncommitted facility*

An uncommitted borrowing facility is one in which the lender is not legally obliged to provide the funds and the facility is therefore repayable on demand. Floating interest rate loans amounting to KD 243,956 thousand (2018: KD 201,135 thousand) carry margin ranging from 0.5% to 5% per annum (2018: 0.5% to 5% per annum) over the benchmark rates.

\* As at 1 January 2019, interest bearing loans amounting to KD 49,105 thousand were reclassified to lease liabilities upon the adoption of IFRS 16 (Note 6).

The following table shows the current and non-current portions (analysed by currency) of the Group's loan obligations

	<i>Current portion</i> <i>KD 000's</i>	<i>Non-current portion</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
USD	16,729	192,854	209,583
KWD	3,445	31,752	35,197
AED	-	17,785	17,785
SGD	-	3,535	3,535
Others	2,974	1,782	4,756
At 31 December 2019	<u>23,148</u>	<u>247,708</u>	<u>270,856</u>
At 31 December 2018	<u>53,534</u>	<u>207,448</u>	<u>260,982</u>

Included in interest bearing loans are loans amounting to KD 85,787 thousand (2018: KD 112,218 thousand) which are held by subsidiaries in the Group. Trade receivables and certain other assets of the respective subsidiaries are pledged as collateral against these loans.

***Hedge of net investments in foreign operations***

Included in interest bearing loans at 31 December 2019 are loans denominated in USD 506,000 thousand (hedging instrument), which have been designated as a hedge of the net investments in the overseas subsidiaries (with functional currency USD) and are being used to hedge the Group's exposure to foreign exchange risk on these investments

Gains or losses on the retranslation of interest bearings loans are transferred to other comprehensive income to offset any gains or losses on translation of the net investments in these subsidiaries. During the year, foreign exchange gain arising on translation of the hedging instrument amounting to KD 258 thousand (2018: loss amounting to KD 874 thousand) was taken to other comprehensive income (hedging reserve).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**20 OTHER NON-CURRENT LIABILITIES**

	<i>2019</i> <i>KD 000's</i>	<i>2018</i> <i>KD 000's</i>
Amounts due to related parties (Note 27)	8,014	8,153
Other liabilities	4,694	6,319
	<u>12,708</u>	<u>14,472</u>

**21 TRADE AND OTHER PAYABLES**

	<i>2019</i> <i>KD 000's</i>	<i>2018</i> <i>KD 000's</i>
Trade payables	230,528	214,914
Accrued expenses	97,140	100,539
Accrued employee related expenses	47,827	50,943
NLST payable	15,271	15,881
Taxation on overseas subsidiaries	3,929	6,010
Zakat payable	4,390	4,245
KFAS payable	1,204	920
Amounts due to related parties (Note 27)	371	389
Directors' remuneration	140	140
Other liabilities	21,413	49,264
	<u>422,213</u>	<u>443,245</u>

The entire trade payables are of short-term nature, non-interest bearing and normally settled on 30 to 60 days terms. The carrying amount of the liabilities largely corresponds to their fair values

**22 GENERAL AND ADMINISTRATIVE EXPENSES**

	<i>2019</i> <i>KD 000's</i>	<i>2018</i> <i>KD 000's</i>
Salaries	207,240	201,550
Employee benefits	29,261	26,123
Rent	9,229	29,714
Professional fees	30,528	27,556
Repairs and maintenance	22,889	20,152
Facilities management	10,830	12,326
Communication	6,552	6,286
Travel	9,017	8,621
Insurance	4,459	3,764
Office supplies	2,781	2,822
Expected credit losses for trade receivables (Note 14)	7,014	905
Bank charges	1,799	1,570
Advertising	2,223	1,809
Other expenses	5,826	9,385
	<u>349,648</u>	<u>352,583</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**23 TAXATION**

	<i>2019</i> <i>KD 000's</i>	<i>2018</i> <i>KD 000's</i>
NLST	2,269	2,121
Contribution to KFAS	817	764
Zakat	908	848
Taxation on overseas subsidiaries	9,389	6,196
	<u>13,383</u>	<u>9,929</u>

Deferred tax arising on overseas locations is not material to the consolidated financial statements.

**24 BASIC AND DILUTED EARNINGS PER SHARE**

Basic and diluted earnings per share amounts are calculated by dividing profit for the year attributable to equity holders of the Parent Company by the weighted average number of shares outstanding during the year as follows:

	<i>2019</i> <i>KD 000's</i>	<i>2018</i> <i>KD 000's</i> <i>(Restated)*</i>
Profit for the year attributable to equity holders of the Parent Company	<u>86,759</u>	<u>81,110</u>
	<u>Shares</u>	<u>Shares</u>
Weighted average number of paid up shares	1,762,930,558	1,762,930,558
Weighted average number of treasury shares	(98,978,642)	(98,978,642)
Weighted average number of outstanding shares	<u>1,663,951,916</u>	<u>1,663,951,916</u>
Basic and diluted earnings per share - attributable to equity holders of the Parent Company	<u>52.14 fils</u>	<u>48.75 fils</u>

\* Basic and diluted earnings per share for the comparative period presented have been restated to reflect the adjustment of bonus shares following the bonus issue relating to 2018 (Note 17).

As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

**25 DERIVATIVE FINANCIAL INSTRUMENTS**

Derivatives are financial instruments that derive their value with reference to the underlying interest rate, foreign exchange rate or other indices. Notional principal amounts merely represent amounts to which a rate or price is applied to determine the amounts of cash flows to be exchanged and do not represent the potential gain or loss associated with the market or credit risk of such instruments. The Group deals in the following derivative instruments to manage the interest rate risk and foreign exchange positions.

***Derivatives held for trading***

Derivatives used for hedging purpose but which do not meet the qualifying criteria for hedge accounting are classified as 'derivatives held for trading'.

***Forward foreign exchange contracts***

Forward foreign exchange contracts are agreements to buy or sell currencies at a specified rate and at a future date to manage the foreign currency positions.

***Interest rate swaps***

Interest rate swaps are contractual agreements between two counter-parties to exchange interest payments on a defined principal amount for a fixed period of time in order to manage the interest rate risk on the interest bearing assets and liabilities.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**25 DERIVATIVE FINANCIAL INSTRUMENTS (continued)**

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts analysed by the terms of maturity. The notional amount, recorded gross, is the amount of a derivative's underlying amount and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

	<i>Positive fair value</i> <i>KD 000's</i>	<i>Negative fair value</i> <i>KD 000's</i>	<i>Notional amount</i> <i>KD 000's</i>	<i>Notional amounts by term to maturity</i>	
				<i>Within one year</i> <i>KD 000's</i>	<i>years 5 - 1</i> <i>KD 000's</i>
<b>2019</b>					
<i>Derivatives held for trading:</i>					
Forward foreign exchange contracts	70	-	27,436	27,436	-
<i>Derivatives held as cash flow hedge:</i>					
Interest rate swap	-	(186)	22,015	-	22,015
	<u>70</u>	<u>(186)</u>	<u>49,451</u>	<u>27,436</u>	<u>22,015</u>
<b>2018</b>					
<i>Derivatives held for trading:</i>					
Forward foreign exchange contracts	190	-	24,934	24,934	-
<i>Derivatives held as cash flow hedge:</i>					
Interest rate swap	250	-	20,865	-	20,865
	<u>440</u>	<u>-</u>	<u>45,799</u>	<u>24,934</u>	<u>20,865</u>

**26 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS**

	<i>2019</i> <i>KD 000's</i>	<i>2018</i> <i>KD 000's</i>
Letters of guarantee	157,106	127,107
Operating lease commitments	3,684	132,014
Capital commitments (Note below) *	60,704	108,417
	<u>221,494</u>	<u>367,538</u>

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	<i>2019</i> <i>KD 000's</i>	<i>2018</i> <i>KD 000's</i>
Within one year	3,684	29,964
After one year but not more than five years	-	53,960
More than five years	-	48,090
	<u>3,684</u>	<u>132,014</u>

Included in letters of guarantee are bank guarantees of KD 30,651 thousand (2018: KD 30,751 thousand), provided by a bank on behalf of the subsidiary; Global Clearing House Systems K.S.C. (Closed), to the General Administration of Customs in the State of Kuwait. These guarantees are issued by the bank on a non-recourse basis to the Group.

\* The Group (Parent Company along with its subsidiary UPAC) and a related party are part of an arrangement to construct and develop a commercial mall in UAE ("Project"). The Group currently has an equity interest of 19.87% (2018: 19.87%) and has also extended interest bearing loan facilities to the Project (Note 27). Commitments undertaken by the Group towards further investments in the Project amount to KD 37,224 thousand as on 31 December 2019 (2018: KD 87,232 thousand). In addition to the above, the Parent Company has also provided corporate guarantees for the Project amounting to KD 69,297 thousand (2018: KD 57,976 thousand) and an undertaking for the completion of the mall within an agreed timeframe.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As at 31 December 2019**

**26 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS (continued)**

**Legal claims**

*(a) PCO Contract*

From 2004 through 2008, the Parent Company performed a PCO Contract, which was a cost-plus-fixed-fee contract with the Coalition Provisional Authority ("CPA") for logistics services supporting reconstruction in Iraq, including warehousing, convoys and security.

On 23 April 2011, the Parent Company submitted a Certified Claim for approximately USD 47 million that the US Government owes the Parent Company in connection with the PCO Contract. The Contracting Officer denied the Parent Company's Certified Claim on 15 December 2011, and the Parent Company appealed the denial to the Armed Services Board of Contract Appeals ("ASBCA"). Separately, the US Government had claimed that the Parent Company owed USD 80 million in connection with the PCO Contract and sought repayment of the same. The Parent Company appealed the US Government's demand for repayment to the ASBCA and the appeals were consolidated.

On 26 August 2013, the US Government moved to dismiss the ASBCA appeals for lack of jurisdiction. The ASBCA granted the US Government's motion to dismiss on 9 December 2014. The Parent Company appealed to the U.S. Court of Appeals for the Federal Circuit on 8 April 2015. On 16 April 2018, a panel of the Federal Circuit affirmed the ASBCA's decision dismissing the Parent Company's appeals for lack of jurisdiction.

Following the Federal Circuit decision, on 21 September 2018, the Parent Company filed an amended complaint in a pending matter involving the PCO Contract in the Court of Federal Claims ("COFC"), seeking, among other things, a return of USD 17 million previously offset by the US Government (described further below), as well as a declaratory judgment that the US Government may not withhold amounts legally owed by the US Government to the Parent Company based on the Parent Company's purported debt under the PCO Contract. This matter was consolidated with the DDKS matter as detailed below.

As referenced above, the US Government offset USD 17 million from another contract held by the Parent Company (the DDKS contract), in connection with its purported claim related to the PCO contract (the "DDKS offset"). On 3 July 2017, the Parent Company submitted a Certified Claim under the DDKS contract, seeking payment of the DDKS offset plus interest. In a letter, on 1 September 2017, the Contracting Officer notified the Parent Company that she was holding its Certified Claim in abeyance. Following the Federal Circuit decision discussed above, the Parent Company filed a complaint seeking the return of the DDKS offset plus interest (the "DDKS Matter").

On 21 September 2018, the Parent Company filed an amended complaint in the DDKS Matter. On 3 December 2018, the Parent Company filed a Motion for Judgment on the Pleadings, as well as a motion to consolidate the DDKS matter with the still-pending COFC matter described above. On 6 December 2018, the court granted the Parent Company's motion to consolidate. On 17 December 2018, the US Government filed a Motion to Dismiss in the DDKS matter. On 28 December 2018, the Parent Company filed its reply to the US Government's motion. The reply of the US Government was filed on 14 February 2019 and a hearing was held on 28 February 2019. On 9 May 2019, the Court of Federal Claims issued an opinion granting judgment for the US Government in the amended PCO complaint and dismissed the DDKS Matter for lack of jurisdiction. The Parent Company appealed both decisions to the Federal Circuit on 14 May 2019, which the court then consolidated. The briefing of the appeal was completed on 16 September 2019 and the oral argument will be scheduled in the first half of 2020.

On 14 September 2016, the Parent Company had filed a PCO-related lawsuit under the Administrative Procedure Act in the U.S. District Court for the District of Columbia ("DDC"). This matter remains stayed.

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

*(b) Guarantee encashment*

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As at 31 December 2019**

**26 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS (continued)**

**Legal claims (continued)**

*(b) Guarantee encashment (continued)*

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

GCS appealed the judgment before the Court of Appeal requesting an increase in compensation. GAC also filed an appeal No. 1955 / 2014 Administrative 4 before the Court of Appeal. On 13 September 2015, the Court of Appeal pronounced its judgement affirming the decision of the Court of First Instance. Both GCS and GAC appealed against this ruling before the Kuwait Court of Cassation in appeals No. 148, 1487 for the year 2015. On 15 March 2017, the Court of Cassation resolved to defer the appeal to the experts. On 7 May 2018, the experts committee issued a report affirming the Company's right for the claimed compensation. The case was heard before the Court of Cassation on 3 October 2018. On 23 January 2019, GCS filed its defence and the court adjourned the hearing until 13 February 2019 for the submission of comments by the Customs. During this hearing, the Customs' representative requested and was granted an extension until 6 March 2019. The case was reserved for the judgment on 1 May 2019 which was then postponed until 26 June 2019. Furthermore, the pronouncement of the judgment was extended until the hearing scheduled on 25 September 2019 during which, the court of cassation resolved to transfer the case to the Experts' Department and the case is being examined with the Experts' Department.

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

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

*(c) Contract No. 157 on Phases 1, 2 and 3 for the South Amghara Plot*

Investment properties include a property with a carrying value of KD 28,000 thousand representing land located in South Amghara which is leased from the Public Authority of Industry ("PAI") (Note 7).

On 3 July 2018, PAI notified the Parent Company of its intention to terminate the above-mentioned lease alleging that it expired on 30 June 2018 and requested the Parent Company to deliver the plot to PAI. Based on a legal opinion from the Parent Company's external legal counsel, the notice of termination is in violation of the law and the Parent Company initiated the necessary legal actions by filing Claim No. 2587/2018 Commercial-General-Public /24, Claim No. 3686/2018 Commercial-General-Public and Claim No. 4522/2018 Commercial-General-Public demanding the appointment of an expert to opine on the implied renewal of the lease pursuant to the law. On 9 September 2018, Administrative Eviction Order No. (E. P. R./129/2018) was issued by PAI, which the Parent Company petitioned before the court via Petition No. 5600/2018 Administrative/12.

On 25 April 2019, the Court of First Instance issued a judgment in claim No. 314/2019 finding against the Parent Company thereby terminating Allocation Contract No. 157 as of 30 June 2018, obliging the Parent Company to vacate the plot and allow PAI possession of it, and obliging the Parent Company to pay the proceeds of the plot as of 1 July 2018 equalling KD 80 per day until delivery of the plot. This judgment is not a final judgment. The Parent Company appealed the judgment demanding its reversal, denial of the claim and a declaration that the contractual relationship of Allocation Contract No. 157 is extended and renewed for another 20-year period beginning from 1 July 2018.

On 14 July 2019, the Court of Appeals issued an order suspending the Court of First Instance's judgment with respect of its expedited enforcement clause and adjourned the hearing of the appeal to 17 November 2019.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As at 31 December 2019**

**26 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS (continued)**

**Legal claims (continued)**

*(c) Contract No. 157 on Phases 1, 2 and 3 for the South Amghara Plot (continued)*

On 8 December 2019, the Parent Company's appeals were adjudicated; the Court of Appeals reversed the Court of First Instance's judgment in Claim No. 314/2019 and denied the claim because it was filed without standing, and affirmed everything else in the appealed judgment. The outcome of the Court of Appeals' judgment allows the Parent Company to maintain possession of the plots for now, but the judgment is subject to petitions by the parties. The Parent Company filed Petition No. 3900/2019 before the Court of Cassation but the petition is yet to be heard.

The Parent Company also filed an injunction to temporarily stay the execution of the Court of First Instance's judgment in Claim No. 314/2019 pending the pronouncement of the Court of Appeals' judgment. On 2 September 2019, the injunction was granted thereby staying enforcement of the abovementioned judgment. PAI subsequently appealed the granting of the injunction. On 16 February 2020, the court of appeals pronounced a judgment dismissing the PAI appeal as well as the injunction on the basis of the above judgment given on 8 December 2019.

The Parent Company (after consultation with the external counsel) is unable to comment on the likely outcome of the case.

*(d) KGL Litigation*

During the year ended 31 December 2012, the Parent Company and certain of its subsidiaries were named as defendants in civil lawsuits filed by Kuwait and Gulf Link Transport Company ("KGL") and its affiliates in three separate jurisdictions in the United States for certain alleged defamation and interference with KGL's contracts with the US Government by an alleged former employee of the Parent Company.

On 4 June 2018, following the completion of all discovery, the Parent Company filed a motion for summary judgment. On 6 July 2018, the court granted the Parent Company's motion and dismissed the complaint.

On 1 August 2018, KGL appealed the summary judgment to the Pennsylvania Superior Court. KGL filed its opening brief on 8 November 2018. The Group filed its response on 20 December 2018. KGL filed its reply on 17 January 2019 and its appendix for the appeal on 12 February 2019. The Parent Company filed its finalized brief on 25 February 2019, and KGL filed its finalized brief on 26 February 2019.

On 28 February 2019, the Superior Court denied KGL's motion to seal portions of the reproduced record. KGL filed a renewed motion to seal portions of the reproduced record on 7 March 2019. On 12 April 2019, the court granted KGL's motion and ordered KGL to file a redacted version of the reproduced record.

On 15 May 2019, the Superior Court scheduled oral argument in the appeal. The court heard oral argument on 26 June 2019. On 1 August 2019, the Superior Court issued a decision rejecting KGL's appeal. On 3 September 2019, KGL filed a petition for allowance to appeal in the Pennsylvania Supreme Court, requesting that the Supreme Court review the Superior Court's decision. The Parent Company filed its answer to the petition on 17 September 2019. The Supreme Court has not yet ruled on the petition.

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

**27 RELATED PARTY TRANSACTIONS**

Related parties represent major shareholders, directors and key management personnel of the Group, and entities which they control or over which they exert significant influence. Pricing policies and terms of these transactions are approved by the Group's management.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### As at 31 December 2019

#### 27 RELATED PARTY TRANSACTIONS (continued)

Transactions and balances with related parties are as follows:

	<i>Major shareholders KD 000's</i>	<i>Other related parties KD 000's</i>	<i>Total KD 000's</i>
<b>2019</b>			
<b>Consolidated statement of income</b>			
Revenues	86	2,175	2,261
General and administrative expenses	(44)	(372)	(416)
Interest income	-	7,340	7,340
Finance costs	-	(80)	(80)
<b>Consolidated statement of financial position:</b>			
Investment in associates and joint ventures (Note 10)	29,783	71,569	101,352
Financial assets at fair value through profit or loss (Note 11)	-	109,183	109,183
Amounts due from related parties	86	2,945	3,031
Loan to a related party	24,934	24,934	-
Loan to an associate	-	35,259	35,259
Amounts due to related parties (Notes 20 and 21)	371	8,014	8,385
<b>2018</b>			
<b>Consolidated statement of income</b>			
Revenues	-	862	862
General and administrative expenses	(44)	(359)	(403)
Interest income	-	3,732	3,732
Finance costs	-	(81)	(81)
<b>Consolidated statement of financial position:</b>			
Investment in associates and joint ventures (Note 10)	31,504	69,724	101,228
Financial assets at fair value through profit or loss (Note 11)	-	109,246	109,246
Amounts due from related parties	81	2,111	2,192
Loan to a related party	-	42,054	42,054
Loan to an associate	-	35,321	35,321
Amounts due to related parties (Notes 20 and 21)	389	8,153	8,542

The loan to a related party amounting to KD 98,732 thousand (2018: KD 42,054 thousand) is provided to the joint venture and represents amounts advanced by a subsidiary of the Group towards the construction and development of a Commercial Mall in UAE ("Project"). This amount bears compounded annual interest rates as per the loan agreement and can be converted to equity in the project on completion of construction subject to the project achieving certain operational targets.

#### Compensation of key management personnel

The remuneration of directors (executives) and other members of key management during the year were as follows:

	<i>2019 KD 000's</i>	<i>2018 KD 000's</i>
Short-term benefits	<u>4,144</u>	<u>3,872</u>

Short term benefits include discretionary bonus amounting to KD 2,725 thousand (2018: KD 2,399 thousand) awarded to key management personnel.

#### 28 OPERATING SEGMENT INFORMATION

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**28 OPERATING SEGMENT INFORMATION (continued)**

For management reporting purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

• **Logistics and Related Services;**

The Logistics and Related Services segment provides a comprehensive logistics offering to its clients, including freight forwarding, transportation, contract logistics, project logistics and fairs and events logistics.

• **Infrastructure**

The Infrastructure segment provides other services which include real-estate, airplane ground handling and cleaning services, cargo and lounge management, customs operations and management, customs consulting, fuel logistics and waste recycling.

<i>Year ended 31 December 2019</i>	<i>Logistics and related services KD 000's</i>	<i>Infrastructure KD 000's</i>	<i>Adjustments and eliminations KD 000's</i>	<i>Total KD 000's</i>
<b>Revenues</b>				
External customers	1,123,835	454,728	-	1,578,563
Inter-segment	731	14,974	(15,705)	-
<b>Total revenues</b>	<u>1,124,566</u>	<u>469,702</u>	<u>(15,705)</u>	<u>1,578,563</u>
<b>Results</b>				
Profit before interest, taxation, depreciation, amortisation and Directors' remuneration (EBITDA)	58,634	134,748	(252)	193,130
Depreciation				(60,502)
Amortisation				(6,084)
Profit before interest, taxation and Directors' remuneration (EBIT)				126,544
Interest income				8,492
Finance costs				(21,494)
Profit before taxation and Directors' remuneration				113,542
Taxation and Directors' remuneration				(13,523)
<b>Profit for the year</b>				<u>100,019</u>
<b>Total assets</b>	<u>781,030</u>	<u>1,340,689</u>	<u>(39,585)</u>	<u>2,082,134</u>
<b>Total liabilities</b>	<u>404,252</u>	<u>998,688</u>	<u>(470,376)</u>	<u>932,564</u>
Other disclosures:				
Goodwill (Note 9)	222,903	31,104	-	254,007
Intangible assets (Note 8)	4,350	20,702	-	25,052
Capital expenditure	(17,152)	(49,849)	(692)	(67,693)
Change in fair value of investment properties	-	3,642	-	3,642

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As at 31 December 2019**

**28 OPERATING SEGMENT INFORMATION (continued)**

<i>Year ended 31 December 2018</i>	<i>Logistics and related services KD 000's</i>	<i>Infrastructure KD 000's</i>	<i>Adjustments and eliminations KD 000's</i>	<i>Total KD 000's</i>
Revenues				
External customers	1,151,731	398,459	-	1,550,190
Inter-segment	1,352	13,509	(14,861)	-
Total revenues	<u>1,153,083</u>	<u>411,968</u>	<u>(14,861)</u>	<u>1,550,190</u>
Results				
Profit before interest, taxation, depreciation, amortisation and Directors' remuneration (EBITDA)	35,892	130,981	(12,032)	154,841
Depreciation				(31,362)
Amortisation				(4,632)
Profit before interest, taxation and Directors' remuneration (EBIT)				118,847
Interest income				5,130
Finance costs				(14,132)
Profit before taxation and Directors' remuneration				109,845
Taxation and Directors' remuneration				(10,069)
Profit for the year				<u>99,776</u>
Total assets	<u>761,503</u>	<u>1,172,686</u>	<u>(91,030)</u>	<u>1,843,159</u>
Total liabilities	<u>391,601</u>	<u>936,541</u>	<u>(551,217)</u>	<u>776,925</u>
Other disclosures:				
Goodwill (Note 9)	222,694	27,014	-	249,708
Intangible assets (Note 8)	5,077	20,459	-	25,536
Capital expenditure	(18,110)	(64,549)	(199)	(82,858)
Change in fair value of investment properties	-	1,320	-	1,320

Inter-segment transactions and balances are eliminated upon consolidation and reflected in the "adjustments and eliminations" column. The Group's financing (including finance costs and finance income) and income taxes are managed on a Group basis and are not allocated to operating segments.

Capital expenditure consists of additions to property, plant and equipment, projects in progress and investment properties.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**28 OPERATING SEGMENT INFORMATION (continued)**

**Disaggregated revenue information**

The following presents the disaggregation of the Group's revenue from contracts with customers:

<b>31 December 2019</b>	<i>Logistics revenue KD 000's</i>	<i>Freight forwarding and project revenues KD 000's</i>	<i>Rental revenues KD 000's</i>	<i>Other services KD 000's</i>	<i>Total KD 000's</i>
<i>Timing of revenue recognition</i>					
Services performed at a point in time	132,553	44,421	-	253,962	430,936
Services performed over time	76,401	1,000,620	70,606	-	1,147,627
<b>Total revenue from contracts with customers</b>	<b>208,954</b>	<b>1,045,041</b>	<b>70,606</b>	<b>253,962</b>	<b>1,578,563</b>
<i>Geographical markets</i>					
Middle East	138,954	78,827	69,787	169,844	457,412
Europe	22,974	377,455	-	147	400,576
Asia	18,505	334,876	504	7,546	361,431
America	3,382	224,021	-	-	227,403
Africa	25,139	29,862	315	76,425	131,741
<b>Total revenue from contracts with customers</b>	<b>208,954</b>	<b>1,045,041</b>	<b>70,606</b>	<b>253,962</b>	<b>1,578,563</b>
<i>31 December 2018</i>					
<i>Timing of revenue recognition</i>					
Services performed at a point in time	128,408	40,161	-	219,786	388,355
Services performed over time	77,965	1,021,086	62,784	-	1,161,835
<b>Total revenue from contracts with customers</b>	<b>206,373</b>	<b>1,061,247</b>	<b>62,784</b>	<b>219,786</b>	<b>1,550,190</b>
<i>Geographical markets</i>					
Middle East	125,593	70,135	62,146	151,881	409,755
Europe	740	363,889	-	-	364,629
Asia	25,309	354,411	340	7,511	387,571
America	20,624	248,400	-	182	269,206
Africa	34,107	24,412	298	60,212	119,029
<b>Total revenue from contracts with customers</b>	<b>206,373</b>	<b>1,061,247</b>	<b>62,784</b>	<b>219,786</b>	<b>1,550,190</b>

The revenue information above is based on the location of the subsidiaries.

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**28 OPERATING SEGMENT INFORMATION (continued)**

**Other geographic information**

The following presents information regarding the Group's non-current assets based on its geographical segments:

<b>Non-current assets</b>	<i>2019</i> <i>KD 000's</i>	<i>2018</i> <i>KD 000's</i>
Middle-east	<b>855,658</b>	719,857
Asia	<b>221,590</b>	180,859
Europe	<b>74,442</b>	52,473
America	<b>41,507</b>	26,926
Africa	<b>48,213</b>	30,720
Unallocated	<b>20,158</b>	18,305
	<hr/> <b>1,261,568</b> <hr/>	<hr/> 1,029,140 <hr/>

Non-current assets for this purpose consists of property, plant and equipment, projects in progress, right-of-use assets, investment properties, intangible assets, goodwill, other non-current assets, loan to related party and loan to associate.

**29 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group has exposure to risks from its use of financial instruments and these risks are managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability. The Group's principal financial liabilities, other than derivatives, comprise interest bearing loans, trade and other payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group also has dividend payables. The Group's financial assets comprise trade and other receivables, and cash and short-term deposits. The Group also holds financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, loan to an associate and related parties and enters into derivative transactions.

The Group's senior management reviews and agrees policies for managing risks and provides assurance to the Board of Directors of the Parent Company that the Group's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Group policies and Group risk appetite. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Group's policy that no trading in derivatives for speculative purposes shall be undertaken.

The major risks to which the Group is exposed in conducting its business and operations, and the means and organisational structure it employs in seeking to manage them strategically in building shareholder value are outlined below.

**Risk mitigation**

As part of its overall risk management, the Group uses as considered appropriate, derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

**Excessive risk concentration**

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**29 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

In order to avoid excessive concentrations and the risk arising there from, the Group monitors them on an ongoing basis. Identified concentrations of credit risks are controlled and managed accordingly. There are no significant concentrations of credit risk identified.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk with the latter subdivided into interest rate risk, foreign currency risk and equity price risk.

**Credit risk**

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

*Gross maximum exposure to credit risk*

The table below shows the gross maximum exposure to credit risk across financial assets before credit risk mitigation:

	<i>2019</i> <i>KD 000's</i>	<i>2018</i> <i>KD 000's</i>
Bank balances	130,932	125,927
Trade receivables	331,616	338,245
Loan to an associate *	35,259	35,321
Loan to a related party	98,732	42,054
<i>Other assets (excluding advances to suppliers and prepaid expenses)</i>	<b>38,618</b>	44,613
	<b>635,157</b>	586,160

\* The Group management is unable to determine the recoverability of the loan to an associate.

*Trade receivables*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Outstanding customer receivables are regularly monitored and any shipments to major customers are generally covered by letters of credit or other forms of credit insurance obtained from reputable banks and other financial institutions.

The Group performs an impairment analysis at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 14.

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**29 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**Credit risk (continued)**

*Trade receivables (continued)*

The table below provides information about the credit risk exposure on the Group's trade receivables using a provision matrix:

<i>31 December 2019</i>	<i>Trade receivables</i>						<i>Total KD 000's</i>
	<i>Days past due</i>						
	<i>Current KD 000's</i>	<i>1 to 30 days KD 000's</i>	<i>31 to 60 days KD 000's</i>	<i>61 to 90 days KD 000's</i>	<i>91 to 120 days KD 000's</i>	<i>&gt; 120 days KD 000's</i>	
Estimated total gross carrying amount at default	246,135	48,799	16,129	6,815	8,588	71,015	397,481
Estimated credit loss							65,865
Expected credit loss rate							16.57 %

<i>31 December 2018</i>	<i>Trade receivables</i>						<i>Total KD 000's</i>
	<i>Days past due</i>						
	<i>Current KD 000's</i>	<i>1 to 30 days KD 000's</i>	<i>31 to 60 days KD 000's</i>	<i>61 to 90 days KD 000's</i>	<i>91 to 120 days KD 000's</i>	<i>&gt; 120 days KD 000's</i>	
Estimated total gross carrying amount at default	217,188	55,804	18,804	13,447	10,120	82,302	397,665
Estimated credit loss							59,420
Expected credit loss rate							14.94 %

*Cash and cash equivalents*

Credit risk from balances with banks and financial institutions is managed by Group's treasury in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure. The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2019 and 31 December 2018 is the carrying amounts at the reporting date.

The Group limits its exposure to credit risk by only placing funds with counterparties with appropriate credit ratings. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

**Liquidity risk**

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a periodic basis.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**29 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**Liquidity risk (continued)**

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations:

	<i>Less than 1 month KD 000's</i>	<i>1 to 3 months KD 000's</i>	<i>3 to 12 months KD 000's</i>	<i>More than 1 year KD 000's</i>	<i>Total KD 000's</i>
<b>Financial liabilities 2019</b>					
Interest bearing loans	2,025	4,051	18,229	321,904	346,209
Lease liabilities	3,673	7,602	29,020	172,489	212,784
Trade and other payables	36,811	71,980	313,422	-	422,213
Dividends payable	-	-	8,143	-	8,143
Other non-current liabilities	-	-	-	12,708	12,708
<b>Total financial liabilities</b>	<b>42,509</b>	<b>83,633</b>	<b>368,814</b>	<b>507,101</b>	<b>1,002,057</b>
	<i>Less than 1 month KD 000's</i>	<i>1 to 3 months KD 000's</i>	<i>3 to 12 months KD 000's</i>	<i>More than 1 year KD 000's</i>	<i>Total KD 000's</i>
<b>Financial liabilities 2018</b>					
Interest bearing loans	1,542	3,084	45,838	253,805	304,269
Lease liabilities	37,060	74,120	333,538	-	444,718
Trade and other payables	-	8,223	-	-	8,223
Dividends payable	-	-	-	14,472	14,472
Other non-current liabilities	-	-	-	-	-
<b>Total financial liabilities</b>	<b>38,602</b>	<b>85,427</b>	<b>379,376</b>	<b>268,277</b>	<b>771,682</b>

**Market risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise three types of risk: interest rate risk, currency risk, and other price risks, such as equity risk. Financial instruments affected by market risk include bank balances and trade receivables in foreign currencies, deposits, financial assets at fair value through profit or loss, financial assets available for sale, loan to an associate and related party, interest bearing loans, trade payables in foreign currencies and derivative financial instruments. The sensitivity analyses in the following sections relate to the position as at 31 December 2019 and 31 December 2018.

The Group manages market risk on the basis of pre-determined asset allocations across various asset categories, diversification of assets in terms of geographical distribution and industry concentration, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

**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. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates.

The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. The Group also manages its interest rate risk by entering into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

**Interest rate sensitivity**

Based on the Group's financial assets and liabilities held at the year end, an assumed 50 basis points movement in interest rate, with all other variables held constant, would equally impact the Group's profit before taxation and Directors' remuneration as follows.

<i>50 basis points movement Effect on consolidated statement of income</i>	
<i>2019 KD 000's</i>	<i>2018 KD 000's</i>
<u>+1,329</u>	<u>+1,200</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**29 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**Market risk (continued)**

*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 Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating and financing activities (when revenues, expenses and borrowings are denominated in a currency other than Kuwaiti Dinar) and the Group's net investments in foreign subsidiaries.

The Group manages its foreign currency risk by use of derivative financial instruments where appropriate and ensures that the net exposure is kept to an acceptable level. The Group has also designated certain interest bearing loans as hedging instruments against its net investment in foreign operations (Note 19).

*Foreign currency sensitivity*

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollars / Kuwaiti Dinar exchange rate, with all other variables held constant, of the Group's profit before taxation and Directors' remuneration (due to changes in the fair value of monetary assets and liabilities including non-designated foreign currency derivatives) and the Group's equity (due to changes in the fair value of interest bearing loans designated as hedging instruments for net investments in foreign operations). The Group's exposure to foreign currency for all other currencies is not material.

	<i>Change in currency rate by 1 %</i>			
	<i>Effect on other comprehensive income</i>		<i>Effect on consolidated statement of income</i>	
	<i>2019</i> <i>KD 000's</i>	<i>2018</i> <i>KD 000's</i>	<i>2019</i> <i>KD 000's</i>	<i>2018</i> <i>KD 000's</i>
US Dollars	<u>+1,535</u>	<u>+1,212</u>	<u>+3</u>	<u>+52</u>

**Equity price risk**

Equity price risk is the risk that fair values of equities change as the result of changes in level of equity indices and the value of individual stocks.

**Quoted Securities:**

The Group is not exposed to any significant equity price risk as there are no material investments held in quoted equity securities classified as 'financial assets at fair value through profit or loss'.

**Unquoted securities:**

Sensitivity analysis relating to Group's unquoted securities (financial assets measured at fair value through other comprehensive income and financial assets at fair value through profit or loss) is included in Note 30.

**30 FAIR VALUES OF FINANCIAL INSTRUMENTS**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in orderly transactions between market participants at the measurement date.

**Determination of fair value and fair value hierarchy:**

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: quoted (unadjusted) prices in an active market for identical assets and liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: other techniques which use inputs which have a significant effect on the recorded fair value are not based on observable market data.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**30 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)**

**Determination of fair value and fair value hierarchy (continued)**

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	<i>Level 2</i> <i>KD'000</i>	<i>Level 3</i> <i>KD'000</i>	<i>Total</i> <i>fair value</i> <i>KD'000</i>
<b>2019</b>			
<i>Financial assets measured at fair value through profit or loss</i>			
Investment in an associate	-	109,183	109,183
Loan to an associate	-	35,259	35,259
Loan to a related party	-	98,732	98,732
Equity securities	-	104	104
Investment in funds	2,861	-	2,861
	<u>2,861</u>	<u>243,278</u>	<u>246,139</u>
<i>Financial assets measured at fair value through other comprehensive income</i>			
Unquoted Equity securities	-	15,856	15,856
<i>Derivative financial assets:</i>			
Forward foreign exchange contracts	70	-	70
Interest rate swaps	(186)	-	(186)
	<u>(116)</u>	<u>-</u>	<u>(116)</u>
	<u>2,745</u>	<u>259,134</u>	<u>261,879</u>
	<i>Level 2</i> <i>KD'000</i>	<i>Level 3</i> <i>KD'000</i>	<i>Total</i> <i>fair value</i> <i>KD'000</i>
<b>2018</b>			
<i>Financial assets measured at fair value through profit or loss</i>			
Investment in an associate	-	109,246	109,246
Loan to an associate	-	35,321	35,321
Loan to a related party	-	42,054	42,054
Equity securities	-	106	106
Investment in funds	3,479	-	3,479
	<u>3,479</u>	<u>186,727</u>	<u>190,206</u>
<i>Financial assets measured at fair value through other comprehensive income</i>			
Unquoted Equity securities	-	15,150	15,150
<i>Derivative financial assets:</i>			
Forward foreign exchange contracts	190	-	190
Interest rate swaps	250	-	250
	<u>440</u>	<u>-</u>	<u>440</u>
	<u>3,919</u>	<u>201,877</u>	<u>205,796</u>

The impact on the consolidated statement of financial position or the consolidated statement of shareholders' equity would be immaterial if the relevant risk variables used to fair value the unquoted securities and loan to a related party were altered by 5%.

There were no transfers between the hierarchies during 2019 and 2018.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 30 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

#### Determination of fair value and fair value hierarchy (continued)

The following table below shows a reconciliation of the opening and the closing amount of level 3 financial assets measured at fair value:

	2019 KD'000	2018 KD'000
As at 1 January	201,877	112,918
IFRS 9 impact on fair value	-	(5,769)
IFRS 9 impact on reclassification	-	79,174
	<u>201,877</u>	<u>186,323</u>
Change in fair value recognised in consolidated statement of income	(132)	269
Re-measurement recognised in other comprehensive income	(291)	477
Others including net additions (sales) and transfer	57,680	14,808
	<u>259,134</u>	<u>201,877</u>

#### Fair value of the Group's financial assets that are measured at fair value on a recurring basis:

##### *Financial assets at fair value through profit or loss:*

The Group's management was unable to determine the fair value of the investment in an associate as at 31 December 2019 due to certain inherent uncertainties and accordingly the investment is carried at its fair value as at 31 December 2013 (Note 11).

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

Fair values of financial assets classified as fair value through other comprehensive income are determined using valuation techniques that are not based on observable market prices or rates.

### 31 CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2019 and 31 December 2018.

The Group includes within net debt, interest bearing loans less bank balances, cash and deposits. Capital includes equity attributable to the equity holders of the Parent Company and non- controlling interests.

	2019 KD 000's	2018 KD 000's
Interest bearing loans	270,856	260,982
Bank balances, cash and deposits		(125,927)
	<u>139,924</u>	<u>135,055</u>
Equity attributable to the equity holders of the Parent Company	1,100,380	1,013,539
Non-Controlling interests	49,190	52,695
	<u>1,149,570</u>	<u>1,066,234</u>
Capital		
Gearing	<u>12.17 %</u>	<u>12.67 %</u>



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