



2011

Annual Report



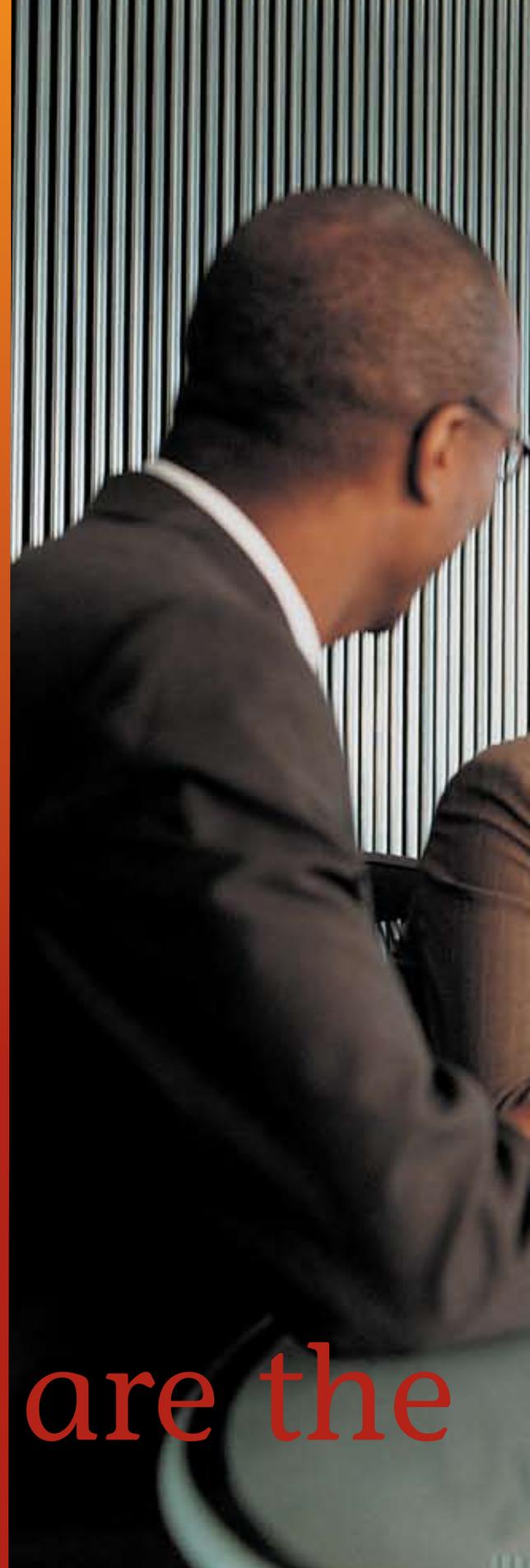


2011 sets a new  
benchmark for  
financial performance

## Content

Board of Directors	6
Chairman's Message	8
Auditors' Report	10
Financial Highlights	13
Our Culture and Giving Back	64
Investor Relations	66

Our people are the





heart of our business

# We believe in going above

## Board of Directors

Tarek Abdul Aziz Sultan Al-Essa  
*Chairman & Managing Director*

Adel Mohammed Al-Bader  
*Vice Chairman*

Jameel Sultan Al-Essa  
*Board Member*

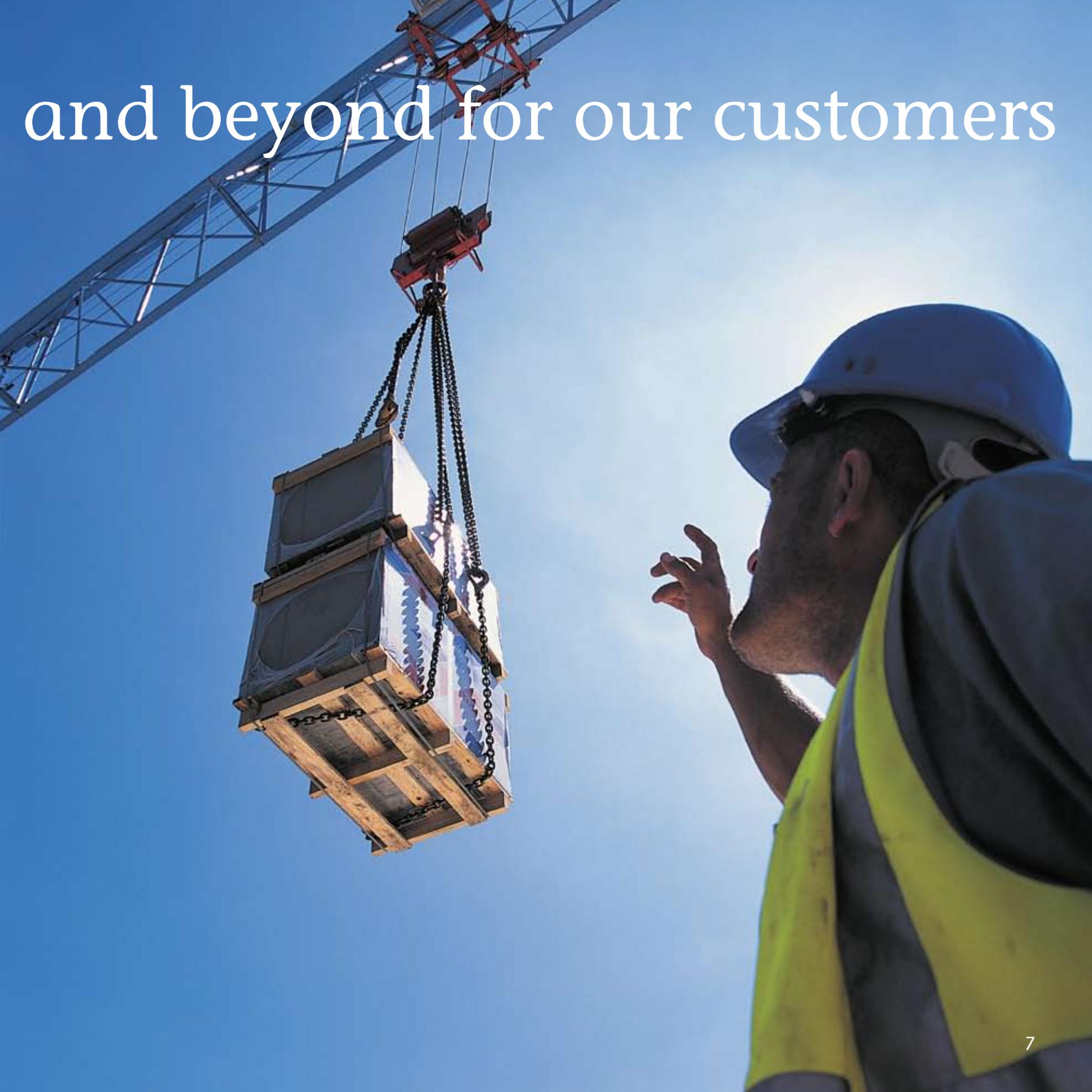
Ayman Bader Sultan Al-Essa  
*Board Member*

Naser Mohammed Fahed Al-Rashed  
*Board Member*

Esam Khalil Mohammad Al-Rifae  
*Board Member*

Henadi Anwar Essa Al-Saleh  
*Board Member*

and beyond for our customers



# Chairman's Message



Dear Shareholders,

2011 was a year of transition for Agility, as we operated without defence and government business for the first time. We spent the year heavily focused on strengthening our core commercial business.

This included redeploying our resources: we sold the bulk of our vehicle fleet in the Middle East and freed up warehousing space for commercial customers. It also included restructuring the business, managing costs, and using technology as a driver of productivity improvements.

Elsewhere, our Infrastructure group of companies continued to provide us with the ability to address profitable niches in the marketplace, and has showed steady growth in the last several years.

In 2011, we successfully closed two deals: We merged Agility Qatar operations with Gulf Warehousing Company (GWC) and realized a gain of KD 8.2 million. We also formed a joint venture with France Telecom and converted our Korek debt into equity. Today, we have an indirect stake of 24% in Korek and \$100 million debt, yielding 12% per annum.

Profits grew by 8% in 2011 even though overall revenues fell. Excluding defence and government services, however, revenue grew by 3% in our commercial business and 18% in our Infrastructure group. Reflecting our commitment to financial discipline, we were able to reduce our operating expenses by 15% and convert working capital into cash.

We are a different company today than we were a year ago, and we consider 2011 a new financial baseline against which we will measure future performance. Having undergone some heavy lifting in terms of restructuring over the last two years, the company anticipates solid gains in 2012 and beyond.

*“Despite the changes over the to be strong and financially and a market-leading position are continuing to grow.”*

## Financial Highlights

For the full year ended December 31, 2011, net profit was KD 27 million, an 8% increase over 2010. Revenue stood at KD 1.3 billion, and operating profit was KD 19 million.

Agility enjoys a healthy balance sheet with low leverage, a net cash position of KD 57 million and free cash flow of KD 22 million.

The Board of Directors has proposed a dividend distribution of 30% (30 fils per share) for the year ended 2011.

## Global Integrated Logistics (GIL)

Agility's core business is in commercial logistics, executed through the Global Integrated Logistics (GIL) business group.

Revenue for GIL for the full year of 2011 was KD 1.2 billion, a decrease of 1.4% from 2010. Excluding government and discontinued business, however, GIL's revenues grew by 3.2% relative to 2010, despite softened trade volumes that prevailed in the last two quarters of the year.

Agility's strong position in high-growth emerging markets was a major contributor to revenue, as reflected in double-digit growth in Asia-Pacific region. In 2011, Agility opened a new warehouse in Seoul, South Korea, broke ground on a state-of-the-art logistics facility in Melaka, Malaysia, and expanded its cross-border trucking network from Vietnam, Cambodia, Malaysia, Singapore, Laos and Thailand into China.

GIL also continues to invest in strengthening its customer platform. 2011 saw important wins. Agility signed with Henkel to be the exclusive logistics partner for its mega HUB project, "Project Dragon," in China; started a new initiative with Nokia to reduce supply chain costs and carbon emissions by consolidating goods in transit; and joined a joint venture with Schmidt-Heilbronn to provide dry bulk solutions for chemical manufacturing in the Middle East.

# *last two years, Agility continues stable. We have a global network in emerging markets that*

We have worked hard to engineer a sustainable, durable turnaround in our core commercial (GIL) business. The message for customers is that we're growing, healthy and here to support you. Our focus in 2012 will be to continue to grow business with existing and new customers by leveraging our global footprint and market-leading position in emerging markets. At the same time, we intend to drive efficiencies in our operating platform.

## **Infrastructure Group**

Agility's Infrastructure companies contributed KD 156.7 million to 2011 revenue. Infrastructure revenue grew 18% from 2010, excluding government-related business.

Agility's Real Estate business, in particular, is an important contributor to financial performance, but other entities like National Aviation Services (NAS) have also shown healthy growth over the last several years. We are taking a number of actions to further enhance the potential of these companies.

## **Our Culture and Giving Back**

We have stayed committed to our culture of giving back to our employees, communities, and world. In 2011, we published our first Corporate Social Responsibility report, using the United Nations reporting framework as a guideline. I am proud to share some of the key outcomes with you.

Our humanitarian logistics program, which assists relief agencies in getting relief goods to the site of a natural disaster, has grown tremendously since we first launched it in 2006. Agility has responded to more than 22 disasters in the last five years, in countries such as Myanmar, Haiti, Pakistan, Indonesia, Philippines, India, Lebanon and others.

Our community volunteer program has also grown. We have implemented more than 550 projects in over 60 different countries, focusing primarily on youth and educa-

tion and health. In 2011, those projects included building preschools in Cambodia and a school in rural Indonesia; training 8,000 high school girls in the Philippines; supporting an elderly home and cancer society in Lebanon; delivering more than 4,000 food packages across Jordan; transporting footballs to Uganda to put a smile on kids' faces; and mentoring youth in Kuwait through Injaz.

We also continue to make progress in our environmental journey, working with customers to measure and manage carbon emissions, and finding ways to reduce impact in our own operations. As a business, we work hard to maintain high standards in employment, customer service, and quality.

## **Future Outlook**

Despite the changes over the last two years, Agility continues to be strong and financially stable. We have a strong balance sheet with over KD 1.4 billion in assets and KD 0.9 billion in total equity. We have a global network and a market-leading position in emerging markets that are continuing to grow. And above all, we have more than 22,000 employees who are committed to the company's long-term success. Although 2012 is likely to be another tough year for the global economy, we are committed to continuing to drive the company forward.

I would like to thank you again for your support and trust during good and tough times. We remain committed to maximizing our stakeholders' value.



Tarek Abdul Aziz Sultan  
Chairman and Managing Director



P.O. Box 74 Safat  
13001 Safat, Kuwait  
Souk As Safat, 3rd Floor  
Abdullah Mubarak Street

Tel : 245 2880  
Fax: 245 6419  
Email: kuwait@kw.ey.com

**Albazie & Co.**  
Member of **RSM** International

Public Accountants

Kuwait Airways Building, 7th Floor  
Shuhada Street, P.O. Box 2115 Safat  
13022 – State of Kuwait  
T + 965 2410010  
F + 965 2412761  
www.albazie.com

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

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Agility Public Warehousing Company K.S.C. (the "Parent Company") and Subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as of 31 December 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

The management of the Parent Company is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

### *Basis for Qualified Opinion*

As further discussed in Note 29 (c) to the consolidated financial statements, during the year ended 31 December 2006, a performance guarantee amounting to KD 10.1 million was called by a counterparty in relation to non performance of obligations under a contract operated by a subsidiary of the Parent Company and encashed during the year ended 31 December 2007. The amount was not expensed in the consolidated financial statements in respect of the year ended 31 December 2006, which in our opinion, is not in accordance with International Financial Reporting Standards. We have qualified our audit opinions in this regard on the consolidated financial statements since 31 December 2006. In 2009, the expert department of the Ministry of Justice issued a report on this matter which stated that the verdict should be issued in favour of the subsidiary in respect of most of the issues arising from the case. Pending final court ruling on this matter, in our opinion, other current assets should be decreased by KD 10.1 million and retained earnings attributable to the equity holders of the Parent Company should be decreased by KD 6.1 million and non-controlling interests should be decreased by KD 4.0 million.



### *Qualified Opinion*

In our opinion, except for the effect of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

### *Emphasis of Matter*

We draw attention to:

- (i) Note 2 to the consolidated financial statements which describes that the Parent Company was indicted by a federal grand jury in the United States of America ("US") on multiple counts of False Claims Act Violations. Furthermore, the United States Department of Justice also joined a civil qui tam lawsuit against the Parent Company under the False Claims Act. The indictment also includes certain subsidiaries of the Parent Company which were included in the indictment by the United States Department of Justice. The Department of Justice is claiming substantial damages for alleged violations in both the criminal and civil proceedings. The Group Companies (including the Parent Company) are suspended from bidding for new contracts with the US Government pending the outcome of the cases. Prolonged suspension will have a material impact on the Group's government related business. The Group is also engaged in settlement discussions with the US Department of Justice. The ultimate outcome of the matters set out above cannot presently be determined, and therefore no provision has been made in the consolidated financial statements; and
- (ii) Notes 29(a) and 29(b) to the consolidated financial statements which describe the contingencies relating to the investigation into the freight forwarding business and termination of lease agreements.

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

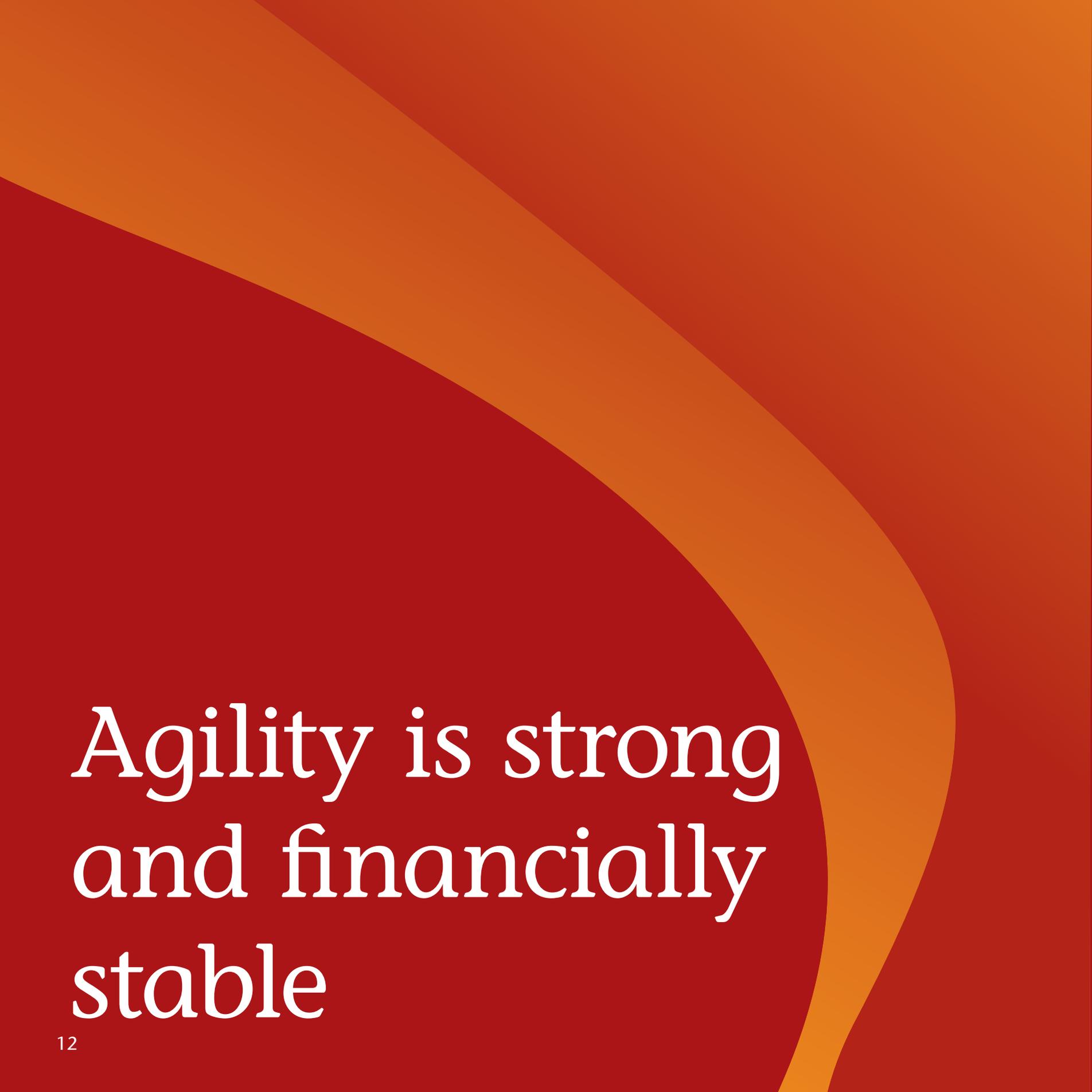
### *Report on Other Legal and Regulatory Requirements*

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 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 Commercial Companies Law of 1960, as amended, and by the Parent Company's articles of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the Parent Company's articles of association have occurred during the year ended 31 December 2011 that might have had a material effect on the business of the Parent Company or on its financial position.

WALEED A. AL OSAIMI  
LICENCE NO. 68 A  
OF ERNST & YOUNG

NAYEF M. AL-BAZIE  
LICENCE NO. 91 A  
RSM Albazie & Co.

29 March 2012  
Kuwait



*Agility is strong  
and financially  
stable*

AGILITY PUBLIC WAREHOUSING COMPANY K.S.C.  
AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
31 DECEMBER 2011

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at 31 December 2011

	Notes	2011 KD 000's	2010 KD 000's
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	202,031	238,385
Projects in progress	5	21,098	24,945
Investment properties	6	218,114	214,368
Intangible assets		8,820	9,318
Goodwill	7,8	241,833	245,665
Financial assets at fair value through profit or loss	9	100,701	211
Financial assets available for sale	10	31,995	112,240
Other non-current assets		43,879	44,475
Loan to an associate	9	27,837	-
<b>Total non-current assets</b>		<b>896,308</b>	<b>889,607</b>
<b>Current assets</b>			
Inventories	11	10,661	12,475
Trade receivables	12	279,284	289,724
Other current assets	13	96,475	99,032
Bank balances and cash	14	119,695	203,760
<b>Total current assets</b>		<b>506,115</b>	<b>604,991</b>
<b>TOTAL ASSETS</b>		<b>1,402,423</b>	<b>1,494,598</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	15	104,684	104,684
Share premium	15	152,650	152,650
Statutory reserve	15	52,342	52,342
Treasury shares	16	(41,741)	(39,627)
Treasury shares reserve		44,366	44,366
Foreign currency translation reserve		(20,623)	(14,223)
Hedging reserve		(16,926)	(17,785)
Investment revaluation reserve		15	15
Retained earnings		617,006	630,054
<b>Equity attributable to equity holders of the Parent Company</b>		<b>891,773</b>	<b>912,476</b>
Non-controlling interests		7,319	9,391
<b>Total equity</b>		<b>899,092</b>	<b>921,867</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Interest bearing loans	17	24,484	59,563
Provision for employees' end of service benefits	18	18,074	19,590
Other non-current liabilities	19	35,078	35,518
<b>Total non-current liabilities</b>		<b>77,636</b>	<b>114,671</b>
<b>Current liabilities</b>			
Trade and other payables	20	379,827	382,168
Interest bearing loans	17	38,339	69,152
Dividends payable		7,529	6,740
<b>Total current liabilities</b>		<b>425,695</b>	<b>458,060</b>
<b>Total liabilities</b>		<b>503,331</b>	<b>572,731</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,402,423</b>	<b>1,494,598</b>



Tarek Abdul Aziz Sultan  
Chairman and Managing Director

The attached notes 1 to 34 form part of these consolidated financial statements

**CONSOLIDATED INCOME STATEMENT**

For the year ended 31 December 2011

	Notes	2011 KD 000's	2010 KD 000's
<b>Revenues</b>			
Logistics and freight forwarding revenues		1,218,826	1,510,681
Rental revenues		30,690	31,220
Other services		81,385	63,801
<b>Total revenues</b>		<b>1,330,901</b>	<b>1,605,702</b>
<b>Cost of revenues</b>		<b>(955,825)</b>	<b>(1,117,752)</b>
<b>Net revenues</b>		<b>375,076</b>	<b>487,950</b>
<b>Operating expenses</b>			
General and administrative expenses	21	(121,710)	(165,802)
Salaries and employee benefits	22	(203,051)	(210,434)
Depreciation	4	(30,797)	(41,578)
Amortisation		(498)	(2,445)
<b>Total operating expenses</b>		<b>(356,056)</b>	<b>(420,259)</b>
<b>Profit from operations</b>		<b>19,020</b>	<b>67,691</b>
Change in fair value of investment properties	6	233	(177)
Unrealised gain on financial assets at fair value through profit or loss	9	6,958	-
Gain on disposal of investment in a subsidiary	23	8,204	-
Miscellaneous income		3,487	4,095
Impairment losses	24	(10,768)	(35,450)
<b>Profit before interest, taxation and Directors' remuneration</b>		<b>27,134</b>	<b>36,159</b>
Interest income	10	20,854	6,784
Finance costs		(8,480)	(11,225)
<b>Profit before taxation and Directors' remuneration</b>		<b>39,508</b>	<b>31,718</b>
Taxation	25	(8,064)	(6,974)
Directors' remuneration		(179)	(176)
<b>PROFIT FOR THE YEAR</b>		<b>31,265</b>	<b>24,568</b>
<b>Attributable to:</b>			
Equity holders of the Parent Company		27,043	25,108
Non-controlling interests		4,222	(540)
		<b>31,265</b>	<b>24,568</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE – attributable to equity holders of the Parent Company</b>	26	<b>26.94 fils</b>	<b>24.92 fils</b>

The attached notes 1 to 34 form part of these consolidated financial statements

**CONSOLIDATED Statement of Comprehensive Income**

For the year ended 31 December 2011

	2011 KD 000's	2010 KD 000's
<b>Profit for the year</b>	31,265	24,568
<b>Other comprehensive income:</b>		
Financial assets available for sale:		
- Net changes in fair value of financial assets available for sale	(10,768)	(4,635)
- Impairment of financial assets available for sale transferred to consolidated income statement	10,768	5,234
Net gain (loss) on hedge of net investments (Note 17)	859	(838)
Foreign currency translation adjustments	(6,480)	(13,841)
Other comprehensive loss	(5,621)	(14,080)
<b>Total comprehensive income for the year</b>	25,644	10,488
<b>Attributable to:</b>		
Equity holders of the Parent Company	21,502	11,812
Non-controlling interests	4,142	(1,324)
	25,644	10,488

The attached notes 1 to 34 form part of these consolidated financial statements

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended 31 December 2011

	Notes	2011 KD 000's	2010 KD 000's
<b>OPERATING ACTIVITIES</b>			
Profit before taxation and Directors' remuneration		39,508	31,718
Adjustments for:			
Provision for impairment of trade receivables	12	7,261	26,155
Provision for employees' end of service benefits	18	8,476	9,690
Foreign currency exchange loss (gain)		410	(341)
Depreciation	4	30,797	41,578
Amortisation		498	2,445
Gain on disposal of investment in a subsidiary	23	(8,204)	-
Impairment losses	24	10,768	35,450
Provisions no longer required written back	21, 22	-	(27,152)
Unrealised gain on financial assets at fair value through profit or loss	9	(6,958)	-
Change in fair value of investment properties	6	(233)	177
Interest income		(20,854)	(6,784)
Finance costs		8,480	11,225
Miscellaneous income		(3,487)	(4,095)
		66,462	120,066
Working capital adjustments:			
Inventories		1,670	53,369
Trade receivables		(2,879)	16,316
Other current assets		(6,031)	(7,565)
Trade and other payables		1,996	4,676
		61,218	186,862
Taxation paid		(4,961)	(4,983)
Directors' remuneration paid		(160)	(140)
Payment made against share linked compensation and incentive plans		(20)	(2,651)
Employees' end of service benefits paid	18	(10,151)	(9,709)
<b>Net cash flows from operating activities</b>		<b>45,926</b>	<b>169,379</b>
<b>INVESTING ACTIVITIES</b>			
Loan to an associate		(14,122)	-
Net movement in financial assets available for sale		(1,719)	1,824
Additions to property, plant and equipment	4	(12,169)	(36,006)
Proceeds from disposal of property, plant and equipment	4	16,821	32,783
Additions to projects in progress	5	(10,239)	(4,177)
Additions to investment properties	6	(831)	(293)
Disposal of subsidiaries, net of cash disposed	23	(335)	(1,402)
Contingent consideration paid in respect of prior period acquisitions		(1,235)	(2,417)
Deferred consideration paid in respect of prior period acquisitions		-	(5,282)
Interest income received		5,227	11,955
Net movement in deposits with original maturities exceeding three months		70,361	75,343
<b>Net cash flows from investing activities</b>		<b>51,759</b>	<b>72,328</b>
<b>FINANCING ACTIVITIES</b>			
Purchase of treasury shares		(2,114)	-
Net movement in interest bearing loans		(61,337)	(225,545)
Finance costs paid		(8,649)	(11,522)
Dividends paid to equity holders of Parent Company		(39,302)	(39,116)
Dividends paid to non-controlling interests		(357)	(496)
<b>Net cash flows used in financing activities</b>		<b>(111,759)</b>	<b>(276,679)</b>
Net foreign exchange differences		370	(99)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(13,704)</b>	<b>(35,071)</b>
Cash and cash equivalents at 1 January		90,775	125,846
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	14	<b>77,071</b>	<b>90,775</b>

The attached notes 1 to 34 form part of these consolidated financial statements

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 December 2011

	Attributable to equity holders of the Parent Company										Non- control- ling interests	Total equity
	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	Retained earnings KD 000's	Sub total KD 000's		
As at 1 January 2011	104,684	152,650	52,342	(39,627)	44,366	(14,223)	(17,785)	15	630,054	912,476	9,391	921,867
Profit for the year	-	-	-	-	-	-	-	-	27,043	27,043	4,222	31,265
Other comprehensive income	-	-	-	-	-	(6,400)	859	-	-	(5,541)	(80)	(5,621)
Total comprehensive income	-	-	-	-	-	(6,400)	859	-	27,043	21,502	4,142	25,644
Purchase of treasury shares	-	-	-	(2,114)	-	-	-	-	-	(2,114)	-	(2,114)
Disposal of investment in a subsidiary (Note 23)	-	-	-	-	-	-	-	-	-	-	(5,857)	(5,857)
Dividends (Note 27)	-	-	-	-	-	-	-	-	(40,091)	(40,091)	-	(40,091)
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(357)	(357)
<b>As at 31 December 2011</b>	<b>104,684</b>	<b>152,650</b>	<b>52,342</b>	<b>(41,741)</b>	<b>44,366</b>	<b>(20,623)</b>	<b>(16,926)</b>	<b>15</b>	<b>617,006</b>	<b>891,773</b>	<b>7,319</b>	<b>899,092</b>
As at 1 January 2010	104,684	152,650	52,342	(39,627)	44,366	(1,166)	(16,947)	(584)	645,246	940,964	11,972	952,936
Profit for the year	-	-	-	-	-	-	-	-	25,108	25,108	(540)	24,568
Other comprehensive income	-	-	-	-	-	(13,057)	(838)	599	-	(13,296)	(784)	(14,080)
Total comprehensive income	-	-	-	-	-	(13,057)	(838)	599	25,108	11,812	(1,324)	10,488
Disposal of investment in subsidiaries	-	-	-	-	-	-	-	-	-	-	(761)	(761)
Dividends	-	-	-	-	-	-	-	-	(40,300)	(40,300)	-	(40,300)
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(496)	(496)
<b>As at 31 December 2010</b>	<b>104,684</b>	<b>152,650</b>	<b>52,342</b>	<b>(39,627)</b>	<b>44,366</b>	<b>(14,223)</b>	<b>(17,785)</b>	<b>15</b>	<b>630,054</b>	<b>912,476</b>	<b>9,391</b>	<b>921,867</b>

The attached notes 1 to 34 form part of these consolidated financial statements.

## 1- CORPORATE INFORMATION

Agility Public Warehousing Company K.S.C. (the “Parent Company”) is a Kuwaiti shareholding company incorporated in 1979, and listed on Kuwait Stock Exchange and Dubai Stock Exchange. The address of the Parent Company’s Head office is 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 activities of the subsidiaries 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 2011 were authorised for issue in accordance with a resolution of the Board of Directors on 29 March 2012, 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.

The major shareholder of the Parent Company is National Real Estate Company K.S.C.

## 2- SUBSISTENCE PRIME VENDOR AND OTHER CONTRACTS - US INVESTIGATION

During the year ended 31 December 2007, the Parent Company was served with an administrative subpoena and, subsequently in March 2008 with a grand jury subpoena, by the US Government in connection with an investigation into certain aspects of the Subsistence Prime Vendor (“SPV”) Contract. In addition, some employees of the Group were served with civil investigative demands. The Parent Company cooperated with this investigation and produced numerous records in response to this request.

In November 2009, the Parent Company was indicted by a federal grand jury in United States on multiple counts of False Claims Act violations. Furthermore, The United States Department of Justice also joined the civil qui tam lawsuit against the Parent Company under the US False Claims Act. The Department of Justice is claiming substantial damages for alleged violations in both the criminal and civil proceedings. The Parent Company has pleaded not guilty to the indictment. In October 2011, a status conference was held before the judge of the District Court for the Northern District of Georgia where the parties appraised in the court on the status of the case and discovery. Subsequent to the year end, the Parent Company filed various motions, including motions to dismiss the indictment on various grounds and a motion to transfer venue to another judicial district.

As a result of this indictment, the Group companies (including the Parent Company) are suspended from bidding for new contracts with the US Government pending the outcome of the cases. However, the suspension did not affect continued performance of the existing contracts. The SPV Contract expired in December 2010.

While the Parent Company is rigorously defending its case, it is pursuing discussions with the US Government with a view to reaching a fair and reasonable settlement of the current legal cases with the US Department of Justice. However, there is no guarantee that the parties can reach a mutually agreeable settlement.

In addition, the US Department of Justice is currently conducting an informal investigation regarding two cost reimbursable US Government contracts in order to ascertain whether reimbursement requests for certain costs incurred by the Parent Company were proper. Furthermore, in relation to one of such contracts, the Parent Company is appealing before the “Armed Services Board of Contract, Appeals (ASBCA)” a decision made by the contracting officer demanding repayment of approximately KD 23 million from the Parent Company. During the year, the US Government collected KD 4.7 Million out of the above claim by offsetting payments due on the Group’s other US Government contracts. The Parent Company, on 19 April 2011, also filed an affirmative claim for approximately KD 13 million owed by the US Government under the contract which was denied by the Contracting Officer on 15 December 2011. The Parent Company filed an appeal before the ASBCA and decision on this appeal is currently pending.

## 2- SUBSISTENCE PRIME VENDOR AND OTHER CONTRACTS - US INVESTIGATION (continued)

Due to 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.

## 3- SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of investment properties, financial assets carried at fair value through profit or loss, financial assets available for sale and derivative financial instruments.

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications were made in order to more appropriately present certain items of consolidated statement of financial position, consolidated income statement and consolidated statement of cash flows. Such reclassifications do not affect previously reported total assets, total equity, total liabilities and profit reported in the prior year. The major reclassification items are:

- The cost and accumulated depreciation of property, plant and equipment as at 1 January 2010 has been reclassified which resulted in the reduction of KD 17,627 thousand from the cost as well as the accumulated depreciation. The net book value of the property, plant and equipment remains the same (Note 4).
- Segment results of the previous year have been reclassified as a result of allocation of impairment losses and miscellaneous income to the segments. The consolidated profit of the previous year remains the same (Note 31).

In addition, the format of the consolidated income statement has changed to reflect the results of the Group in a more meaningful way.

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

### Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and applicable requirements of Ministerial Order No. 18 of 1990.

### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies. Subsidiaries are those enterprises controlled by the Parent Company. Control exists when the Parent Company has the power directly or indirectly to govern the financial and operating policies of entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Non-controlling interests represent the portion of profit or loss and net assets not attributable directly, or indirectly, to the equity holders of the Parent Company. Equity, net profit and total comprehensive income attributable to non-controlling interests are shown separately in the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income and consolidated statement of changes in equity.

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

### 3- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Basis of consolidation (continued)

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 assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in consolidated income statement
- Reclassifies the Parent Company's share of components previously recognised in other comprehensive income to consolidated income statement or Retained earnings, as appropriate.

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

The principal subsidiaries of the Group are as follows:

Name of company	Effective equity interest as at 31 December		Country of incorporation
	2011	2010	
Global Express Transport Co. W.L.L.	100.00%	100.00%	State of Kuwait
PWC Transport Company W.L.L.	100.00%	100.00%	State of Kuwait
Agility DGS Logistics Services 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
Metal Recycling Company K.S.C.C.	52.43%	52.43%	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
Tristar Transport L.L.C. – Dubai	80.00%	80.00%	United Arab Emirates
Agility Logistics 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
Agility Company L.L.C.	50.25%	50.25%	Saudi Arabia
Agility Logistics Private Limited	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%	Netherland
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
Itatrans Agility Logistica Internacional SA	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.

### 3- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Changes in accounting policies and disclosures

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year except for the adoption of the following amended IASB Standards and new International Financial Reporting Interpretations Committee (IFRIC) Interpretations during the year:

*IAS 1: Presentation of Financial Statements (Amendment) (effective 1 January 2011)*

The amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements. The Group provides this analysis in the statement of changes in equity.

*IAS 24: Related party (Amendment) (effective 1 January 2011)*

The amendment clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Secondly, the amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity.

*IAS 32: Financial Instruments: Presentation (Amendment) (effective 1 February 2010)*

The amendment alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro-rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

*IFRIC 14: Prepayments of a Minimum Funding Requirement (Amendment) (effective 1 January 2011)*

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as pension asset.

*IFRIC Interpretation 19: Extinguishing financial liabilities with equity instrument (effective 1 July 2010)*

The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in consolidated income statement.

The adoption of the above mentioned amendments did not have any material impact on the financial position or performance of the Group.

#### 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.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through consolidated income statement.

### 3- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Business combinations and goodwill (continued)

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in consolidated income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be re-measured until it is finally settled within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

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 this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in consolidated income statement.

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

#### Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any.

The initial cost of property, plant and equipment comprises their purchase price 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 income statement 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 income statement 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.

### 3- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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 in associates through Venture Capital Organisation

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. 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', which requires investments held by Venture Capital Organisations to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39 'Financial Instruments: Recognition and Measurement', with changes in fair value recognised in the consolidated income statement in the period of the change.

#### Investment properties

Investment properties comprise completed properties and properties under construction or re-development 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 on an individual basis with any gain or loss arising from a change in fair value being included in the consolidated income statement in the period in which it arises.

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 income statement in the period of retirement or disposal.

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 development costs, are not capitalised and expenditure is reflected in the consolidated income statement 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 income statement.

### 3- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Intangible assets (continued)

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 income statement when the asset is derecognised.

#### *Customer contracts*

Customer contracts are amortised over the period of the respective expected future sales generated from the related contracts in the range of 5 to 10 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.

#### *Brand*

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

#### *Goodwill*

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

#### Financial assets and liabilities

The Group's financial assets includes "financial assets at fair value through profit or loss", "financial assets available for sale", "trade receivables", "cash and cash equivalents" and "derivative financial instruments" whereas the Group's financial liabilities includes "interest bearing loans", "trade and other payables" and "dividends payable". The Group determines the classification of its financial assets and liabilities at initial recognition.

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instruments. A regular way purchase of financial assets is recognised using the trade date accounting. Financial liabilities are not recognised unless one of the parties has performed or the contract is a derivative contract.

Financial assets and liabilities are measured initially at fair value (transaction price) plus, in case of a financial asset or financial liability not carried at fair value through profit or loss, directly attributable transaction costs. Transaction costs on financial assets carried at fair value through profit or loss are expensed immediately, while on other debt instruments they are amortised.

#### Financial assets

##### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss includes financial assets held for trading, financial assets designated upon initial recognition at fair value through income statement and investment in associates held through Venture Capital Organisation. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets are designated at fair value through income statement if they are managed, and their performance is evaluated on reliable fair value basis in accordance with documented investment strategy. Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in consolidated income statement.

### 3- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial assets (continued)

##### *Financial assets available for sale*

Financial assets available for sale are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables or held for trading. After initial measurement, financial assets available for sale are measured at fair value with unrealised gains or losses being recognised in other comprehensive income until the investment is derecognised, at which time the cumulative gain or loss recorded in other comprehensive income is recognised in the consolidated income statement, or determined to be impaired, at which time the cumulative loss previously recorded in other comprehensive income is recognised in the consolidated income statement. Financial assets available for sale whose fair value cannot be reliably measured are carried at cost less impairment losses, if any. Interest earned whilst holding financial assets available for sale is reported as interest income using the effective interest rate method.

##### *Trade receivables*

Trade receivables are stated at original invoice amount less provision for any doubtful accounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when incurred.

##### *Cash and cash equivalents*

Cash and short-term deposits in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a original maturity of three months or less.

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

#### Financial liabilities

##### *Interest bearing loans*

Interest bearing loans are carried on the consolidated statement of financial position at their principal amounts. Installments due within one year are shown as current liabilities. Interest is charged as an expense as it accrues, with unpaid amounts included in accrued expenses under 'trade and other payables'.

##### *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.

##### *Fair value*

The fair value of financial instruments traded in recognised financial markets is their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models. An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 34.

##### *Derecognition of financial assets and liabilities*

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

### 3- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial assets and liabilities (continued)

##### *Derecognition of financial assets and liabilities (continued)*

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.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where 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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in consolidated income statement.

##### *Offsetting*

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.

#### Derivative financial instruments and hedge accounting

##### *Initial recognition and subsequent measurement*

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. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivative during the year that do not qualify for hedge accounting and the ineffective portion of an effective hedge, are taken directly to the consolidated income statement.

The fair value of forward currency contracts is the difference between the forward exchange rate and the contract rate. The forward exchange rate is referenced to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

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.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the reporting periods for which they were designated.

### 3- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Derivative financial instruments and hedge accounting (continued)

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

##### *Fair value hedges*

The change in the fair value of a hedging derivative is recognised in the consolidated income statement. 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 income statement.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the consolidated income statement over the remaining term to maturity. Amortisation may begin as soon as an adjustment exists and shall begin 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 income statement.

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 income statement.

##### *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 income statement. Amounts taken to other comprehensive income are transferred to consolidated income statement when the hedged transaction affects the consolidated income statement, 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 income statement. 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.

##### *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 income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised in other comprehensive income is transferred to consolidated income statement.

The Group uses interest bearing loans to hedge its exposure to foreign exchange risk on its investments in overseas subsidiaries. Refer to Note 17 for more details.

#### 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.

### 3- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Impairment

##### *Financial assets*

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) may have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in economic conditions that correlate with defaults. If such evidence exists, an impairment loss is recognised in the consolidated income statement. Impairment is determined as follows:

- for assets carried at fair value, impairment loss is the difference between carrying value and fair value,
- for assets carried at amortised cost, impairment is based on estimated future cash flows discounted at the original effective interest rate, and
- for assets carried at cost, impairment is the difference between the cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

In addition, an allowance is made to cover impairment for specific groups of assets where there is a measurable decrease in estimated future cash flows.

Impairment losses on equity investments classified as available for sale are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised directly in other comprehensive income. In the case of debt instruments classified as available for sale, if the fair value of a debt instrument increases in a subsequent year and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

##### *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.

### 3- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Impairment (continued)

##### *Non-financial assets (continued)*

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 income statement. 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 voluntary reserve and 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 income statement with the exception of differences on foreign currency borrowings accounted for as a hedge of a net investment in foreign operations.

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.

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 exchange 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 income statement.

#### 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.

### 3- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Employees' end of service benefits

##### *Kuwaiti employees*

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 income statement in the year to which they relate.

##### *Expatriate employees in Kuwait*

Expatriate employees are entitled to an end of service indemnity payable under the Kuwait Labor Law and the Group's by-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, has been made by calculating the notional liability had all employees left at the reporting date.

##### *International*

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

Actuarial gains and losses are recognised as income or expense when the cumulative unrecognised gain or loss exceeds 10% of the higher of the defined benefit obligation and the fair value of the plan assets. These gains and losses are amortised over the expected average remaining working lives of the employees. The past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognised immediately. The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognised reduced by past service cost not yet recognised and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

If the asset is measured at the aggregate of cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan, net actuarial losses of the current period and past service cost of the current period are recognised immediately in the consolidated income statement to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service cost of the current period are recognised in the consolidated income statement immediately.

Similarly, net actuarial gains of the current period after the deduction of past service cost of the current period exceeding any increase in the present value of the economic benefits stated above are recognised immediately if the asset is measured at the aggregate of cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. If there is no change or a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period are recognised immediately.

### 3- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

##### *Group as a lessor*

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating 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 income.

##### *Group as a lessee*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated income statement 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.

#### Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

##### *Logistics revenue*

Logistics revenue primarily comprises inventory management, order fulfilment and transportation services. Logistics revenue is measured at the fair value of consideration received or receivable for goods and services and is recognised upon completion of the services.

##### *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 are recognised upon completion of services.

##### *Rental revenue*

Rental income arising on investment properties is accounted for on a straight line basis over the lease term.

##### *Interest income*

Interest income is recognised as interest accrues using the effective interest method 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.

### 3- 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.

##### *Kuwait Foundation for the Advancement of Sciences (KFAS)*

The Parent Company calculates the contribution to Kuwait Foundation for the Advancement of Sciences 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.

#### 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 affected in future periods.

#### Judgements

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

##### *Classification of financial assets*

Management decides upon acquisition of an investment whether it should be classified as financial assets available for sale or financial assets at fair value through profit or loss.

Classification of financial assets at fair value through profit or loss depends on how management monitors the performance of those financial assets. When financial assets have readily available and reliable fair values and the changes in fair values are reported as part of the consolidated income statement in the management accounts, they are classified at fair value through profit or loss. All other financial assets are classified as financial assets available for sale.

##### *Impairment of financial assets available for sale*

The Group treats equity financial assets available for sale as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires considerable judgment.

##### *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, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.

### 3- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Significant accounting judgements, estimates and assumptions (continued)

##### *Judgements (continued)*

###### *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.

##### *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 goodwill and intangible assets with indefinite lives at 31 December 2011 were KD 241,833 thousand and KD 4,721 thousand respectively, (2010: KD 245,665 thousand and KD 4,721 thousand, respectively). More details are given in Notes 7 and 8.

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

The Group carries its investment properties at fair value, with change in fair values being recognised in the consolidated income statement. Two main methods were used to determine the fair value of the investment properties:

- (a) Formula based discounted cash flow is based on a series of projected free cash flows supported by the terms of any existing lease and other contracts and discounted at a rate that reflects the risk of the asset.
- (b) Comparative analysis is 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, and based on the knowledge and experience of the real estate appraiser.

###### *Valuation of unquoted financial assets*

Valuation of unquoted financial assets is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

###### *Pension and other post employment benefits*

The cost of defined benefit pension plans and other post employment medical benefits is determined using independent actuarial valuations. The actuarial valuations involve making assumptions about discount rates, expected rates of return on assets, future salary increases and mortality rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. The net employee liability at 31 December 2011 is KD 18,074 thousand (2010: KD 19,590 thousand). Further details are given in Note 18.

###### *Impairment of trade receivables*

An estimate of the collectible amount of trade receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision is applied according to the length of time past due, based on historical recovery rates.

### 3- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Significant accounting judgements, estimates and assumptions (continued)

##### *Estimates and assumptions (continued)*

###### *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.

##### Standards issued but not yet effective

The following new or amended IASB Standards have been issued but not yet mandatory, and have not been adopted by the Group:

###### *IAS 1: Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (Amendment) (effective 1 July 2012)*

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to consolidated income statement at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance.

###### *IAS 12: Income Taxes – Recovery of Underlying Assets (Amendment) (effective 1 January 2012)*

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40: Investment Property should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16: Property, Plant and Equipment always be measured on a sale basis of the asset. The amendment will have no effect on the consolidated financial statements of the Group.

###### *IAS 27: Separate Financial Statements (Amendment) (effective 1 January 2013)*

As a consequence of the new IFRS 10: Consolidated Financial Statements and IFRS 12: Disclosure of Involvement with Other Entities, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements.

###### *IAS 28: Investments in Associates and Joint Ventures (Amendment) (effective 1 January 2013)*

As a consequence of the new IFRS 11: Joint Arrangements and IFRS 12: Disclosure of Involvement with Other Entities, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates.

###### *IFRS 3: Business Combinations (Amendment) (effective 1 July 2011)*

The measurement options available for non-controlling interest have been amended. Only components of non-controlling interest that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

###### *IFRS 7: Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements (Amendment) (effective 1 July 2011)*

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

### 3- SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Standards issued but not yet effective (continued)

##### *IFRS 9: Financial Instruments: Classification and Measurement (effective 1 January 2015)*

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39: Financial Instruments: Recognition and Measurement and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

##### *IFRS 10: Consolidated Financial Statements (effective 1 January 2013)*

IFRS 10 replaces the portion of IAS 27 that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

##### *IFRS 11: Joint Arrangements (effective 1 January 2013)*

IFRS 11 replaces IAS 31: Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will not impact the financial position of the Group.

##### *IFRS 12: Disclosure of Involvement with Other Entities (effective 1 January 2013)*

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

##### *IFRS 13: Fair Value Measurement (effective 1 January 2013)*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance.

Additional disclosures will be made in the consolidated financial statements when the above-mentioned IASB Standards become effective.

## 4-PROPERTY, PLANT AND EQUIPMENT

	<i>Buildings and improvements KD 000's</i>	<i>Tools, machinery and equipment KD 000's</i>	<i>Vehicles and ships KD 000's</i>	<i>Furniture and office equipment KD 000's</i>	<i>Total KD 000's</i>
Cost:					
1 January 2011	163,754	69,957	113,903	95,234	442,848
Additions	3,084	6,155	3,787	(857)	12,169
Transfer from projects in progress (Note 5)	1,309	8,510	1,005	1,008	11,832
Disposals	(6,633)	(6,854)	(30,710)	(11,596)	(55,793)
Related to disposal of a subsidiary (Note 23)	(3,819)	(1,946)	(4,502)	(754)	(11,021)
Exchange differences	(3,645)	(1,164)	(1,136)	(1,088)	(7,033)
<b>31 December 2011</b>	<b>154,050</b>	<b>74,658</b>	<b>82,347</b>	<b>81,947</b>	<b>393,002</b>
Depreciation:					
1 January 2011	(31,797)	(40,579)	(63,154)	(68,933)	(204,463)
Charge for the year	(6,608)	(6,523)	(10,126)	(7,540)	(30,797)
Disposals	3,704	4,132	22,353	8,408	38,597
Related to disposal of a subsidiary (Note 23)	479	764	1,759	467	3,469
Exchange differences	410	644	495	674	2,223
<b>31 December 2011</b>	<b>(33,812)</b>	<b>(41,562)</b>	<b>(48,673)</b>	<b>(66,924)</b>	<b>(190,971)</b>
Net book value:					
<b>31 December 2011</b>	<b>120,238</b>	<b>33,096</b>	<b>33,674</b>	<b>15,023</b>	<b>202,031</b>

	<i>Buildings and improvements KD 000's</i>	<i>Tools, machinery and equipment KD 000's</i>	<i>Vehicles and ships KD 000's</i>	<i>Furniture and office equipment KD 000's</i>	<i>Total KD 000's</i>
Cost:					
1 January 2010	157,522	67,691	162,406	89,684	477,303
Additions	18,119	8,969	1,669	7,249	36,006
Transfer from projects in progress (Note 5)	12,050	2,357	2,829	3,376	20,612
Disposals	(22,420)	(8,486)	(51,667)	(4,596)	(87,169)
Exchange differences	(1,517)	(574)	(1,334)	(479)	(3,904)
<b>31 December 2010</b>	<b>163,754</b>	<b>69,957</b>	<b>113,903</b>	<b>95,234</b>	<b>442,848</b>
Depreciation and impairment:					
1 January 2010	(42,956)	(43,903)	(76,637)	(56,989)	(220,485)
Charge for the year	(8,156)	(4,660)	(16,067)	(12,695)	(41,578)
Impairment (Note 24)	(1,164)	-	-	(4,156)	(5,320)
Disposals	19,291	7,669	28,478	4,063	59,501
Exchange differences	1,188	315	1,072	844	3,419
<b>31 December 2010</b>	<b>(31,797)</b>	<b>(40,579)</b>	<b>(63,154)</b>	<b>(68,933)</b>	<b>(204,463)</b>
Net book value:					
<b>31 December 2010</b>	<b>131,957</b>	<b>29,378</b>	<b>50,749</b>	<b>26,301</b>	<b>238,385</b>

The Parent Company's buildings with a carrying value of KD 4,749 thousand (2010: KD 6,869 thousand) are erected on land leased from the Government of Kuwait for renewable periods ranging from five to twenty years.

#### 4- PROPERTY, PLANT AND EQUIPMENT (continued)

During the year, the Group sold certain property, plant and equipment with a net book value of KD 17,196 thousand (2010: KD 27,668 thousand) for KD 16,821 thousand (2010: KD 32,783 thousand) resulting in a loss of KD 375 thousand (2010: gain of KD 5,115 thousand).

#### 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 providing logistics services and for generating rental and transportation revenues.

	<i>2011</i> <i>KD 000's</i>	<i>2010</i> <i>KD 000's</i>
At 1 January	24,945	44,446
Additions	10,239	4,177
Transfer to property, plant and equipment (Note 4)	(11,832)	(20,612)
Transfer to investment properties (Note 6)	(2,682)	(103)
Impairment (Note 24)	-	(1,673)
Exchange differences	428	(1,290)
At 31 December	<u>21,098</u>	<u>24,945</u>

#### 6- INVESTMENT PROPERTIES

	<i>2011</i> <i>KD 000's</i>	<i>2010</i> <i>KD 000's</i>
At 1 January	214,368	214,149
Additions	831	293
Transfer from projects in progress (Note 5)	2,682	103
Change in fair value	233	(177)
At 31 December	<u>218,114</u>	<u>214,368</u>

Investment properties are stated at fair value, which has been determined based on valuations performed by accredited independent appraisers. The discounted future cash flow method or property market value method have been used considering the nature and usage of the property.

Lease periods range from five to twenty years and are renewable. All investment properties are located in Kuwait.

Included in investment properties is a property with a carrying value of KD 8,823 thousand (2010: KD 8,823 thousand) [including revaluation gains of KD 665 thousand (2010: 665 thousand) recorded in previous periods]. This property is subject to ongoing litigation arising from a claim filed by and against the Parent Company with respect to certain lease contracts, which have been cancelled by the counterparty during the year ended 31 December 2006 [Note 29 (b)].

**7- GOODWILL**

	<i>2011</i> <i>KD 000's</i>	<i>2010</i> <i>KD 000's</i>
Cost:		
At 1 January	272,883	272,375
Additions	-	702
Exchange differences	(3,832)	(194)
At 31 December	269,051	272,883
Impairment:		
At 1 January	(27,218)	(5,278)
Charge for the year (Notes 8 and 24)	-	(21,940)
At 31 December	(27,218)	(27,218)
Net carrying value	241,833	245,665

**8- IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE LIFE**

The Group has identified the following business activities as cash generating units:

- Global Integrated Logistics
- Infrastructure

The Group has also determined that the above constitute the cash-generating units for testing the impairment of goodwill and intangible asset with indefinite life.

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

	<i>Carrying amount of goodwill</i>	
	<i>2011</i> <i>KD 000's</i>	<i>2010</i> <i>KD 000's</i>
Cash generating units:		
Global Integrated Logistics	221,666	225,498
Infrastructure	20,167	20,167
Total	241,833	245,665

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 2012 and assuming an average annual growth rate of 6% 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% and cash flows beyond the 5 year period are extrapolated using 3% growth rate on a conservative basis.

As a result of this exercise, management has recorded an impairment loss of KD Nil (2010: KD 21,940 thousand) and KD Nil (2010: KD 1,283 thousand) against goodwill (Note 7) and intangible assets, respectively.

**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 budget period.

**8- IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE LIFE (continued)****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.

**Intangible asset with indefinite life**

Intangible asset with indefinite life of KD 4,721 thousand (2010: KD 4,721 thousand) represents the brand which has been tested for impairment at the reporting date. In the opinion of the management, no impairment is considered necessary.

**9- FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	2011 KD 000's	2010 KD 000's
Investment in an associate – outside Kuwait (a)	80,542	-
Quoted equity securities:		
- In Kuwait	-	211
- Outside Kuwait (b)	20,159	-
	<u>100,701</u>	<u>211</u>

- (a) During the year, 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 Group contributed US\$ 286 million by converting its convertible debt and a portion of accrued interest on this convertible debt (Note 10) in Korek Telecom to equity.

The investment in Korek Telecom is 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" which requires investments held by Venture Capital Organisations to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit and loss and accounted for in accordance with IAS 39, with changes in fair value recognised in the consolidated income statement in the period of change.

The Group also provided an interest bearing shareholders' loan of KD 27,837 thousand (US\$ 100,000 thousand) to Korek Telecom (Note 30).

- (b) During the year, the Parent Company, as a result of a disposal of a subsidiary, acquired shares in Gulf Warehousing Company Q.S.C. (Note 23). This investment is classified as financial assets carried at fair value through profit and loss and accounted for in accordance with IAS 39 ("Financial Instruments: Recognition and Measurement"). Accordingly, unrealised gain amounting to KD 6,958 thousand is recorded in the consolidated income statement.

**10- FINANCIAL ASSETS AVAILABLE FOR SALE**

	<i>2011</i> <i>KD 000's</i>	<i>2010</i> <i>KD 000's</i>
Unquoted debt security – outside Kuwait	-	70,321
Unquoted equity securities:		
- In Kuwait	13,591	13,013
- Outside Kuwait	18,404	28,906
	<u>31,995</u>	<u>112,240</u>

During the year, unquoted debt security along with a portion of interest income earned was converted into equity of Korek Telecom. As a result, the Group acquired 23.7% indirect interest in Korek Telecom (Note 9).

Included in interest income is an amount of KD 15,997 thousand (2010: KD Nil) which represents interest recorded by the Group in the current year but relating to prior periods in respect of this investment.

The management has performed a review of unquoted equity securities to assess whether impairment has occurred in the value of these investments. Based on specific information, management has recorded impairment loss of KD 10,768 thousand (2010: KD 5,234 thousand) in the consolidated income statement (Note 24). The management is not aware of any circumstances that would indicate any further impairment in the value of these financial assets as at 31 December 2011.

**11- INVENTORIES**

	<i>2011</i> <i>KD 000's</i>	<i>2010</i> <i>KD 000's</i>
Goods for resale	11,190	15,638
Provision for obsolete and slow moving inventories	(529)	(3,163)
<b>Total inventories at the lower of cost and net realisable value</b>	<u>10,661</u>	<u>12,475</u>

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

The provision recognised as an expense is KD 136 thousand (2010: KD 2,020 thousand) which is recognised in the cost of revenues.

**12- TRADE RECEIVABLES**

	<i>2011</i> <i>KD 000's</i>	<i>2010</i> <i>KD 000's</i>
Gross trade receivables	330,335	362,315
Provision for impairment	(51,051)	(72,591)
	<u>279,284</u>	<u>289,724</u>

Trade receivables are non-interest bearing and are generally on 30 to 60 days terms. As at 31 December 2011, trade receivables at initial value of KD 51,051 thousand (2010: KD 72,591 thousand) were considered impaired and fully provided for.

**12- TRADE RECEIVABLES (continued)**

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

	<i>2011</i> <i>KD 000's</i>	<i>2010</i> <i>KD 000's</i>
At 1 January	72,591	50,846
Charge for the year (Note 21)	7,261	26,155
Amounts written off	(29,013)	(3,999)
Others (including exchange differences)	212	(411)
At 31 December	<u>51,051</u>	<u>72,591</u>

As at 31 December, the ageing analysis of trade receivables is as follows:

	<i>Neither past due nor impaired</i>	<i>Past due but not impaired</i>					<i>Total</i>
		<i>&lt; 30 days</i>	<i>30 to 60 days</i>	<i>60 to 90 days</i>	<i>90 to 120 days</i>	<i>&gt; 120 days</i>	
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
2011	177,285	38,974	15,415	11,485	22,397	13,728	279,284
2010	177,546	54,219	22,138	10,365	8,565	16,891	289,724

Unimpaired trade receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of Group to obtain collateral over receivables and the vast majority are, therefore, unsecured.

Trade receivables include amounts denominated in the following major foreign currencies:

	<i>2011</i> <i>KD 000's</i>	<i>2010</i> <i>KD 000's</i>
US Dollars	115,047	118,498
Euros	40,529	48,159
Australian Dollar	20,318	15,949
British Pounds	13,403	24,495
UAE Dirhams	6,339	8,169
	<u>195,636</u>	<u>215,270</u>

Included in trade receivables is an amount of KD 8,303 thousand (2010: KD 8,064 thousand) due from a third party and portion of which is subject of an arbitration. The management is confident that the Group has fulfilled its obligation in relation to the related contract and the amount will be fully recovered.

**13- OTHER CURRENT ASSETS**

	<i>2011</i> <i>KD 000's</i>	<i>2010</i> <i>KD 000's</i>
Prepaid expenses and deposits	25,160	38,113
Advances to suppliers	11,278	13,247
Jobs in progress	10,808	9,513
Claims in dispute [Note 29 (c)]	10,092	10,092
Claims receivable	7,957	780
Sundry receivables	5,916	3,082
Advance to a related party (Note 30)	5,000	5,000
Staff receivables	1,557	1,614
Accrued income	460	8,498
Other	18,247	9,093
	96,475	99,032

**14- BANK BALANCES AND CASH**

	<i>2011</i> <i>KD 000's</i>	<i>2010</i> <i>KD 000's</i>
Cash at banks and on hand	45,207	44,384
Short term deposits	31,864	46,391
<b>Cash and cash equivalents</b>	77,071	90,775
Deposits with original maturities exceeding three months	42,624	112,985
	119,695	203,760

Included in bank balances and cash are balances amounting to KD 65,641 thousand (2010: KD 69,565 thousand) held by banks in Kuwait whereas the balance of KD 54,054 thousand (2010: KD 134,195 thousand) are held by foreign banks situated outside Kuwait.

Short term deposits (with original maturities up to three months) are placed for varying periods of one day to three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates. Term deposits (deposits with original maturities exceeding three months) earn interest ranging from 2 % to 2.6% per annum (2010: 3% to 3.625% per annum).

Included in bank balances and cash are balances denominated in foreign currencies amounting to KD 62,676 thousand (2010: KD 50,393 thousand), mainly in US Dollars, Euro, United Arab Emirates Dirhams and Qatar Riyals.

**15- SHARE CAPITAL AND RESERVES****a) Share capital**

Authorised, issued and paid-up capital consists of 1,046,836,709 shares (2010: 1,046,836,709 shares) of 100 fils per share (2010: 100 fils per share).

**b) Share premium**

The share premium is not available for distribution.

## 15- SHARE CAPITAL AND RESERVES (continued)

### c) Statutory reserve

In accordance with the Kuwait Commercial Companies Law and the Parent Company's Articles of Association, the Parent Company has resolved to discontinue the annual transfer of 10% of net profit for the year since the statutory reserve equals 50% of paid up share capital.

Distribution of the statutory reserve up to the amount equivalent to 50% of paid up share capital is limited to the amount required to enable the payment of a dividend of up to 5% of paid up share capital in years when accumulated profits are not sufficient for the payment of such dividend.

## 16- TREASURY SHARES

	2011	2010
Number of treasury shares	45,068,640	39,358,640
Percentage of issued shares	4.31%	3.76%
Market value in KD 000's	16,450	20,466

## 17- INTEREST BEARING LOANS

	2011 KD 000's	2010 KD 000's
Committed Revolving Credit Facilities obtained from foreign banks in May 2008 which were fully repaid during the year.	-	42,525
Uncommitted Term Loan obtained from a local bank in June 2009 which was fully repaid during the year.	-	23,190
Committed Term Loan obtained from a foreign bank in April 2008 and is repayable in April 2012.	11,130	16,836
Committed Term Loan obtained from a local bank and is repayable in annual instalments commencing from December 2011.	15,026	-
Other loans	36,667	46,164
	<u>62,823</u>	<u>128,715</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 48,539 thousand (2010: KD 116,251 thousand) carry margin ranging from 1% to 3% per annum (2010: 1.09% to 3%) over the benchmark rates.

**17- INTEREST BEARING LOANS (continued)**

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

	<i>Current portion KD 000's</i>	<i>Non-current portion KD 000's</i>	<i>Total KD 000's</i>
US Dollars	20,346	13,300	33,646
Singapore Dollars (SGD)	554	-	554
Switzerland Franc	-	5,075	5,075
Indian Rupee	4,897	-	4,897
Hong Kong Dollar	7,024	-	7,024
Kuwaiti Dinars	2,600	500	3,100
UAE Dirham	166	-	166
Bahrain Dinar	-	1,108	1,108
Others	2,752	4,501	7,253
<b>Balance at 31 December 2011</b>	<b>38,339</b>	<b>24,484</b>	<b>62,823</b>
<b>Balance at 31 December 2010</b>	<b>69,152</b>	<b>59,563</b>	<b>128,715</b>

Included in interest bearing loans are loans amounting to KD 11,131 thousand (2010: KD 14,546 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.

Included in interest bearing loans is an amount of KD 2,500 thousand (2010: KD 4,500 thousand) in a subsidiary, Global Clearing House Systems K.S.C. (Closed) on a non-recourse basis. The net worth of this subsidiary at 31 December 2011 is negative KD 41,293 thousand (2010: negative KD 46,180 thousand). The Parent Company is only liable for losses equal to the contributed share capital of the subsidiary amounting to KD 3,030 thousand at the reporting date. Certain assets of the subsidiary amounting to KD 30,706 thousand (2010: KD 27,807 thousand) have been pledged as collateral against this loan.

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

Included in interest bearing loans at 31 December 2011 are loans denominated in US\$ 94,000 thousand (hedging instrument), which have been designated as a hedge of the net investments in the overseas subsidiaries (with functional currency US dollars) 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. Foreign exchange gain arising on translation of the hedging instruments amounting KD 859 thousand (2010: loss of KD 838 thousand) were taken to other comprehensive income (Hedging reserve).

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

	<i>2011 KD 000's</i>	<i>2010 KD 000's</i>
Movement in the provision recognised in the consolidated statement of financial position is as follows:		
As at 1 January	19,590	20,623
Provided during the year	8,476	9,690
Employees' end of service benefits paid	(10,151)	(9,709)
Exchange differences	159	(1,014)
<b>As at 31 December</b>	<b>18,074</b>	<b>19,590</b>

As a result of previous acquisitions, the Group assumed responsibility for defined benefit plans for the employees of subsidiaries acquired. As at 31 December the status of the plan was as follows:

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

	2011 KD 000's	2010 KD 000's
Defined benefit obligation	(101,084)	(97,548)
Fair value of plan assets	78,240	77,415
Funded status of the plan	(22,844)	(20,133)
Unrecognised net actuarial loss	15,833	12,037
Unrecognized net transition obligation	45	90
Benefit liability	(6,966)	(8,006)

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:

	2011	2010
Discount rate at 31 December	3.79%	4.02 %
Expected rate of increase of employee remuneration	2.26%	2.98 %
Average length of employee service	6 years	5 years
Expected return on plan assets	3.91%	4.23 %

The following tables summarise the components of net benefit expense recognised in the consolidated income statement and the funded status and amounts recognised in the consolidated statement of financial position for the respective plans:

**Net benefit expense (recognised in salaries and employee benefits)**

	2011 KD 000's	2010 KD 000's
Current service cost	1,265	1,602
Interest cost on benefit obligation	3,970	3,799
Expected return on plan assets	(3,636)	(3,783)
Net actuarial loss recognised in the year	382	346
Variation of asset ceiling	(125)	-
Amortization of net obligation at transition	49	57
Net benefit expense	1,905	2,021

Changes in the present value of the defined benefit obligation are as follows:

	2011 KD 000's	2010 KD 000's
As at 1 January	97,548	93,467
Interest cost	3,970	3,799
Current service cost	1,265	1,602
Participant's contributions	606	490
Benefits paid	(6,188)	(4,277)
Actuarial losses on obligation	5,521	3,189
Benefits paid by employer	-	(4)
Exchange differences	(1,638)	(718)
As at 31 December	101,084	97,548

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

Changes in the fair value of plan assets are as follows:

	<i>2011</i> <i>KD 000's</i>	<i>2010</i> <i>KD 000's</i>
As at 1 January	77,415	74,657
Expected return	3,636	3,435
Contributions by employer	2,843	2,222
Benefits paid	(5,609)	(3,745)
Actuarial gains	1,054	330
Exchange differences	(1,099)	516
	<u>78,240</u>	<u>77,415</u>
As at 31 December		

**19- OTHER NON-CURRENT LIABILITIES**

	<i>2011</i> <i>KD 000's</i>	<i>2010</i> <i>KD 000's</i>
Lease obligations	5,416	5,409
Amounts due to related parties (Note 30)	22,811	23,011
Other liabilities	6,851	7,098
	<u>35,078</u>	<u>35,518</u>

**20- TRADE AND OTHER PAYABLES**

	<i>2011</i> <i>KD 000's</i>	<i>2010</i> <i>KD 000's</i>
Trade payables	186,783	193,726
Accrued expenses	97,963	97,773
Accrued employee related expenses	34,599	40,699
NLST payable	10,565	9,866
Lease obligations	1,342	1,654
Taxation on overseas subsidiaries	4,176	1,043
KFAS payable	4,103	4,867
Zakat payable	3,881	3,620
Amounts due to related parties (Note 30)	246	699
Directors' remuneration	179	176
Retentions and other liabilities	35,990	28,045
	<u>379,827</u>	<u>382,168</u>

Trade payables are non-interest bearing and are normally settled on 30-60 day terms.

**21- GENERAL AND ADMINISTRATIVE EXPENSES**

	<i>2011</i> <i>KD 000's</i>	<i>2010</i> <i>KD 000's</i>
Repairs and maintenance	28,662	32,003
Rent	28,132	30,645
Professional fees	20,690	29,439
Communication	8,932	9,993
Travel	8,361	10,939
Provision for impairment of trade receivables (Note 12)	7,261	26,155
Restructuring expenses	5,282	7,789
Insurance	4,544	5,661
Advertising	1,358	2,094
Customs fees	517	13,605
Provisions no longer required	-	(16,800)
Other expenses	7,971	14,279
	<u>121,710</u>	<u>165,802</u>

**22- SALARIES AND EMPLOYEE BENEFIT**

	<i>2011</i> <i>KD 000's</i>	<i>2010</i> <i>KD 000's</i>
Salaries	185,598	203,024
Employee benefits	17,453	17,762
Accruals no longer required (see below)	-	(10,352)
	<u>203,051</u>	<u>210,434</u>

During the year ended 31 December 2010, the management performed an assessment of the obligation in respect of share linked compensation and incentive plans. As a result of this assessment, accruals relating to share linked compensation and long term incentive plans amounting to KD 6,864 thousand and KD 3,488 thousand respectively were no longer considered payable and were therefore reversed.

**23- DISPOSAL OF INVESTMENT IN A SUBSIDIARY**

Effective 1 January 2011, the Parent Company sold its entire equity interest of 49% in Agility W.L.L. ("Agility Qatar"), an entity incorporated in Qatar, to Gulf Warehousing Company Q.S.C. ("GWC Qatar") in exchange for a total sale consideration of KD 13,782 thousand which comprises of cash consideration of KD 581 thousand and shares in GWC Qatar (a company listed on Qatar Stock Exchange) amounting to KD 13,201 thousand (7,170,732 shares valued at Qatari Riyal 24 per share). As a result of the above, the Parent Company realised a gain of KD 8,204 thousand. The shares in GWC Qatar (received as sale consideration) are classified as "financial assets at fair value through profit or loss" (Note 9) and accounted for in accordance with International Accounting Standard 39 ("Financial Instruments: Recognition and Measurement")

	<i>KD 000's</i>
Assets (including cash and cash equivalents of KD 916 thousand)	16,672
Liabilities	<u>(5,237)</u>
Net assets relating to Agility Qatar	11,435
Non-controlling interests	<u>(5,857)</u>
	5,578
Total sale consideration	<u>13,782</u>
Gain on disposal of investment in Agility Qatar	<u>8,204</u>

**24- IMPAIRMENT LOSSES**

	<i>2011</i> <i>KD 000's</i>	<i>2010</i> <i>KD 000's</i>
Impairment of property, plant and equipment (Note 4)	-	5,320
Impairment of projects in progress (Note 5)	-	1,673
Impairment of intangible assets (Note 8)	-	1,283
Impairment of goodwill (Note 7)	-	21,940
Impairment of financial assets available for sale (Note 10)	10,768	5,234
	<b>10,768</b>	<b>35,450</b>

In accordance with IAS 36 "Impairment of Assets", the management recorded an impairment loss of KD Nil (2010: KD 30,216 thousand) following impairment testing performed triggered mainly due to loss of US Government contracts.

**25- TAXATION**

	<i>2011</i> <i>KD 000's</i>	<i>2010</i> <i>KD 000's</i>
National labour support tax (NLST)	708	657
Kuwait Foundation for the Advancement of Sciences (KFAS)	283	263
Zakat	283	263
Taxation on overseas subsidiaries	6,790	5,791
	<b>8,064</b>	<b>6,974</b>

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

**26- 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>2011</i> <i>KD 000's</i>	<i>2010</i> <i>KD 000's</i>
Profit for the year attributable to equity holders of the Parent Company	27,043	25,108
	Shares	Shares
Weighted average number of paid up shares	1,046,836,709	1,046,836,709
Weighted average number of treasury shares	(42,871,325)	(39,358,640)
Weighted average number of outstanding shares	1,003,965,384	1,007,478,069
Basic and diluted earnings per share - attributable to equity holders of the Parent Company	26.94 fils	24.92 fils

**27- DIVIDENDS**

On 29 March 2012, the Board of Directors of the Parent Company recommended a cash dividend of 30 fils per share (2010: 40 fils per share) in respect of the year ended 31 December 2011. This proposal is subject to approval by the shareholders at the annual general assembly of the Parent Company.

Dividends for 2010 were approved at the Annual General Assembly of the shareholders held on 8 June 2011.

## 28- 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.

### *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'. The Group deals in the following derivative instruments to manage the interest rate risk and foreign exchange 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.

### *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.

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.

	Positive fair value KD 000's	Negative fair value KD 000's	Notional amount KD 000's	Notional amounts by term to maturity	
				Within one year KD 000's	1 - 5 years KD 000's
2011					
<i>Derivatives held for trading:</i>					
Forward foreign currency contracts	-	1	5,901	5,901	-
Interest rate swaps	-	7	11,274	7,516	3,758
	-	8	17,175	13,417	3,758

	Positive fair value KD 000's	Negative fair value KD 000's	Notional amount KD 000's	Notional amounts by term to maturity	
				Within one year KD 000's	1 - 5 years KD 000's
2010					
<i>Derivatives held for trading:</i>					
Forward foreign currency contracts	119	40	36,298	36,298	-

## 29- CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

	2011 KD 000's	2010 KD 000's
Letters of guarantee	108,132	88,869
Operating lease commitments	36,317	41,609
Capital commitments	6,568	7,834
	151,017	138,312

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

	2011 KD 000's	2010 KD 000's
Within one year	9,162	8,689
After one year but not more than five years	20,830	26,400
More than five years	6,325	6,520
	36,317	41,609

Included in letters of guarantee are bank guarantees of KD 31,405 thousand (2010: KD 31,405 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 net worth of the subsidiary at 31 December 2011 is negative KD 41,293 thousand (2010: negative KD 46,180 thousand). The Parent Company is only liable for losses equal to the contributed share capital of the subsidiary amounting to KD 3,030 thousand.

### Legal claims

#### *(a) Freight forwarding business - investigation*

In October 2007, certain subsidiaries (involved in the freight forwarding business) in the Group along with other major players in the freight forwarding industry received requests for information from the competition authorities of the EU, the United States and other jurisdictions in connection with an industry-wide investigation into the setting of surcharges and fees. These subsidiaries are fully cooperating with the respective authorities.

In July 2009, a subsidiary was named as a defendant in a class action lawsuit filed in the Eastern District of New York, along with a number of other freight forwarding companies, regarding surcharges and fees for services. In November 2009, the defendants filed motions to dismiss the claims that are currently pending before the court. The ultimate outcome of this litigation is uncertain at this time.

On 26 November 2009 the Italian Competition Authority (ICA) opened an investigation into the activities of some 20 freight forwarding companies including Agility's subsidiary in Italy. The ICA issued its final decision on 15 June 2011, imposing a total fine of KD 55 thousand (Euro 139 thousand) on Agility. This decision is being appealed by other third parties before the court which is yet to pronounce its decision.

In February 2010, the European Commission issued a Statement of Objections ("SO") to the Parent Company and two of its subsidiaries. The SO alleges that certain infringements of EU competition law were committed by the subsidiaries. On 28 March 2012 the European Commission issued its final decision imposing a fine of KD 828 thousand (EUR 2,296 thousand) on Agility's UK subsidiary and a fine of KD 960 thousand (EUR 2,662 thousand) on Agility's Hong Kong subsidiary. Agility is currently reviewing the Commission's decision to determine the further course of action.

In December 2011, the Competition Commission Singapore (CCS) opened an investigation in to the activities of the freight forwarding industry which included two of Agility's subsidiaries. No formal charges have been brought against the subsidiary at this time.

## 29- CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS (continued)

### Legal claims (continued)

#### *(a) Freight forwarding business – investigation (continued)*

As at 31 December 2011, due to inherent uncertainty surrounding these investigations, the Group's management (after consulting the external legal counsel) is not able to comment on the likely outcome of the investigations and in view of the difficulty in quantifying any additional potential liabilities in this regard, no provision is recorded in the accompanying consolidated financial statements.

During the ended 31 December 2010, a subsidiary of the Parent Company reached a settlement agreement with the New Zealand Commerce Commission (which was approved by the New Zealand High Court), in connection with the Surcharge Investigation, to pay a civil fine of KD 525 thousand (NZ Dollars 2,500 thousand). This amount was paid during the year ended 31 December 2011.

Furthermore, a subsidiary of the Parent Company executed a plea agreement (which was approved by the court) with the US Government in connection with the Surcharge Investigation whereby the subsidiary agreed to pay a civil fine of KD 193 thousand (US Dollars 688 thousand) to close the investigation. This amount was paid during the year ended 31 December 2011.

#### *(b) Lease agreements*

On 27 November 2006, based on the recommendation by the Ministers' Council, the Minister of Commerce & Industry issued the Resolution No. 30/2006 to terminate three contracts between the Parent Company and the Public Authority of Industry (PAI) for leasing of land in Mina Abdulla Zone, Kuwait.

The Parent Company protested against this order through case No. 940/2006 "Administrative". In the Hearing held on 25 December 2006, the Court of first instance pronounced its ruling to repeal the aforesaid Resolution of the Minister of Commerce & Industry and its resultant impacts, which was also subsequently confirmed by the Court of appeal. The Ministry filed an appeal at the Supreme Court on which the Supreme Court issued a ruling on 4 May 2010, rejecting the Ministry's appeal and confirming the previous ruling in favour of the Parent Company.

However, the Government of Kuwait requested the Board of PAI to hold a meeting chaired by the Minister of Commerce & Industry, which issued another resolution No. 1/2007 to terminate the same contracts which were the subject of the previous resolution. The Parent Company again protested against the above resolution through case No. 36/2007 at the Court of First Instance which ruled in favour of the parent company cancelling the aforesaid resolution of the PAI.

The PAI appealed against the above ruling at the Court of Appeal which pronounced its judgement in its favour on 20 February 2012 cancelling the ruling of Court of First Instance and confirming the termination of the three contracts. The Parent Company is currently appealing the above judgement in the Supreme Court.

The Parent Company suspended recognising revenue on the aforementioned contracts since the inception of the case.

On 9 January 2007 the Ministry of Finance terminated the Al-Jahra Fish, Meat and Vegetables Market Project Contract with the Parent Company following the Resolution issued by the Council of Ministers No. 2/2007. The Parent Company appealed against this resolution through Case No. 200/2007 Administrative -3. The Court of First Instance cancelled the resolution No. 2/2007 issued by the Ministry of Finance.

In January 2008, the Court of Appeal ruled in favour of the Parent Company whereby Al-Jahra Fish, Meat and Vegetables Market Contract is to be given back to the Parent Company. The Court of Appeal also ruled out that the Parent Company be compensated for losses and expenses that arose as a result of this case. The Ministry of Finance filed an appeal at the Supreme Court against this ruling which is pending resolution. As a result of the ruling the Parent Company resumed operations in the contract.

## 29- CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS (continued)

### Legal claims (continued)

#### *(c) Guarantee encashment*

A Resolution was issued by the General Administration of Customs for Kuwait ("GAC") to cash a portion, amounting to KD 10,092 thousand of the bank guarantee submitted by Global Clearing House Systems K.S.C. (Closed) (the "Company"), a subsidiary of the Parent Company, in favour of GAC. Pursuant to this resolution, GAC called the above guarantee during the year ended 31 December 2007. This Resolution is being appealed through case No. 224/2007 "Administrative - 7".

The Parent company (after consulting the external counsel) is of the opinion that the purported violations against which a portion of the bank guarantee provided was encashed, are not in accordance with the contract, and a verdict shall be issued in favour of the Company to return the encashed portion of the guarantee plus interest of 7%. In 2009, the Company obtained a report from the expert department of Ministry of Justice on this matter which was in favour of the Company in respect of most of the issues arising from the case. Accordingly, no expense is recorded in the statement of income.

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

## 30- RELATED PARTY TRANSACTIONS

As per the International Accounting Standard (IAS) 24: Related Party Disclosures, related parties represent shareholders, directors and key management personnel of the Group, and companies which they control or over which they exert significant influence. Pricing policies and terms of these transactions are approved by the Group's management.

Transactions and balances with related parties are as follows

2011	<i>Major shareholders KD 000's</i>	<i>Other related parties KD 000's</i>	<i>Total KD 000's</i>
<i>Transactions:</i>			
Revenue	1	1,018	1,019
Interest income	-	1,391	1,391
General and administrative expenses	72	20	92
Finance costs	-	942	942
<i>Consolidated statement of financial position:</i>			
Advance to a related party (Note 13)	5,000	-	5,000
Amounts due from related parties	-	440	440
Loan to an associate (Note 9)	-	27,837	27,837
Amounts due to related parties (Notes 19 and 20)	-	23,057	23,057

## 30- RELATED PARTY TRANSACTIONS (continued)

<i>2010</i>	<i>Major shareholders KD 000's</i>	<i>Other related parties KD 000's</i>	<i>Total KD 000's</i>
Transactions:			
Purchases (net of discounts)	-	37,879	37,879
Finance costs	-	855	855
Consolidated statement of financial position:			
Advance to a related party (Note 13)	5,000	-	5,000
Amounts due from related parties	66	-	66
Amounts due to related parties (Notes 19 and 20)	-	23,710	23,710

Advance to a related party amounting to KD 5,000 thousand (2010: KD 5,000 thousand) represents amount paid to acquire an investment (Note 13).

Amounts due from related parties have arisen as a result of transactions made in the ordinary course of the business and are interest free.

Amounts due to related parties are disclosed in Notes 19 and 20. A portion of these balances carry an interest of 6.5% per annum (2010: 6.5% per annum).

### Compensation of key management personnel

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

	<i>2011 KD 000's</i>	<i>2010 KD 000's</i>
Short-term benefits	4,549	4,866
	<u>4,549</u>	<u>4,866</u>

Short term benefits include discretionary bonus amounting to KD 3,078 thousand (2010: KD 3,253 thousand) awarded to key management personnel.

Board of Directors' remuneration of KD 179 thousand (2010: KD 176 thousand) is subject to approval by the ordinary general assembly of the equity holders' of the Parent Company.

Related party transactions are subject to approval of the shareholders during the forthcoming general assembly.

### 31- 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 financial statements.

For management reporting purposes, the Group is organised into business units based on their products and services produced 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 but not limited to trade facilitation, real-estate, customs consulting and private equity projects.

Year ended 31 December 2011	<i>Logistics and related services</i>	<i>Infrastructure</i>	<i>Adjustments and eliminations</i>	<i>Consolidated</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
<b>Revenue</b>				
External customers	1,223,219	107,682	-	1,330,901
Inter-segment	21,498	3,622	(25,120)	-
<b>Total revenue</b>	<b>1,244,717</b>	<b>111,304</b>	<b>(25,120)</b>	<b>1,330,901</b>
<b>Result</b>				
Segment profit	8,227	25,427	(6,520)	27,134
Interest income				20,854
Finance costs				(8,480)
Profit before taxation and directors' remuneration				39,508
Taxation and directors' remuneration				(8,243)
<b>Profit for the year</b>				<b>31,265</b>
<b>Total assets</b>	<b>903,082</b>	<b>664,575</b>	<b>(165,234)</b>	<b>1,402,423</b>
<b>Total liabilities</b>	<b>1,169,780</b>	<b>481,679</b>	<b>(1,148,128)</b>	<b>503,331</b>
<b>Other disclosures</b>				
Goodwill	221,666	20,167	-	241,833
Other intangible assets	8,820	-	-	8,820
Capital expenditure	9,876	12,951	412	23,239
Depreciation	26,267	3,567	963	30,797
Amortisation	498	-	-	498
Impairment losses	-	10,768	-	10,768
Change in fair value of investment properties (unrealised gain)	-	233	-	233

## 31- OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2010	<i>Logistics and related services</i> KD 000's	<i>Infrastructure</i> KD 000's	<i>Adjustments and eliminations</i> KD 000's	<i>Consolidated</i> KD 000's
Revenue				
External customers	1,538,672	67,030	-	1,605,702
Inter-segment	72,925	6,450	(79,375)	-
<b>Total revenue</b>	<b>1,611,597</b>	<b>73,480</b>	<b>(79,375)</b>	<b>1,605,702</b>
Result				
Segment profit	6,419	9,056	20,684	36,159
Interest income				6,784
Finance costs				(11,225)
Profit before taxation and directors' remuneration				31,718
Taxation and directors' remuneration				(7,150)
<b>Profit for the year</b>				<b>24,568</b>
Total assets	1,027,710	587,190	(120,302)	1,494,598
Total liabilities	1,248,391	426,631	(1,102,291)	572,731
Other disclosures				
Goodwill	225,498	20,167	-	245,665
Other intangible assets	9,318	-	-	9,318
Capital expenditure	37,435	1,895	1,146	40,476
Depreciation	36,118	3,115	2,345	41,578
Amortisation	2,445	-	-	2,445
Impairment losses	19,387	11,077	4,986	35,450
Change in fair value of investment properties (unrealised loss)	-	177	-	177

Inter-segment represents the elimination of transactions arising in the normal course of business between the different segments of the Group.

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

Included in the segment profit under "logistics and related services" above is an amount of KD 8,204 thousand (2010: KD Nil) which represents gain on disposal of investment in a subsidiary.

## Geographic information

The following tables present information regarding the Group's geographical segments:

	<i>2011</i> KD 000's	<i>2010</i> KD 000's
<b>Revenue from external customers</b>		
Middle East	236,313	546,200
Europe	392,630	414,129
Asia	435,776	378,819
America	240,312	256,612
Africa	25,870	9,942
	<b>1,330,901</b>	<b>1,605,702</b>

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

### 31- OPERATING SEGMENT INFORMATION (continued)

Geographic information (continued)

	<i>2011</i> <i>KD 000's</i>	<i>2010</i> <i>KD 000's</i>
Non-current assets		
Middle-east	436,160	441,476
Europe	51,647	53,362
Asia	179,954	184,653
America	46,030	43,997
Africa	11,402	20,831
Unallocated	38,419	32,837
	763,612	777,156

Non-current assets for this purpose consist of property, plant and equipment, projects in progress, investment properties, intangible assets, goodwill and other non-current assets.

### 32- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

#### Introduction

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 loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group's financial assets comprise trade and other receivables, and cash and short-term deposits that arrive directly from its operations. The Group also holds financial assets available for sale, and enters into derivative transactions.

The Board of Directors of the Parent Company reviews and agrees policies for managing risks. The Group's senior management provides assurance to the Group's 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.

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 interest rate risk, liquidity risk, foreign currency risk and credit risk.

## 32- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### 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.

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. Credit limits are established for all customers based on internal rating criteria. Credit quality of the customer is assessed based on an extensive credit rating scorecard. Outstanding customer receivables are regularly monitored and followed up.

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 2011 and 2010 is the carrying amounts at the reporting date.

### Gross maximum exposure to credit risk

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

	2011 KD 000's	2010 KD 000's
Bank balances	116,770	200,154
Trade receivables	279,284	289,724
Other receivables	35,359	46,049
	431,413	535,927

### 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.

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

	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Total KD 000's
<b>Financial liabilities 2011</b>					
Interest bearing loans	5,586	12,854	16,038	32,197	66,675
Trade and other payables	31,652	63,305	284,870	-	379,827
<b>Total financial liabilities</b>	<b>37,238</b>	<b>76,159</b>	<b>300,908</b>	<b>32,197</b>	<b>446,502</b>
<b>2010</b>					
Interest bearing loans	7,265	1,488	62,248	62,189	133,190
Trade and other payables	102,903	78,103	201,162	-	382,168
<b>Total financial liabilities</b>	<b>110,168</b>	<b>79,591</b>	<b>263,410</b>	<b>62,189</b>	<b>515,358</b>

## 32- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### 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 prices 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 loans and borrowings, deposits, financial assets at fair value through profit or loss, financial assets available for sale, and derivative financial instruments. The sensitivity analyses in the following sections relate to the position as at 31 December 2011 and 2010.

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 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 increase in interest rate, with all other variables held constant, would equally impact the Group's profit before taxation and Directors' remuneration as follows.

**50 basis points movement**  
Effect on consolidated income statement

	2011	2010
	KD 000's	KD 000's
US Dollars	147	581

#### *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 activities (when revenue or expense 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 and ensures that the net exposure is kept to an acceptable level.

#### *Foreign currency sensitivity*

The following table demonstrates the sensitivity to a reasonably possible change in the 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 forward exchange contracts designated as cash flow hedges and net investment hedges). The Group's exposure to foreign currency for all other currencies is not material.

## 32- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Market risk (continued)

	Change in currency rate by 1 %			
	<i>Effect on other comprehensive income</i>		<i>Effect on consolidated income statement</i>	
	2011 KD 000's	2010 KD 000's	2011 KD 000's	2010 KD 000's
US Dollars	2,522	1,845	182	449

#### *Equity price risk*

Equity price risk arises from changes in the fair values of equity investments. The Group is not exposed to equity price risk as all its equity investments are carried at cost as explained in Note 10.

Equity price risk is the risk that fair values of equities decrease as the result of changes in level of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment in quoted equity securities classified as 'financial assets at fair value through profit or loss'.

The following table demonstrates the sensitivity to a reasonably possible change in the fair value of these financial assets as a result of change in the equity indices, to which the Group has exposure at 31 December:

	Change in equity price %	Effect on consolidated income statement KD'000
<b>Market indices</b>		
<b>2011</b>		
Qatar Stock Exchange	5	857
Kuwait Stock Exchange	5	-
<b>2010</b>		
Qatar Stock Exchange	5	-
Kuwait Stock Exchange	5	10

There is no effect on consolidated statement of other comprehensive income.

The Group also has unquoted investments carried at cost less impairment where the impact of changes in equity prices will only be reflected when the investment is sold or deemed to be impaired, which is when the consolidated income statement will be impacted.

## 33- 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 2011 and 31 December 2010.

### 33- CAPITAL MANAGEMENT (continued)

The Group includes within net debt, interest bearing loans less bank balances and cash. Capital includes equity attributable to the equity holders of the Parent Company less the investment revaluation reserve.

	2011 KD 000's	2010 KD 000's
Interest bearing loans	62,823	128,715
Bank balances and cash	(119,695)	(203,760)
Net (cash) debt	(56,872)	(75,045)
Equity attributable to the equity holders of the Parent Company	891,773	912,476
Investment revaluation reserve	(15)	(15)
Equity	891,758	912,461

### 34- FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months), the carrying amount approximates their fair value. The fair values of financial instruments, with the exception of certain financial assets available for sale carried at cost (Note 10), are not materially different from their carrying values.

Fair value of quoted securities is derived from quoted market prices in active markets, if available. For unquoted securities, fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

The methodologies and assumptions used to determine fair values of financial instruments is described in fair value section of Note 2.

#### 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.

## 34- FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

## 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: 1</i> <i>KD'000</i>	<i>Level: 2</i> <i>KD'000</i>	<i>Total fair value</i> <i>KD'000</i>
2011			
<i>Financial assets at fair value through profit or loss:</i>			
Investment in an associate	-	80,542	80,542
Quoted equity securities	20,159	-	20,159
	<u>20,159</u>	<u>80,542</u>	<u>100,701</u>
2010			
<i>Financial assets at fair value through profit or loss:</i>			
Investment in an associate	-	-	-
Quoted equity securities	211	-	211
	<u>211</u>	<u>-</u>	<u>211</u>

There were no transfers between fair value hierarchies during 2011 and 2010.

No financial instruments are measured under Level 3 fair value hierarchy as at 31 December 2011 and 31 December 2010.



# Giving back to our community is a core part of our culture

## Our Culture and Giving Back

Agility's commitment to Corporate Social Responsibility (CSR) has long been part of our corporate culture. In the early days, we began by making regular philanthropic donations to charities. However, as we grew, we realized we needed to take a more strategic approach to giving back.

With a workforce of more than 22,000 across 100 countries and 500 offices, Agility is in a unique position to be able to plan and execute projects in local communities around the world.

Our efforts are focused in three main areas: humanitarian and disaster response, an employee-led Community Volunteer Program; and an environmental sustainability initiative.

### Disaster Response

Agility donates logistics support to the humanitarian community during natural disasters. We provide personnel and assets to Agility's partner humanitarian organizations, the International Medical Corps and the United Nations' Logistics Cluster.

Agility is also one of four leading logistics companies that form the Logistics Emergency Teams (LETs) initiative, a cross-company partnership to support humanitarian relief efforts during emergency response operations.

LETs are designed to be deployed rapidly at the request of the humanitarian community to manage transport, warehouse, and supply chain management operations in crisis situations. Each deployment last from six to eight weeks. We have responded to more than 22 disasters in the last five years, in countries such as Myanmar, Haiti, Pakistan, Indonesia, Philippines, India, Lebanon and others

In 2011, we deployed a member from our warehouse in Philippines, following a tropical storm that affected major parts of the country.

### Community Volunteer Program

The Community Volunteer Program supports Agility employees who are interested in engaging with their local communities in support of youth, education, health and the environment. Through this program, Agility brings its resources, expertise and people to the table to help local communities continue growth and development.

To date, we have completed more 500 projects in over 60 countries impacting over 500,000 people positively. In 2011, we executed 140 projects - including building preschools in Cambodia and a school in rural Indonesia, training 8,000 high school girls in the Philippines; supporting an elderly home and cancer society in Lebanon; delivering more than 4,000 food packages across Jordan; transporting footballs to Tanzania; and mentoring youth in Kuwait through Injaz..

### Environment

Our environmental initiatives seek to lower our environmental impact. We work with our customers and we also focus on our own operations.

Agility has incorporated environmental awareness and sustainable business practice into its corporate culture by implementing policies which affirm our commitment to the preservation and protection of the natural environment. Under these policies, Agility employees are tasked to implement controls to prevent pollution and harmful emissions, reduce over-consumption of physical resources and energy, and minimize waste. We also work with customers to help measure carbon emissions in the supply chains we manage and to reuse and recycle packaging waste.

Since 2007, Agility has marked International Earth Day by organizing and participating in environmental projects across global offices. In 2011, some projects included: a river restoration project in Hamburg Germany, a tree planting projects in China, Italy, Pakistan and Switzerland,



a coastal cleanup in Kuwait and the United States, and an environmental cleanup in Indonesia. Giving back to our community and our planet is a core part of our culture and we look forward to continuing this journey in the coming years.

You can find more information about Agility's CSR initiatives and activities on our website:  
[http://www.agilitylogistics.com/EN/Pages/Agility\\_Corporate\\_Social\\_Responsibility.aspx](http://www.agilitylogistics.com/EN/Pages/Agility_Corporate_Social_Responsibility.aspx)

## Investor Relations

Tel.: +965 1 809 222  
E-mail: [investor@agilitylogistics.com](mailto:investor@agilitylogistics.com)  
Website: [www.agilitylogistics.com](http://www.agilitylogistics.com)







### Headquarter

State of Kuwait  
T: +965 1 809 222  
Email: kuwaithq@agilitylogistics.com

### Specialized Headquarters

Americas  
T: +1 714 617 6300  
Email: americas@agilitylogistics.com

Asia Pacific  
T: +65 6463 9868  
Email: asia@agilitylogistics.com

Europe  
T: +41 61316 5555  
Email: europe@agilitylogistics.com

Middle East and Africa  
Tel: +971 4 806 8576  
Email: middleeast@agilitylogistics.com