



2018 Annual Report

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

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Board of Directors

**Henadi Anwar
Essa Al-Saleh**

Chairperson

**Tarek Abdulaziz
Sultan Essa**

Vice Chairman

**Adel Mohammed
Bader Al-Bader**

Board Member

**Naser Mohammed
Fahed Al-Rashed**

Board Member

**Faisal Jameel
Sultan Al-Essa**

Board Member

**Sultan Anwar
Sultan Al-Essa**

Board Member

Vice Chairman and CEO's Message

Dear Fellow Shareholders,

Agility, a leading global logistics provider, reported 2018 net profit of KD 81.1 million, or 56.06 fils per share, an increase of 18.4% from 2017. Revenue for the year reached KD 1,550.2 million, and EBITDA was KD 154.8 million, increases of 10.2% and 14.5%, respectively.

Board of Directors Recommendation

Agility's Board of Directors has recommended a cash dividend distribution of 15% (15 fils per share), along with 15% bonus shares (15 shares for every 100 shares), subject to approval of the General Assembly.

Agility Consolidated Results

Agility has improved profitability for shareholders for 10 consecutive quarters. In 2018, Agility posted double-digit EBITDA growth for the third year in a row. The company continues to invest in its future by building more than 1 million sqm of new warehousing and industrial facilities across the Middle East and Africa; building, through one its subsidiaries, the \$1.2 billion Reem Mall mega project in Abu Dhabi; and investing more than \$100 million in Shipa, its digital logistics platform.

Cash flow from operations has been healthy and growing, while free cash flow has been limited as a result of capital expenditure that led to increased borrowing to fund strategic investments. Agility's dividend recommendation reflects its desire to reward shareholders without inhibiting future business growth.

Agility remains committed to achieving its target of \$800 million EBITDA. However, the timeline may be stretched beyond 2020. Agility will be exploring different avenues for unlocking and maximizing value for our shareholders, including investments, acquisitions, and public offerings of certain businesses in its portfolio, he said.

Agility Global Integrated Logistics

Agility Global Integrated Logistics (GIL) revenue grew 8.6% to KD 1,153.1 million in 2018, driven by strong growth across core products. Net revenue also grew by 4.9% year-over-year, with 22.9% net revenue margins, as a result of better air freight yields and stable ocean freight yields. Full year EBITDA rose 6.3% to KD 35.9 million, attributable to strength in freight forwarding and contract logistics, consistent execution of GIL's commercial strategy, and management's focus on efficiency.

On core products: contract logistics grew its revenue by 8.7%, and GIL outperformed the market in both air and ocean volumes. GIL air freight tonnage increased 9.2% and ocean freight TEUs grew 6.7% vs. global market air freight volume growth of 4.5% and global ocean freight volume growth of 3.5%. In air freight, the fastest growing verticals were fashion, industrial and high-tech. In ocean freight, Agility saw strong trans-Pacific trade lane growth, particularly in anticipation of US-China tariff implementation. However, there was an overall decline in demand and pressure on margins on these same ocean lanes for the second half of 2018. Agility GIL made new contract logistics investments in Australia, China, India and the Middle East in 2018, and has an ongoing effort to drive margin improvements in contract logistics.

GIL continues to invest in technological transformation to improve efficiency and better serve customers. Digital leadership in the logistics industry is the key to its future growth, and the company is investing in its global operating platform, digital transformation strategy, and digital logistics platform.

Agility's Infrastructure Companies

For full year 2018, Infrastructure group EBITDA grew 8.4% and revenue increased 15%. Agility is investing in these companies to drive its future growth. Agility Logistics Parks (ALP), previously known as Industrial Real Estate, reported 6.6% revenue growth for the year, despite challenging market conditions. In Kuwait, ALP's focus is driving the efficiency of existing assets. ALP completed construction and development of 85K sqm of warehousing space in 2018. In Riyadh, ALP completed and delivered 80K sqm of warehousing space and began constructing three facilities of 40K sqm each to be delivered in 2019 and 2020. In Africa, ALP began construction of new facilities in Ghana, Mozambique and Ivory Coast, which will deliver additional warehousing space in 2019. In addition, ALP added Nigeria as part of its Africa expansion program.

Tristar, a fully integrated liquid logistics company, posted 33.7% revenue growth in 2018, results propelled by full-year impact of certain contracts and new business wins from new and existing customers. Tristar continues to look for opportunities to unlock value for its shareholders.

National Aviation Services (NAS), Agility's airport services subsidiary, grew revenue 17.3% in 2018. NAS benefitted from strong growth in Afghanistan and India; major turnarounds that yielded positive Q4 results in Morocco and Tanzania; and a full year of operations in Uganda. Performance in Cote d'Ivoire, Liberia, Rwanda and Abu Dhabi was flat. NAS Kuwait

operations were affected by increased costs for operational and airport authority requirements, in addition to the suspension of Wataniya Airlines.

United Projects for Aviation Services Company (UPAC), a leading real estate and facilities management company operating in Kuwait, experienced a good year in 2018. Revenue fell 1.9% in 2018 due to lower volumes in Kuwait car park operations due to the recent movement of passenger traffic to the new terminals, but UPAC improved efficiencies in key operations at Kuwait International Airport, Sheikh Saad Terminal and Discovery Mall. Outside Kuwait, UPAC is developing the \$1.2 billion Reem Mall project in Abu Dhabi, in partnership with National Real Estate Company (NREC). During 2018, UPAC signed a five-year, KD 5.4 million concession contract with the Incheon International Airport Corporation (IIAC) for the development, operations and maintenance of the parking lot at Terminal 4 (T4) at Kuwait International Airport.

GCS, Agility's customs modernization company, posted growth in revenue and EBITDA in 2018. Revenue increased 12.3% as a result of fresh trade activity, plus a new stevedoring contract win with Kuwait Ports Authority. GCS also launched a new brokerage business. It is implementing initiatives to drive efficiency and improve profitability.

Corporate Social Responsibility

Agility invests in people processes, technology and resources that help it manage its business responsibly and sustainably. Highlights from 2018:

- Recognition: We maintained our Silver CSR rating from EcoVadis, an independent supplier sustainability rating agency. Agility was rated among the top 4% of companies in the logistics industry and among the top 18% for all industries.
- Environment: Agility provides carbon footprint reports on shipments to many of the world's largest corporations and works closely with

customers to reduce cost and emissions in the supply chain. We offer innovative sustainable supply chain solutions and products that reduce environmental impact and supply chain costs

- Community Investment: Agility carried out more than 130 community investments and volunteer projects in nearly 35 countries. The company responded to natural disasters in Bangladesh, Indonesia, and India donating pro bono logistics services to our humanitarian partners. Since 2006, Agility has invested in more than 1,700 community projects in 80 countries, and donated services in the aftermath of more than 50 natural disasters, reaching more than 1.6 million people in need.
- Fair Labor: Agility has a deep commitment to human rights and fair labor practices, and continues to set high standards for fair labor practices globally. In 2018, Agility focused on training Agility Infrastructure organizations, particularly those operating in high-risk geographies. We have expanded our program to train more people by training trainers in all high-risk areas and incorporating fair labor training in our onboarding process. To date, we have trained more than 10,000 employees in the Middle East, Africa and Asia on fair labor standards.

Finally, Agility's strategy has been consistent over the last several years: drive digital leadership and efficiency improvements in GIL, and invest in expansion and new developments for our logistics parks, fuel logistics, airport services and commercial real estate businesses.

As always, we thank our shareholders, customers, employees, and partners for their trust and support in Agility. We look forward to an even better 2019.

Thank you,



Tarek Abdulaziz Sultan Al-Essa
Vice Chairman and CEO



Financial Highlights



Financial Highlights

Revenue

2018 **1,550** KD Mn
+10.2% vs 2017

Net Revenue

2018 **498** KD Mn
+5.9% vs 2017

EBITDA

2018 **155** KD Mn
+14.5% vs 2017

Net Profit

2018 **81** KD Mn
+18.4% vs 2017

EPS

2018 **56.06** Fils
+18.5% vs 2017

Total Assets

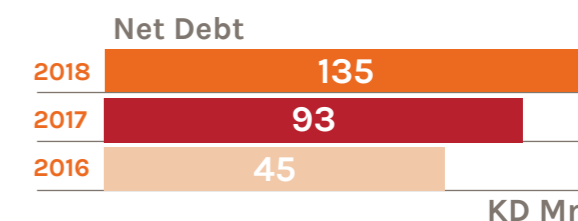
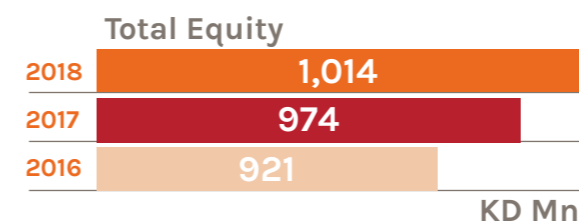
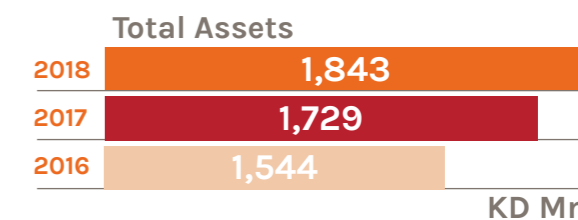
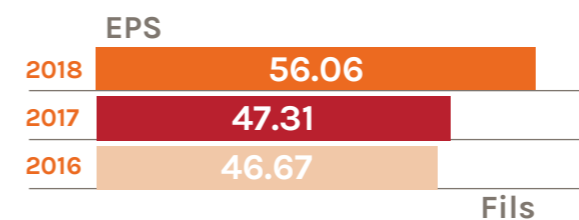
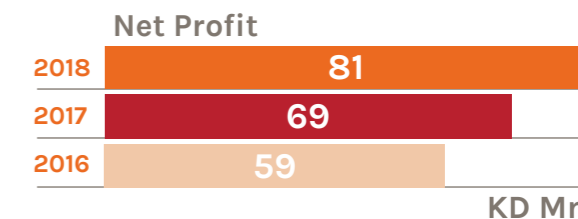
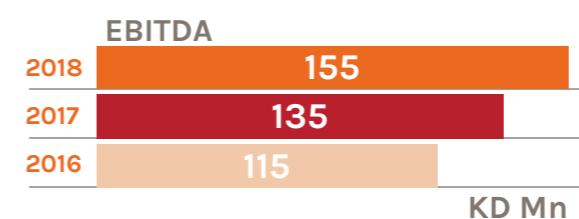
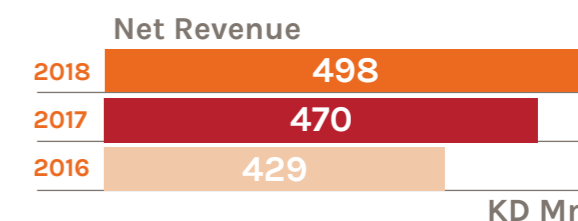
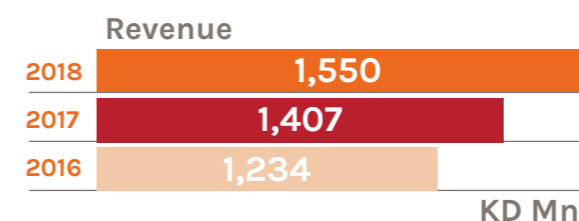
2018 **1,843** KD Mn
+6.6% vs 2017

Total Equity

2018 **1,014** KD Mn
+4.1% vs 2017

Net Debt

2018 **135** KD Mn
+44.8% vs 2017





Geographic Presence





Americas

24 Countries
104 Offices
1,400 Employees

Europe

32 Countries
130 Offices
2,600 Employees

Middle East & Africa

23 Countries
80 Offices
9,500 Employees

Asia Pacific

24 Countries
160 Offices
9,500 Employees



Social Responsibility and Sustainability



Sustainability Report:

Agility demonstrates its commitment to corporate social responsibility and sustainability by acting with integrity and contributing to communities where it operates. Our program addresses issue of importance to the communities in which we operate, such as youth and education, health, environment, humanitarian logistics and fair labor. Employee health, safety and security are part of our core values, as is ethics. These priority issues are also reflected in our CSR program. We are engaged in a number of sustainability initiatives with partner organizations like the World Economic Forum and Business for Social Responsibility. We believe our customers and communities expect responsible conduct from Agility and that they want more sustainable business practices from logistics providers. By building a culture of responsible and sustainable conduct, we benefit the communities where

we work, contribute toward a cleaner planet, add to the sense of pride and collective spirit among our employees, and strengthen our relationship with customers and shareholders.

Environment

We measure our impact to keep our business healthy and to comply with changing regulations. Our customers want to understand their environmental footprint so we can help them build greener supply chains. We offer customers green solutions and engage with all our stakeholders on important environmental issues.

Community

We can contribute to sustainable development that builds stronger communities, future markets and talent for our business. We focus on youth and education, community health and environment.

Humanitarian Assistance

We have the skills, experience and resources to support humanitarian partners in rapid response emergency logistics after natural disasters. We partner with the World Food Program and UN Global Logistics Cluster to help deliver aid following humanitarian emergencies and to help communities prepare for disasters.

Our People

Being responsible starts at home. We employ more than 22,700 people around the world, and our stakeholders expect Agility to treat its employees with dignity and fairness. We focus on preventing human rights abuses, creating safe work environments, providing training to our team members and offering means for employees to report concerns.

2018 Kuwait Community Projects



Employees from Agility - Kuwait and United Projects for Aviation Services Company (UPAC), one of Agility's infrastructure companies, hosted several workshops and Innovation Camps throughout the year, mentoring close to 120 students from schools, colleges, and universities in Kuwait.

Since 2005, Agility has partnered with INJAZ-Kuwait, a nonprofit, non-governmental organization (NGO) driven by Kuwait's private sector. Jointly with Agility, INJAZ has helped mentor nearly 350 students through various education programs. Programs include innovation camps, job shadow workshops, personal finance workshops, Steer Your Career seminars, and entrepreneurship master classes.



Over the past ten years, Agility - Kuwait has partnered with LOYAC, a local nonprofit organization as it works to develop tomorrow's leaders. In 2018, LOYAC announced the acceptance of 55 students into the Agility-supported KON Social Entrepreneurship Program, based on the Babson College Curriculum.



Agility - Kuwait continues to participate in the Innovate for Refugees - MIT Enterprise Forum Pan Arab's Regional Competition, in which students compete for the best tech-driven solutions to social and business challenges. The program addresses issues related to the ongoing refugee crisis and is focused on engaging young people affected by the crisis who are keen to develop entrepreneurial skills.



Agility co-founded the RunKuwait event, now in its eighth year, with the Fawzia Sultan Rehabilitation Institute. The annual event raises money for children with disabilities or those who are in need of rehabilitation services. In 2018, Agility Kuwait employees numbered among the 2,000 participants.

2018 Global Community and Environment Projects

Since 2006, Agility has invested in more than 1,700 community projects in 80 countries, and donated services in more than 50 natural disasters around the world, reaching more than 1.6 million people in need.

Agility runs an annual Global Education Drive, where team members around the world volunteer in their communities on children's education projects. In 2018, more than 200 Agility employee volunteers supported more than 9,000



Agility successfully completed its Machla distribution across Kuwait, which ran ahead of the Holy month of Ramadan; reaching 787 families with the help of its affiliate, United Projects for Aviation Services Company (UPAC), and The Basket, a local non-profitable organization.



The Agility - Kuwait warehousing and operations team has run a recycling program for the past five years. In 2018, 17,980 kg of plastic, 44,900 kg of cardboard, and 8,735 kg of wood were recycled from the Sulaibiya and Mina Abdullah warehouse operations locations. Funds raised from the program are directed to employee welfare programs.

students in 12 countries through the Global Education Drive. Since 2006, more than 7,500 employees have positively impacted more than 135,000 students in more than 600 youth and education projects completed under our Community Volunteering Program.

Each year Agility employees around the world celebrate Earth Day by volunteering for community projects related to the environment. These projects range from tree plantings,

chemical safety workshops, recycling, community clean-up events, and fundraising for ecological causes. In 2018, more than 1,100 of our team members volunteered on close to 40 community environment projects in 17 countries in support of our Earth Day and environmental programs. Since 2006, our Earth Day and environmental program has seen more than 17,000 employees volunteer in more than 45 countries around the world to protect our environment.



Agility launched a community vocational training program at the Agility Logistics Park (ALP) in Tema, Ghana, in collaboration with Oiaida International, a local NGO, to provide free vocational and technical training to 180 local young adults in electrical work, brickmaking, and basic IT and computer skills. The goal is to empower students to find employment using the practical skills they learn in the program.



Agility - Bangladesh continues to support the Gulshan Literacy Program, with seven dedicated employee volunteers tutoring 460 children four times a week in English, general knowledge, and computer skills.



Agility - Philippines employees helped prepare a local elementary school, which supports more than 2,150 students, for the coming school year by donating paint and cleaning supplies.



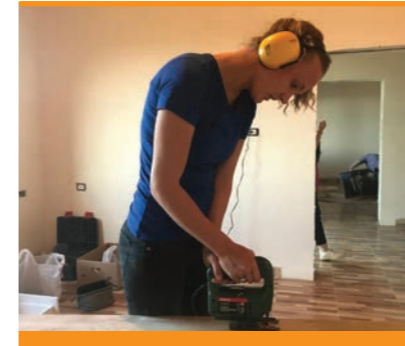
Agility - Iraq renovates washroom facilities and outfits classrooms for a girls' school in Basra that enrolls 500 students a semester.



Agility - Thailand employees participated in their second Global Education Drive project over the course of three months, donating school supplies, and offering 33 scholarships to a total 314 students in a local school, located in a disadvantaged area near a national forest.



Agility - India E-Services Center employees oversaw the reconstruction of washroom facilities, donated benches and desks, and hired three teachers at the Kuknoor Village School; which led to an increase in enrollment from 46 to 155 student in under a year.



Agility - Netherlands employee Dennis de Kiewit, Ocean Freight Export Sr., Operations, completed a project helping the Hoop Voor Albanie (Hope for Albania) Foundation, a local nonprofit, and a youth group traveling to Albania to restore homes, distribute food packages, and build playgrounds among other things to more than 180 families, children, and orphans, after eight months of preparation.



56 Agility - Pakistan employees donated blood to the Fatimid Foundation, a local non-profit that helps thalassemia patients receive free blood transfusions and treatments.



AES team in Hyderabad has been supporting the Good Shepherd Children's Home for the past four years, donating groceries and supplies to cover the needs for more than 70 children who are in need of basic essentials to maintain a decent standard of living.



Tristar Kenya's Office in Nairobi oversaw the construction of two new sanitary facilities for both boys and girls, with bio-digesters, modern cisterns and flowing water, sanitary bins and hand wash dispensers.



Agility - Pakistan has been associated with The Citizen's Foundation (TCF) since 2010. TCF is a professionally managed, non-profit organization set up in 1995 by a group of citizens concerned with the dismal state of education in Pakistan. It is now one of Pakistan's leading organizations in the field of formal education. As of 2014, TCF has established 1,000 purpose-built school units across 100 towns and cities, providing education to 145,000 students.



Sandy McCulloch, Agility - Switzerland - Director Global Tradelane program, completed an 11-day, 1,000-kilometer bike ride to raise awareness and donations for Bloodwise, a UK based charity driving research into the 137 types of blood cancer.

2018 Humanitarian Assistance Projects

Agility responds to natural disasters as part of the Logistics Emergency Teams (LET), which was launched in the World Economic Forum's (WEF) Annual Meeting at Davos in 2008. It is designed to allow the humanitarian community to make a single phone

call to obtain access to the combined and coordinated services of four major logistics companies.

As a part of the LET, Agility has also supported humanitarian relief efforts following natural disasters in India, Bangladesh, Mexico, Peru, Thailand,

United States, Yemen, Japan, Pakistan, Haiti, Myanmar, and the Philippines. The LET have also been deployed to Indonesia, Nigeria, Kuwait, and Turkey to assist humanitarians in preparing staging areas for regional disaster operations.



Agility - Colombia conducted a park creation activity in a disadvantaged neighborhood where more than 300 people reside. The children in the area also received lessons from an environmental expert on how to properly care for the community and the trees that were planted.



Agility - India E-Services Center employees donated more than 39,000 notebooks and stationery supplies to more than 5,500 students in 30 schools around India.



Agility - Romania helped the Local Scouts Center collect, package and distribute school supplies, clothes, and computers to the Frasinet School and kindergarten that hosts 200 children, between the ages of two and 14.



Agility - Iraq supported the UN Global Logistics Cluster and humanitarian partners with customs clearance activities to ensure timely and easy importation into Iraq to support beneficiaries in need of assistance.



In response to the earthquake and tsunami that struck Indonesia in September, the UN Global Logistics Cluster was activated. Seven Agility senior managers from Indonesia, Bangladesh and India were participating in a LET training course, alongside colleagues from UPS, DP World and the Logistics Cluster. The LET were asked to move cargo, including shelter materials, life support, food, health, and water/sanitation materials, into the disaster affected area, and to design an operational supply chain for national and international humanitarian aid organizations - putting their training to immediate use.



Following the flood in Kerala, Sunil Kumar, Sr. Executive, Warehousing at Agility - Cochin, was among these first responders, traveling nearly 35 km to bring his boat and assist local citizen rescue teams to help save the lives of more than 50 individuals affected by the flooding; venturing into pockets where even state deployed personnel could not reach.



Corporate Governance Report



Introduction

Agility complies with all the rules and regulations of Corporate Governance outlined in Module 15 (Corporate Governance) of resolution No. (72) for the year 2015 on the issuance of law No. (7) for the year 2010 on the establishment of the Capital Markets Authority and the regulation of securities activities. The compliance also supports the aspirations of the company's business and ensures professionalism, responsibility, and control over the performance as those rules are an important part of the company's identity. The company adopts all institutional discipline standards outlined in the Corporate Governance Module, which includes the roles and responsibilities of the Board of Directors, the Chairman and the Chief Executive Officer, the competent committees, as well as the disclosure frameworks and standards of proper and sound risk management. The company adopts policies of neutrality and independence on many levels and functions. For example, the separation of the Chairman position from

the Chief Executive Officer. Moreover, the company has also outlined the responsibilities of the Board of Directors and their ability to oversee the company's internal control system and ensure its efficiency. The company also adopts a clear policy for disclosure and transparency of information to reflect accurate and timely communication with its shareholders. Additionally, as per the company's organizational structure, the Board plays a key role in ensuring that the company has a sound Corporate Governance framework aligned with regulatory requirements. Accordingly, it is the ultimate responsibility of the Board of Directors to ensure that the company complies with all its legal obligations in accordance with its articles of association and commitment to its duties towards shareholders. The Board of Director's has formed three committees, those in addition to the Executive Management and internal and external auditors of the company support the Board in carrying its duties and responsibilities.

Corporate Governance Rules and Regulations

Rule I: Construct a Balanced Board

Board Composition

The Board of Directors aims to protect the interests of all stakeholders and monitor the performance of the Executive Management. The Board also seeks to achieve the company's strategic goals by ensuring that the Executive Management is meeting its responsibilities. Moreover, the Board of Directors works to enhance the competitiveness of the company to achieve high growth rates.

Agility has a balanced Board structure that takes into account the nature and size of its business structure. The members of the Board have diverse backgrounds, expertise and qualified skills to positively impact the company's performance and enhance its financial position and market share.

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

Agility Board Members are:

Name	Position	Type	Background	Date of appointment
Henadi Al-Saleh	Chairman	Executive	Bachelor in Economics	25 May 2016
Tarek Sultan	Vice Chairman	Executive	Masters in Business Administration	25 May 2016
Sultan Al-Essa	Member	Non-Executive	Bachelor in Management	29 March 2017
Adel Al-Bader	Member	Non-Executive	Bachelor in Economics and Finance	25 May 2016
Naser Al-Rashed	Member	Independent	Bachelor in Engineering	25 May 2016
Faisal Al-Essa	Member	Non-Executive	Bachelor in Management	25 May 2016
Ayman Al-Sultan*	Member	Non-Executive	Masters in Business Administration and Economics	25 May 2016
Sonia Al-Sharafi	Board Secretary	Board Secretary	More than 25 years of experience	25 May 2016

*Ayman Al Sultan resigned in April 2018

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

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

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

The Board of Directors held 6 meetings during 2018, and attendance was as follows:

Name	Meeting record						Attendance	Absence
	Jan 2018	Feb 2018	May 2018	Aug 2018	Aug 2018	Nov 2018		
Henadi Al-Saleh Chairman	√	√	√	√	√	√	6/6	0
Tarek Sultan- Vice chairman	√	√	√	√	√	√	6/6	0
Adel Al-Bader	√	√	√	x	x	√	4/6	2/6
Sultan Al-Essa	√	√	√	√	√	√	6/6	0
Naser Al-Rashed	√	√	√	√	√	√	6/6	0
Faisal Al-Essa	√	√	√	√	√	√	6/6	0
Ayman Al-Sultan*	√	x	-	-	-	-	1/2	1/2

*Ayman Al Sultan resigned in April 2018

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

Rule II: Establish Appropriate Roles and Responsibilities

In 2018, Agility’s Board of Directors exercised its oversight to ensure that the company complied and enforced all Corporate Governance requirements as set by the Capital Markets Authority. The Board also followed a Charter that outlines the roles and responsibilities of the members, Chairman, and Executive Management in accordance with the rules and regulations of Corporate Governance.

Roles and responsibilities of the Board of Directors:

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

Roles and responsibilities of the Board Chairman:

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

Roles and responsibilities of the Executive Management:

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

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

Board Committees

Formation of various committees is part of the Board’s responsibilities. The committees enable the Board to fulfill its roles effectively, in line with the company’s needs and work conditions. The Board of Directors has formed committees in accordance with the rules and regulations of the Corporate Governance policy set by the Capital Markets Authority. The Board Committees include:

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

Audit Committee:

Formed: 24 June 2016 Period: 3 years Members: 3

Members	Role	Classification
Naser Al-Rashed	Chairman	Independent
Adel Al-Bader	Member	Non-executive
Faisal Al-Essa	Member	Non-executive

Roles and responsibilities:

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

The committee has met 4 times during 2018, and attendance was as follows:

Naser Al-Rashed: 4/4
 Adel Al-Bader: 3/4
 Faisal Al-Essa: 4/4

Committee main achievements in 2018:

1. Monitored the performance of the internal audit department
2. Reviewed internal audit reports periodically
3. Reviewed quarterly financials before submitting them to the Board
4. Reviewed applicable accounting policies

Risk Management Committee:

Formed: 24 June 2016 Period: 3 years Members: 3

Members	Role	Classification
Naser Al-Rashed	Chairman	Independent
Adel Al-Bader	Member	Non-executive
Tarek Sultan	Member	Executive

Roles and responsibilities:

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

The committee has met 4 times during 2018, and attendance was as follows:

Naser Al-Rashed: 4/4
 Adel Al-Bader: 3/4
 Tarek Sultan: 4/4

Committee main achievements in 2018:

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

Nomination and Remuneration Committee:

Formed: 14 December 2016 Period: 3 years Members: 3

Members	Role	Classification
Faisal Al-Essa	Chairman	Non-executive
Naser Al-Rashed	Member	Independent
Tarek Sultan	Member	Executive

Roles and responsibilities:

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

The committee met once during 2018, and attendance was as follows:

Naser Al-Rashed: 1/1
 Faisal Al-Sultan: 1/1
 Tarek Al-Sultan: 1/1

Committee main achievements in 2018:

1. The Committee reviewed the Company's remuneration policy
2. Conducted the annual review of the needed requirements and skills for Board membership and Executive Management

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

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

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

Board members' biographies:

Henadi Al-Saleh - Chairman

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

Tarek Sultan – Vice Chairman

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

Adel Al-Bader – Board Member

Adel Mohamed Al-Bader is the Manager of the Real Estate Department at PIFSS, responsible for international and local real estate investments. He is a member of the Investment Committee of PIFSS. Mr. Al-Bader joined PIFSS in 1985 and during the past 30 years, he also managed the International Equities and Commodities for PIFSS.

Another position currently held by Mr. Al-Bader in Kuwait is Chairman of Iskan Oman Investment Company. Mr. Al-Bader is an honors graduate from Kuwait University, majoring in economics and finance.

Sultan Anwar Al-Essa – Board Member

Sultan Anwar Al-Essa is the CEO and Vice Chairman of Union Real Estate Co. (UREC), a leader in developing, leasing and managing luxury apartments within Kuwait.

Founded in 1975, UREC remains focused on providing the best service for its loyal customers. Mr. Al-Essa has been with UREC since 2008. Prior to that, he worked at Petroleum Services Co., a privately owned company focused on supplying and servicing the oil & gas sector.

Mr. Al-Essa graduated from Northeastern University in Boston with a degree in management.

Faisal Jamil Al-Essa – Board Member

Faisal Jamil Al-Essa is the Vice Chairman & CEO of Kuwait based National Real Estate Company K.P.S.C., one of the leading publicly traded real estate companies in the Middle East with more than \$US 2 billion in assets under management and projects and offices in more than ten countries.

Before becoming Vice Chairman and CEO, Mr. Al-Essa served NREC by leading its business development function and as a board member, chairman and MD of various subsidiary organizations.

He is also Chairman of Kuwait Agro Holding, one of the leading fruits and vegetable, poultry and dairy companies in the Middle East.

Mr. Al-Essa is a graduate of US based Barry University with a degree in Management.

Nasser Al-Rashed – Board Member

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

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

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

Al-Rashed holds a Bachelor of Science in Engineering from Purdue University, USA, and an MBA from the University of Santa Clara, USA.

Nomination and Remuneration

The Board of Directors has formed the Nomination and Remuneration Committee in accordance with the rules stipulated in article 4-1 of the Corporate Governance Module.

Committee’s main responsibilities are:

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

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

Board of Directors Remuneration

Board remuneration is recommended by the Board Nomination and Remuneration Committee and approved by the shareholders during the general assembly meeting. And as stipulated by the Articles of Associations of the company, Board remuneration should not exceed 10% of the company’s net profits after deducting depreciation and reserves.

Based on the recommendation of the Nominations and Remuneration Committee, Total Board remuneration for the year 2018 was 140 thousand dinar Kuwaitis, equally distributed between all Board members. In addition, to other benefits and allowances of 350 thousand Kuwaiti Dinars distributed among the members according to their performance and the amount of work done.

Executive Management Remuneration

Executive Management remuneration consists of two components. The first component is fixed compensation based on the level of responsibilities. The second component is variable remuneration linked to the achievement of previously established targets. Both types of compensation are reviewed by the Nomination and Remuneration Committee and relative departments on an annual basis. The total remuneration given to Executive Management for the year 2018 is as follows:

Category	Fixed remuneration KD 000	Variable Remuneration KD 000	Total KD 000
Executive Management	1,473	2,399	3,872

Rule IV: Safeguard the Integrity of Financial Reporting

Financial statements and external auditors

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

Financial Reports:

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

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

Audit Committee

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

The Board of Directors appointed an Audit Committee according to the regulations in Article 5-6 of the Corporate Governance Module 15. The Audit Committee consists of three non-executive members and an independent member, who have diverse backgrounds consistent with the nature of the company’s activity and their responsibility. The Board charter sets out the term, structure and responsibilities of the committee. During 2018, the committee met four times during the year on a quarterly basis, and no contradictory views were noticed between the committee’s recommendations and Board of Directors’ resolutions.

Audit Committee responsibilities:

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

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

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

Based on the above, the Audit Committee has recommended to the Board the reappointment of the company’s current external auditors: Mr. Bader Adel Al Abduljader / Ernst & Young and Mr. Shuaib Abdullah Shuaib / RSM-Al Bazei and Partners to be presented to the AGM for approval.

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

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

Risk Management Committee

The Board of Directors has formed a Risk Management Committee according to the Corporate Governance regulations as outlined in Article 6-4 of Module 15. The committee consists of three members from the Board of Directors: an executive member, an independent member, and a chair non-executive member.

The Risk Management Committee has a number of responsibilities:

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

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

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

1. Sound identification of authorities and responsibilities
2. Separation of roles and elimination of conflicts of interest
3. Inspection and dual audit
4. Dual signature
5. Implementing policies and procedures to be followed while doing business
6. Advanced IT systems (e-forms approval process) for separation of duty
7. Advanced IT systems for protection (next generation firewalls, network intrusion detection systems, Unified Threat Management (UTM) Appliances, Trend Micro Antivirus)

The company has hired an independent company (Deloitte) to evaluate and review the internal audit systems in place and prepare a report in this regard (Internal Control Report) to be presented to the Capital Markets Authority. The company will hire another audit firm to revise and evaluate the internal audit department/office/ unit periodically every three years.

Internal Audit Department

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

Rule VI: Promote Code of Conduct and Ethical Standards

The company, represented by the Board of Directors and Executive Management and its employees, believes that the professional and ethical standards are of the most important aspect in the company's success. Upon this belief, the company complies with the approved policies of the Board of Directors in this regards. The policies stipulate that in the case of violation, the responsibility of reporting is on every employee without exception. The policies touch upon other important aspects, such as the relationship with trading partners and the integrity of financial data, as well as the safety of information and the environment. The Board of Directors, Executive Management, and employees are required to follow these policies in all of their job functions and duties.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Rule VIII: Respect the Rights of Shareholders**Summary on applying the requirements of identifying and protecting the general rights of shareholders to ensure the fairness and equality:**

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

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

Moreover, the company strives to strengthen its communication with its investors and financial analysts. The company is committed to transparency in providing its financial information through various communication channels in accordance to the best professional practices of disclosures and transparency.

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

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

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

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

Rule IX : Recognize the Roles of Stakeholders**Brief on the conditions and policies that ensure the protection of the rights of stakeholders:**

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

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

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

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

The company also maintains a complaints section on its website. It is reviewed by the Compliance Department in order to take appropriate action.

Rule X: Encourage and Enhance Performance**Summary on the development of mechanisms that allow the Board members and Executive Management to attend training programs and courses regularly:**

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

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

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

The Board of Directors charter identified the way to evaluate every Board member and the Board as a whole through a set of performance measurement indicators tied to the achievement of strategic goals of the company.

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

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

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

Rule XI: Focus on the Importance of Corporate Social Responsibility**Summary on the application of a policy intended to accomplish a balance between the company's business goals and corporate social responsibility goals:**

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

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

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

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



Auditors' Report





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

Report on the Audit of the Consolidated Financial Statements

Qualified Opinion

We have audited the consolidated financial statements of Agility Public Warehousing Company K.S.C.P (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

As stated in Note 10 to the consolidated financial statements, the Group's investment in and loan to Korek Telecom ("Korek") is carried at KD 109,246 thousand (2017: KD 108,425 thousand) and KD 35,321 thousand (2017: KD 35,098 thousand), respectively, in the consolidated statement of financial position as at 31 December 2018. The Group has filed an arbitration related to its investment in Korek. We were unable to obtain sufficient appropriate audit evidence about the investment in Korek and the recoverability of the loan due to the nature and significant uncertainty around the investment and outcome of the arbitration. Consequently, we were unable to determine whether any adjustments to the carrying value of the investment and loan to Korek was necessary.

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

Emphasis of Matter

We draw attention to:

- (i) Note 26 (a) to the consolidated financial statements, which describes the contingencies relating to cost reimbursable contracts with U.S. Coalition Provisional Authority ("CPA");
- (ii) Note 26 (b) to the consolidated financial statements, which describes the contingencies and claims relating to the litigations with the General Administration of Customs for Kuwait; and



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

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

Emphasis of Matter (continued)

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

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

Key Audit Matters

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

a) Impairment of goodwill

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

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

We also reviewed the adequacy of the Group's disclosures included in Note 8 to the consolidated financial statements about those assumptions to which the outcome of the impairment test is more sensitive.

b) Contingent liabilities and provisions from claims and proceedings

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



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

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

Key Audit Matters (continued)

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

The determination of (contingent) liabilities from investigations, claims and proceedings is judgmental and the amounts involved are, or can be material to the Group's consolidated financial statements as a whole. Details of Group's investigations and legal claims are presented in Note 10 and Note 26 of the consolidated financial statements. Due to the significant judgment and estimation uncertainty with respect to the ongoing investigations and legal claims, we identified this as key audit matter.

In response to this matter, our audit procedures included, amongst others, understanding of the Group's processes around the identification and evaluation of investigations, claims and proceedings at different levels in the organization, the recording and continuous re-assessment of the related (contingent) liabilities, provisions and disclosures in accordance with IFRS. We also inquired with management in respect of ongoing investigations or claims, proceedings and read relevant correspondence and minutes of the meetings of the Board of Directors, requested internal and external legal confirmation letters of the Group. We also assessed the appropriateness of disclosure regarding (contingent) liabilities from investigations, claims and proceedings and as shown in Note 10 and Note 26 to the consolidated financial statements.

Other information included in the Group's 2018 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2018 Annual Report, other than the consolidated financial statements and our auditor's report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Group's 2018 Annual Report after the date of our auditor's report.

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

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

As described in the Basis for Qualified Opinion section above, we were unable to obtain sufficient appropriate audit evidence about the carrying value of Group's investment and loan to Korek as at 31 December 2018. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.



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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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



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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that, except for the possible effect of the matters described in the Basis for Qualified Opinion section above, we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No.1 of 2016, as amended, and its Executive Regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief,



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

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

Report on Other Legal and Regulatory Requirements (continued)

no violations of the Companies Law No.1 of 2016, as amended, and its Executive Regulations, as amended, nor of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2018 that might have had a material effect on the business of the Parent Company or on its financial position.

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

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

21 February 2019
Kuwait



Consolidated Financial Statements



CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Notes	31 December 2018 KD 000's	31 December 2017 KD 000's
ASSETS			
Non-current assets			
Property, plant and equipment	4	296,690	276,835
Projects in progress	5	42,087	30,065
Investment properties	6	301,568	283,845
Intangible assets	7	25,536	25,944
Goodwill	8	249,708	258,268
Investment in associates and joint ventures	9	101,228	62,814
Financial assets at fair value through profit or loss	10	112,831	108,611
Financial assets at fair value through other comprehensive income	11	15,150	-
Financial assets available for sale	11	-	22,669
Other non-current assets		36,176	32,777
Loan to a related party	27	42,054	61,525
Loan to an associate	10, 27	35,321	35,098
Total non-current assets		1,258,349	1,198,451
Current assets			
Inventories	12	20,989	16,497
Trade receivables	13	338,245	303,977
Other current assets	14	99,649	84,325
Bank balances, cash and deposits	15	125,927	125,690
Total current assets		584,810	530,489
TOTAL ASSETS		1,843,159	1,728,940
EQUITY AND LIABILITIES			
EQUITY			
Share capital	16	153,299	133,303
Share premium	16	152,650	152,650
Statutory reserve	16	76,279	67,781
Treasury shares	16	(49,239)	(49,239)
Treasury shares reserve		44,366	44,366
Foreign currency translation reserve	16	(38,428)	(28,775)
Hedging reserve	16	(18,897)	(17,542)
Investment revaluation reserve	16	351	2,280
Other reserves	16	(24,848)	(24,423)
Retained earnings		718,006	693,404
Equity attributable to equity holders of the Parent Company		1,013,539	973,805
Non-controlling interests	3	52,695	49,787
Total equity		1,066,234	1,023,592
LIABILITIES			
Non-current liabilities			
Provision for employees' end of service benefits	17	46,837	45,431
Interest bearing loans	18	207,448	86,094
Other non-current liabilities	19	16,165	20,531
Total non-current liabilities		270,450	152,056
Current liabilities			
Interest bearing loans	18	53,534	132,841
Trade and other payables	20	444,718	412,090
Dividends payable		8,223	8,361
Total current liabilities		506,475	553,292
Total liabilities		776,925	705,348
TOTAL EQUITY AND LIABILITIES		1,843,159	1,728,940


Tarek Abdul Aziz Sultan
Vice Chairperson and CEO

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

CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2018

	Notes	2018 KD 000's	2017 KD 000's
Revenues			
Logistics and freight forwarding revenues		1,336,620	1,215,755
Rental revenues		62,784	60,196
Other services		150,786	131,082
		1,550,190	1,407,033
Cost of revenues			
		(1,052,380)	(937,168)
Net revenues		497,810	469,865
General and administrative expenses	21	(352,583)	(350,514)
Reversal of provisions		-	29,505
Settlement of litigation claims		-	(28,785)
Change in fair value of investment properties	6	1,320	12,767
Impairment of financial assets		-	(6,300)
Share of results of associates and joint ventures	9	4,914	4,295
Miscellaneous income		3,380	4,390
Profit before interest, taxation, depreciation, amortisation and Directors' remuneration (EBITDA)		154,841	135,223
Depreciation	4	(31,362)	(29,844)
Amortisation	7	(4,632)	(4,034)
Profit before interest, taxation and Directors' remuneration (EBIT)		118,847	101,345
Interest income		5,130	3,302
Finance costs		(14,132)	(11,577)
Profit before taxation and Directors' remuneration		109,845	93,070
Taxation	22	(9,929)	(10,652)
Directors' remuneration		(140)	(140)
PROFIT FOR THE YEAR		99,776	82,278
Attributable to:			
Equity holders of the Parent Company		81,110	68,510
Non-controlling interests		18,666	13,768
		99,776	82,278
BASIC AND DILUTED EARNINGS PER SHARE - ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (fiIs)			
	23	56.06	47.31

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	2018 KD 000's	2017 KD 000's
Profit for the year	99,776	82,278
Other comprehensive income:		
<i>Items that are or may be reclassified to consolidated statement of income in subsequent periods:</i>		
Net change in fair value of financial assets available for sale	-	444
(Loss) gain on hedge of net investments (Note 18)	(874)	40
(Loss) gain on cash flow hedges	(109)	219
Share of other comprehensive loss of a joint venture	(372)	-
Foreign currency translation adjustments	(11,688)	(3,543)
Net other comprehensive loss that are or may be reclassified to consolidated statement of income in subsequent periods	(13,043)	(2,840)
<i>Items that will not be reclassified to consolidated statement of income in subsequent periods:</i>		
Re-measurement gain on defined benefit plans (Note 17)	590	3,748
Changes in fair value of equity instruments at fair value through other comprehensive income	477	-
Net other comprehensive income that will not be reclassified to consolidated statement of income in subsequent periods	1,067	3,748
Other comprehensive (loss) income	(11,976)	908
Total comprehensive income for the year	87,800	83,186
Attributable to:		
Equity holders of the Parent Company	70,836	67,104
Non-controlling interests	16,964	16,082
	87,800	83,186

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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2018

	Notes	2018 KD 000's	2017 KD 000's
OPERATING ACTIVITIES			
Profit before taxation and Directors' remuneration		109,845	93,070
Adjustments for:			
Change in fair value of investment properties	6	(1,320)	(12,767)
Share of results of associates and joint ventures	9	(4,914)	(4,295)
Expected credit losses of trade receivables	13	905	-
Provision for impairment of trade receivables	13	-	1,102
Provision for employees' end of service benefits	17	11,187	9,257
Impairment of financial assets		-	6,300
Foreign currency exchange gain		(507)	(376)
Reversal of provisions		-	(29,505)
Settlement of litigation claims		-	28,785
Miscellaneous income		(3,380)	(4,390)
Interest income		(5,130)	(3,302)
Finance costs		14,132	11,577
Depreciation	4	31,362	29,844
Amortisation	7	4,632	4,034
Operating profit before changes in working capital		156,812	129,334
Inventories		(4,521)	(2,344)
Trade receivables		(50,094)	(53,138)
Other current assets		(8,069)	(6,494)
Trade and other payables		26,344	44,993
Cash from operations		120,472	112,351
Settlement of litigations claims		-	(28,785)
Taxation paid		(13,904)	(10,316)
Directors' remuneration paid		(140)	(140)
Employees' end of service benefits paid	17	(8,691)	(8,402)
Net cash flows from operating activities		97,737	64,708
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(46,881)	(43,589)
Proceeds from disposal of property, plant and equipment		1,525	795
Additions to projects in progress	5	(21,585)	(18,930)
Net movement in other current asset		-	11,573
Net movement in other non-current assets		(1,255)	-
Additions to investment properties	6	(8,200)	(2,192)
Additions to intangible assets	7	(170)	-
Acquisition of additional interest in a joint venture	9	(5,125)	-
Acquisition of additional interests in subsidiaries		(1,858)	(39)
Acquisition of subsidiaries net of cash acquired		(2,842)	(5,541)
Net movement in financial assets at fair value through profit or loss		1,394	-
Net movement in financial assets at fair value through other comprehensive income		(2,057)	-
Net movement in financial assets available for sale		-	(1,537)
Loan to a related party		(8,603)	(38,914)
Dividends received from associates	9	2,054	1,698
Net movement in deposits with original maturities exceeding three months		-	7,065
Interest income received		893	570
Net cash flows used in investing activities		(92,710)	(89,041)
FINANCING ACTIVITIES			
Purchase of treasury shares		-	(3,951)
Net movement in interest bearing loans		40,897	82,615
Finance costs paid		(14,011)	(11,045)
Dividends paid to equity holders of the Parent Company		(18,993)	(17,337)
Dividends paid to non-controlling interests		(12,529)	(10,576)
Increase of non-controlling interests in a subsidiary		414	22,568
Net cash flows (used in) from financing activities		(4,222)	62,274
Net foreign exchange translation differences		(568)	509
NET INCREASE IN CASH AND CASH EQUIVALENTS		237	38,450
Cash and cash equivalents at 1 January		125,690	87,240
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	15	125,927	125,690

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

Attributable to equity holders of the Parent Company

	Share capital KD 000's	Share premium KD 000's	Statutory reserve KD 000's	Treasury shares KD 000's	Treasury shares reserve KD 000's	Foreign currency translation reserve KD 000's	Hedging reserve KD 000's	Investment revaluation reserve KD 000's	Other reserves KD 000's	Retained earnings KD 000's	Sub total KD 000's	Non controlling interests KD 000's	Total equity KD 000's
As at 1 January 2018	133,303	152,650	67,781	(49,239)	44,366	(28,775)	(17,542)	2,280	(24,423)	693,404	973,805	49,787	1,023,592
Impact of adopting IFRS 9 at 1 January 2018 (Note 25)	-	-	-	-	-	333	-	(2,406)	-	(9,141)	(11,214)	(1,836)	(13,050)
As at 1 January 2018 (restated)	133,303	152,650	67,781	(49,239)	44,366	(28,442)	(17,542)	(126)	(24,423)	684,263	962,591	47,951	1,010,542
Profit for the year	-	-	-	-	-	-	-	-	-	81,110	81,110	18,666	99,776
Other comprehensive (loss) income	-	-	-	-	-	(9,986)	(1,355)	477	590	-	(10,274)	(1,702)	(11,976)
Total comprehensive (loss) income for the year	-	-	-	-	-	(9,986)	(1,355)	477	590	81,110	70,836	16,964	87,800
Dividends (Note 16)	-	-	-	-	-	-	-	-	-	(18,873)	(18,873)	-	(18,873)
Issue of bonus share (Note 16)	19,996	-	-	-	-	-	-	-	-	(19,996)	-	-	-
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(12,529)	(12,529)
Transfer to statutory reserve	-	-	8,498	-	-	-	-	-	-	(8,498)	-	-	-
Increase of non-controlling interest in a subsidiary	-	-	-	-	-	-	-	-	-	-	-	414	414
Acquisition of additional interest in Subsidiaries	-	-	-	-	-	-	-	-	(1,015)	-	(1,015)	(105)	(1,120)
As at 31 December 2018	153,299	152,650	76,279	(49,239)	44,366	(38,428)	(18,897)	351	(24,848)	718,006	1,013,539	52,695	1,066,234

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

Attributable to equity holders of the Parent Company

	Share capital KD 000's	Share premium KD 000's	Statutory reserve KD 000's	Treasury shares KD 000's	Treasury shares reserve KD 000's	Foreign currency translation reserve KD 000's	Hedging reserve KD 000's	Investment revaluation reserve KD 000's	Other reserves KD 000's	Retained earnings KD 000's	Sub total KD 000's	Non controlling interests KD 000's	Total equity KD 000's
As at 1 January 2017	121,185	152,650	60,593	(45,288)	44,366	(22,918)	(17,801)	1,836	(35,397)	661,356	920,582	28,660	949,242
Profit for the year	-	-	-	-	-	-	-	-	-	68,510	68,510	13,768	82,278
Other comprehensive (loss) income	-	-	-	-	-	(5,857)	259	444	3,748	-	(1,406)	2,314	908
Total comprehensive (loss) income for the year	-	-	-	-	-	(5,857)	259	444	3,748	68,510	67,104	16,082	83,186
Dividends (Note 16)	-	-	-	-	-	-	-	-	-	(17,156)	(17,156)	-	(17,156)
Issue of bonus share (Note 16)	12,118	-	-	-	-	-	-	-	-	(12,118)	-	-	-
Purchase of treasury shares	-	-	-	(3,951)	-	-	-	-	-	-	(3,951)	-	(3,951)
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(10,576)	(10,576)
Transfer to statutory reserve	-	-	7,188	-	-	-	-	-	-	(7,188)	-	-	-
Acquisition of investments in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	232	232
Increase of non-controlling interest in a subsidiary	-	-	-	-	-	-	-	-	7,260	-	7,260	15,394	22,654
Acquisition of additional interest in subsidiaries	-	-	-	-	-	-	-	-	(34)	-	(34)	(5)	(39)
As at 31 December 2017	133,303	152,650	67,781	(49,239)	44,366	(28,775)	(17,542)	2,280	(24,423)	693,404	973,805	49,787	1,023,592

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

1- CORPORATE INFORMATION

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

The main objectives of the Parent Company are as follows:

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

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

The consolidated financial statements of the Parent Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 14 February 2019, and are issued subject to the approval of the Annual General Assembly of the shareholders of the Parent Company. The Annual General Assembly of the shareholders has the power to amend these consolidated financial statements after issuance.

2- SIGNIFICANT ACCOUNTING POLICIES

2.1- BASIS OF PREPARATION

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

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

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

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

2.2- BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries (investees which are controlled by the Group) including special purpose entities as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2- BASIS OF CONSOLIDATION (continued)

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises, the related assets (including goodwill), liabilities, non-controlling interest and other component of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

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

2.3- CHANGE IN ACCOUNTING POLICIES

The accounting policies applied are consistent with those used in the previous year except for the adoption of IFRS 9: Financial Instruments and IFRS 15: Revenue from Contracts with Customers.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Adoption of IFRS 15: Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in scope of other standards. The new standard established a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange of transferring goods or services to customer.

The standard requires the Group to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations.

The adoption of this standard will result only into change in accounting policies as discussed in Note 2.5 and did not result in any material effect on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3- CHANGE IN ACCOUNTING POLICIES (continued)

Adoption of IFRS 9: Financial Instruments

The Group has adopted IFRS 9 - Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The Group has not restated comparative information for 2017 as permitted by the transitional provisions of the standard. Therefore, the information presented for 2017 does not reflect the requirements of IFRS 9 and is not comparable to the information presented for 2018. Differences in the carrying amount of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings, non-controlling interest and reserves as at 1 January 2018 and are disclosed in Note 25.

The key changes to the Group's accounting policies resulting from the adoption of IFRS 9 are summarised below:

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The new standard requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. IFRS 9 eliminated the previous IAS 39 categories of held to maturity, loans and receivables, fair value through profit or loss and available for sale and have been replaced by:

- Debt instruments measured at amortised cost
- Debt instruments at FVOCI, with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to statement of income on derecognition
- Financial assets at FVTPL

IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVTPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the consolidated statement of income.

The accounting for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements will be presented in other comprehensive income with no subsequent reclassification to the statement of income, unless an accounting mismatch in profit or loss would arise.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification. The Group's accounting policies for classification and measurement of financial assets under IFRS 9 is explained in Note 2.5.

The impact of adoption of IFRS 9 is disclosed in Note 25.

Impairment of financial assets

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all debt financial assets not held at fair value through profit or loss. The Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the financial assets and the economic environment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3- CHANGE IN ACCOUNTING POLICIES (continued)

Adoption of IFRS 9: Financial Instruments (continued)

Impairment of financial assets (continued)

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

The Group considers a financial asset in default when contractual payment are 180 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The Group's accounting policies for impairment of financial assets is explained in Note 2.5. The quantitative impact of adoption of IFRS 9 as at 1 January 2018 is disclosed in Note 25.

Hedge accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required.

As permitted by IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39.

2.4- STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 'Leases' with an effective date of annual periods beginning on or after 1 January 2019 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the financing expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4- STANDARDS ISSUED BUT NOT YET EFFECTIVE

IFRS 16 Leases (continued)

IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Group plans to adopt IFRS 16 using the modified retrospective method. Applying this method, the comparative information will not be restated. The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

The Group is currently in the process to determine the impact of IFRS 16 on its consolidated financial statements.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Group.

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

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

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

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

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

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

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

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

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

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

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

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

Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

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

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

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair values less costs to sell and their value in use.

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

Projects in progress

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

Investment properties

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

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

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

Intangible assets

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

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

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

Build-own-transfer ("BOT") projects

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

Customer lists

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

Other intangible assets

Other intangible assets are amortised over a period of 9 years.

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

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

Brand

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

Goodwill

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates and joint ventures

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

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

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

a. Equity method

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

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

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

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

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

b. Measured at fair value

The Group's investment in an associate held through a Venture Capital Organisation, is measured at fair value. This treatment is permitted by IAS 28 'Investment in Associates and Joint Ventures', which allows investments held by Venture Capital Organisations to be accounted for at fair value through profit or loss in accordance with IFRS 9 'Financial Instruments', with changes in fair value recognised in the consolidated statement of income in the period of the change.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

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

Date of recognition

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

Initial measurement of financial instruments

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

Measurement categories of financial assets and liabilities

From 1 January 2018, the Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

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

Before 1 January 2018, the Group classified its financial assets as loans and receivables, financial assets at FVTPL, financial assets available for sale and derivative financial instruments. Whereas, the Group financial liabilities included interest bearing loans and trade and other payables.

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

i) Financial assets

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

Business model assessment

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

i) Financial assets (continued)

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)

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

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

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

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

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

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

Debt instruments at amortised cost

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

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

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

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

Debt instruments at FVTPL

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

i) Financial assets (continued)

Equity instruments at FVOCI

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

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

Equity instruments at FVTPL

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

Changes in fair values, interest income and dividends are recorded in consolidated statement of income according to the terms of the contract, or when the right to payment has been established.

Included in this classification are certain equity securities and funds.

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

a. Financial assets at fair value through profit or loss

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

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

b. Loan to an associate and related party

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

c. Trade receivables

Trade receivables are carried at original invoice amount less expected credit losses and are stated at amortised cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

i) Financial assets (continued)

d. Bank balances, cash and deposits

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

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

e. Other current assets

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

f. Financial assets available for sale (AFS) – Policy applicable before 1 January 2018

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 statement of income, or determined to be impaired, at which time the cumulative loss previously recorded in other comprehensive income is recognised in the consolidated statement of income. 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.

g. Loans and receivables – Policy applicable before 1 January 2018

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in interest income in the statement of comprehensive income. The losses for loans and receivables arising from impairment are recognised in the consolidated statement of income.

Reclassification of financial assets

The Group does not reclassify its financial assets subsequent to their initial recognition except under circumstances in which the Group acquires, disposes of, or terminates a business line.

Derivative financial instruments and hedge accounting

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

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that,

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Financial assets (continued)

Derivative financial instruments and hedge accounting (continued)

in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument. Under IAS 39, derivatives embedded in financial assets, liabilities and non-financial host contracts, were treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVTPL. The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognised in the consolidated statement of income.

From 1 January 2018, with the introduction of IFRS 9, the Group accounts in this way for derivatives embedded in financial liabilities and non-financial host contracts. Financial assets are classified based on the business model and SPPI assessments.

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

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

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

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

a) Fair value hedges

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Financial assets (continued)

Derivative financial instruments and hedge accounting (continued)

a) Fair value hedges (continued)

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

b) Cash flow hedges

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

c) Hedges of a net investment

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

The Group uses interest bearing loans to hedge its exposure to foreign exchange risk on its investments in overseas subsidiaries. Refer to Note 18 for more details.

Derecognition of financial assets

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ii) Financial liabilities

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

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

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

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

a. Financial liabilities at fair value through profit or loss

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

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

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

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

b. Interest bearing loans

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

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

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

c. Trade and other payables

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

Derecognition of financial liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

iii) Offsetting of financial instruments

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

Impairment of financial assets

Policy applicable from 1 January 2018

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

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

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

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

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

Policy applicable before 1 January 2018

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 statement of income. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Policy applicable from 1 January 2018 (continued)

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 statement of income; 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 statement of income, the impairment loss is reversed through the consolidated statement of income.

Fair values

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

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

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

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

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

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

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

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair values (continued)

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

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

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

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

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

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

Inventories

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

Impairment of non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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

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

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

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

Treasury shares

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

Foreign currency translation

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

A provision is recognised when, and only when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be incurred to settle the obligation.

Employees' end of service benefits

Local

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

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

International

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

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

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

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

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

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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.

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 statement of income 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 from contracts with customers

The Group is primarily engaged in providing the following services:

Logistics revenue

Logistics revenue primarily comprises inventory management, order fulfilment, transportation and warehousing services. Before 1 January 2018, the Group recognised the logistics revenue at the fair value of consideration received or receivable for goods and services and was recognised upon completion of the services.

After 1 January 2018, logistics revenues are recognised at the point in time when the services are rendered to the customer except for warehousing services that are recognised over time, using an input method to measure progress towards complete satisfaction of the service.

Freight forwarding and project forwarding revenues

The Group generates freight forwarding revenues by purchasing transportation capacity from independent air, ocean and overland transportation providers and reselling that capacity to customers. Revenues reported in this segment include revenues generated from the principal service as well as revenues generated from brokerage services as such customs clearance, documentation and arrangement of complex logistics supply movement that are incidental to the principal service. Before 1 January 2018, the Group recognised the revenues in the period services are rendered, by reference to stage of completion of the services.

After 1 January 2018, the Group concluded that revenue from the freight forwarding and project forwarding revenues will continue to be recognised over time, using an input method to measure progress towards complete satisfaction of the service except for brokerage services that are recognised at the point in time when the services are rendered to the customer.

Rental services

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

Interest income

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

Dividend income

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

National Labour Support Tax (NLST)

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

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

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

Zakat

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

Taxation on overseas subsidiaries

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

2.6- SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgements

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

Revenue from contracts with customers

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

a. Identifying performance obligations in a bundled contract

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Judgements (continued)

Revenue from contracts with customers (continued)

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

b. Determine transaction price

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

c. Determining the timing of satisfaction of services

i. Freight forwarding and project forwarding services

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

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

ii. Logistics revenue

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

d. Principal versus agent considerations

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

e. Consideration of significant financing component in a contract

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

Classification of financial assets - applicable from 1 January 2018

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Judgements (continued)

Classification of financial assets – applicable before 1 January 2018

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 statement of income 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 – applicable before 1 January 2018

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.

Fair values of assets and liabilities acquired

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

Contingencies

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

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

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

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

Estimates and assumptions

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

Impairment of goodwill and intangible assets (with indefinite life)

The Group determines whether goodwill and indefinite life intangible assets are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the respective asset is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of intangible assets and goodwill with indefinite lives at 31 December 2018 were KD 4,721 thousand and KD 249,708 thousand respectively (2017: KD 4,721 thousand and KD 258,268 thousand, respectively). More details are given in Notes 7 and 8.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Estimates and assumptions (continued)

Valuation of investment properties

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

Fair value measurements of financial instruments

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

Provision for expected credit losses of trade receivables - applicable from 1 January 2018

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

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

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

Impairment of trade receivables - applicable before 1 January 2018

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.

Pension and other post employment benefits

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Estimates and assumptions (continued)

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

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

Further details about defined benefit obligations are given in Note 17.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

3- GROUP INFORMATION

Principal subsidiaries of the Group are as follows:

Name of company	Ownership % as at 31 December		Country of incorporation
	2018	2017	
Agility Transport Company W.L.L.	100.00%	100.00%	State of Kuwait
Agility DGS Logistics Services company K.S.C.C.	100.00%	100.00%	State of Kuwait
Gulf Catering Company for General Trading and Contracting W.L.L. *	100.00%	100.00%	State of Kuwait
The Metal and Recycling Company K.S.C.P. ("MRC")*	66.48%	66.48%	State of Kuwait
Global Clearing House Systems K.S.C.C.*	60.60%	60.60%	State of Kuwait
National Aviation Services Company W.L.L. *	95.00%	95.00%	State of Kuwait
United Projects Company For Aviation Services K.S.C. P* ("UPAC")	94.38%	92.63%	State of Kuwait
Agility GIL for Company's Business Management W.L.L.	100.00%	100.00%	State of Kuwait
Agility GIL for Warehousing and Third Party Inventory Management S.P.C.	100.00%	100.00%	State of Kuwait
Agility Investments Holding Limited	100.00%	100.00%	British Virgin Islands
NAS Ivoire S.A.*	100.00%	100.00%	Ivory Coast
Tristar Holdings Limited ("Tristar")	65.12%	65.12%	United Arab Emirates
Agility Logistics L.L.C.	100.00%	100.00%	United Arab Emirates
Agility Abu Dhabi P.J.S.C. (Note 2)	49.00%	49.00%	United Arab Emirates
Agility Distriparks FZE	100.00%	100.00%	United Arab Emirates
Agility International Investment L.L.C	100.00%	100.00%	United Arab Emirates
Agility Logistics Corp.	100.00%	100.00%	United States of America
Agility Project Logistics Inc.	100.00%	100.00%	United States of America
Agility Company L.L.C.	100.00%	100.00%	Saudi Arabia
Agility Logistics Park	100.00%	100.00%	Saudi Arabia
Agility Logistics Private Limited	100.00%	100.00%	India
Agility 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
Agility Do Brazil logistica Internacional S.A.	100.00%	100.00%	Brazil
Agility Project Logistics Pty Ltd.	100.00%	100.00%	Australia
Agility Limited	100.00%	100.00%	Papua New Guinea
Agility Logistics (Shanghai) Ltd.	100.00%	100.00%	China
Agility Logistics AG	100.00%	100.00%	Switzerland
Agility Spain SA	100.00%	100.00%	Spain
Agility AB	100.00%	100.00%	Sweden
Agility Company Ltd	100.00%	100.00%	Thailand

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

3- GROUP INFORMATION (continued)

Material partly-owned subsidiary

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

	2018 KD 000's	2017 KD 000's
Summarised statement of income:		
Revenues	141,316	105,658
Profit for the year	14,590	12,153
Allocated to non-controlling interests	4,596	2,179
Summarised statement of financial position:		
Total assets	248,915	225,703
Total liabilities	(140,571)	(122,389)
Total equity	108,344	103,314
Accumulated balances of non-controlling interests	35,005	33,823
Summarised cash flow information:		
Operating	28,506	23,969
Investing	(23,922)	(17,991)
Financing	(7,089)	21,010
Net (decrease) increase in cash and cash equivalents	(2,505)	26,988

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

4- PROPERTY, PLANT AND EQUIPMENT

	Land, buildings and improvements KD 000's	Tools, machinery and equipment KD 000's	Vehicles and ships KD 000's	Furniture and office equipment KD 000's	Total KD 000's
Cost:					
As at 1 January 2018	183,093	95,596	167,598	100,006	546,293
Additions	11,930	12,102	19,743	9,298	53,073
Transfer from projects in progress (Note 5)	1,049	321	1,221	1,322	3,913
Disposals	(4,137)	(1,137)	(2,000)	(814)	(8,088)
Exchange differences	(7,900)	(6,374)	(3,022)	(5,010)	(22,306)
As at 31 December 2018	184,035	100,508	183,540	104,802	572,885
Depreciation:					
As at 1 January 2018	(72,277)	(66,578)	(49,112)	(81,491)	(269,458)
Charge for the year	(7,653)	(5,971)	(8,612)	(9,126)	(31,362)
Disposals	3,626	949	1,909	795	7,279
Exchange differences	6,876	4,973	1,096	4,401	17,346
As at 31 December 2018	(69,428)	(66,627)	(54,719)	(85,421)	(276,195)
Net book value:					
As at 31 December 2018	114,607	33,881	128,821	19,381	296,690
As at 31 December 2017					
	Land, buildings and improvements KD 000's	Tools, machinery and equipment KD 000's	Vehicles and ships KD 000's	Furniture and office equipment KD 000's	Total KD 000's
Cost:					
As at 1 January 2017	166,321	85,066	154,408	93,984	499,779
Additions	12,329	7,115	18,196	5,949	43,589
Transfer from projects in progress (Note 5)	5,150	-	-	-	5,150
Transfer from other non-current assets	7,538	-	-	-	7,538
Arising on acquisition of subsidiaries	304	4,252	264	640	5,460
Written off	(1,552)	-	-	(1,166)	(2,718)
Disposals	(740)	(342)	(3,018)	(774)	(4,874)
Exchange differences	(6,257)	(495)	(2,252)	1,373	(7,631)
As at 31 December 2017	183,093	95,596	167,598	100,006	546,293
Depreciation:					
As at 1 January 2017	(69,189)	(58,712)	(44,319)	(75,562)	(247,782)
Charge for the year	(7,218)	(5,813)	(9,430)	(7,383)	(29,844)
Written off	1,552	-	-	1,166	2,718
Disposals	263	132	2,910	773	4,078
Arising on acquisition of subsidiaries	(179)	(3,441)	(238)	(392)	(4,250)
Exchange differences	2,494	1,256	1,965	(93)	5,622
As at 31 December 2017	(72,277)	(66,578)	(49,112)	(81,491)	(269,458)
Net book value:					
As at 31 December 2017	110,816	29,018	118,486	18,515	276,835

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

5- PROJECTS IN PROGRESS

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

	2018 KD 000's	2017 KD 000's
As at 1 January	30,065	16,501
Additions	21,585	18,930
Transfer from other non-current assets	3,122	-
Transfer to property, plant and equipment (Note 4)	(3,913)	(5,150)
Transfer to investment property (Note 6)	(8,203)	(200)
Exchange differences	(569)	(16)
	<u>42,087</u>	<u>30,065</u>

6- INVESTMENT PROPERTIES

	2018 KD 000's	2017 KD 000's
As at 1 January	283,845	268,686
Additions	8,200	2,192
Transfer from projects in progress (Note 5)	8,203	200
Change in fair value	1,320	12,767
	<u>301,568</u>	<u>283,845</u>

The Group has classified certain commercial properties amounting to KD 299,137 thousands (2017: KD 281,398 thousand) held under long term operating leases as investment properties. All investment properties are located in Kuwait.

The fair values of investment properties as at 31 December 2018 and 31 December 2017 were determined by independent valuers who have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair values were determined based on market approach. In estimating the fair values of the properties, the highest and the best use of the properties is their current use. There has been no change to the valuation techniques during the year. The fair value of investment properties is measured under the Level 3 fair value hierarchy.

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

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

A 5% increase or decrease in the estimated market price (per sqm) will increase or reduce the value of the investment properties by KD 15,078 thousand (2017: KD 14,192 thousand).

Investment properties include a property with a carrying value of KD 28,500 thousand representing land located in South Amghara which is held on a lease with the Public Authority of Industry ("PAI") and the Parent Company is in a legal dispute with PAI in regards to the termination of the lease contract [Note 26 (c)].

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

7- INTANGIBLE ASSETS

	BOT projects KD 000's	Customer lists KD 000's	Brand KD 000's	Others KD 000's	Total KD 000's
<i>Cost:</i>					
As at 1 January 2018	38,527	7,271	4,721	-	50,519
Transfer from Goodwill (Note 8)	-	-	-	4,054	4,054
Additions	170	-	-	-	170
	<u>38,697</u>	<u>7,271</u>	<u>4,721</u>	<u>4,054</u>	<u>54,743</u>
<i>As at 31 December 2018</i>					
<i>Accumulated amortisation:</i>					
As at 1 January 2018	(18,415)	(6,160)	-	-	(24,575)
Charge for the year	(3,680)	(498)	-	(454)	(4,632)
	<u>(22,095)</u>	<u>(6,658)</u>	<u>-</u>	<u>(454)</u>	<u>(29,207)</u>
<i>As at 31 December 2018</i>					
Net book value:					
As at 31 December 2018	<u>16,602</u>	<u>613</u>	<u>4,721</u>	<u>3,600</u>	<u>25,536</u>
<i>Cost:</i>					
As at 1 January 2017	38,527	7,271	4,721	-	50,519
As at 31 December 2017	38,527	7,271	4,721	-	50,519
<i>Accumulated amortisation:</i>					
As at 1 January 2017	(14,879)	(5,662)	-	-	(20,541)
Charge for the year	(3,536)	(498)	-	-	(4,034)
	<u>(18,415)</u>	<u>(6,160)</u>	<u>-</u>	<u>-</u>	<u>(24,575)</u>
As at 31 December 2017					
Net book value:					
As at 31 December 2017	<u>20,112</u>	<u>1,111</u>	<u>4,721</u>	<u>-</u>	<u>25,944</u>

Certain intangible assets were acquired through business combinations in previous years. BOT projects represent costs incurred on the construction of the car park and commercial complex of Kuwait International Airport, Sheikh Saa'd Terminal, Discovery Mall and concession fee incurred for providing Ground handling services in Cote d'Ivoire. The brand is assumed to have an indefinite useful life and is tested for impairment at the reporting date. In the opinion of the management, no impairment is required (2017: Nil). Other intangible assets include customers' relationship and license to operate acquired during the business combination during in previous year (Note 8).

8- GOODWILL

	2018 KD 000's	2017 KD 000's
<i>Cost:</i>		
As at 1 January	285,486	273,207
Additions	-	10,185
Transfer to intangible assets (Note 7)	(4,054)	-
Exchange differences	(4,506)	2,094
	<u>276,926</u>	<u>285,486</u>
As at 31 December		
<i>Impairment:</i>		
As at 1 January and 31 December	(27,218)	(27,218)
	<u>249,708</u>	<u>258,268</u>
Net carrying value		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

8- GOODWILL (continued)

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

	Carrying amount of goodwill	
	2018 KD 000's	2017 KD 000's
<i>Cash generating units:</i>		
Global Integrated Logistics	222,694	225,728
Infrastructure	27,014	32,540
Total	249,708	258,268

During the previous year, on 15 October 2017, the Group acquired certain equity interest in a subsidiary and recognised a goodwill of KD 8,025 thousand based on the provisional assets and liabilities of the subsidiary. During the current year, the Group finalized the fair values of the identified assets acquired and liabilities assumed at the acquisition date and recognised certain intangible assets of KD 4,054 thousand acquired during the business combination. Accordingly, these assets were transferred from the previously recognised goodwill to intangible assets during the year (Note 7).

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 2019 and assuming an average annual growth rate of 5.1% (2017: 5.3%) 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% (2017: 10%) and cash flows beyond the 5 year period are extrapolated using a growth rate of 3% (2017: 3%). As a result of the exercise, the management has concluded that no impairment provision is considered necessary in the consolidated statement of income.

Key assumptions used in value in use calculations

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

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

Sensitivity to changes in assumptions

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

9- INVESTMENT IN ASSOCIATES AND JOINT VENTURES

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

	2018 KD 000's	2017 KD 000's
As at 1 January	62,814	59,626
Impact on adoption of IFRS 9 by an associate at 1 January 2018 (Note 25)	(621)	-
As at 1 January (restated)	62,193	59,626
Additions to investment in associates	31,504	-
Additions to investment in joint ventures	5,125	-
Share of results	4,914	4,295
Share of other comprehensive loss	(372)	-
Dividend received	(2,054)	(1,698)
Foreign currency translation adjustments	(82)	591
As at 31 December	101,228	62,814

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

9- INVESTMENT IN ASSOCIATES AND JOINT VENTURES (continued)

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

	GWC		NREC		Joint ventures	
	2018 KD '000's	2017 KD 000's	2018 KD '000's	2017 KD 000's	2018 KD '000's	2017 KD 000's
Summarised Statement of financial position:						
Current assets	71,877	75,019	64,562	-	523	3,795
Non-current assets	237,428	243,845	417,495	-	189,153	127,810
Current liabilities	(38,856)	(49,455)	(75,876)	-	(9,662)	(3,391)
Non-current liabilities	(125,593)	(131,514)	(182,967)	-	(97,658)	(49,870)
Equity	144,856	137,895	223,214	-	82,356	78,344
Proportion of the Group's ownership	21.59%	21.59%	20%	-	-	-
Group's share in the equity	31,274	29,771	31,504	-	13,177	8,459
Goodwill	20,345	20,345	-	-	-	-
Carrying value of investment	51,619	50,116	31,504	-	13,177	8,459
Summarised statement of income:						
Revenue	99,464	78,521	18,417	-	2	-
Profit (loss)	19,172	17,508	10,409	-	(1,088)	(855)

Other associates of the Group amount to KD 4,928 thousand (31 December 2017: KD 4,239 thousand).

As at 31 December 2018, the fair market value of the Group's interest in GWC, which is listed on the Qatar Stock Exchange, is KD 40,632 thousand (2017: KD 46,196 thousand) and NREC, which is listed on Kuwait Stock Exchange is KD 24,825 thousand.

During the current year, the Group acquired a 20% equity interest in a NREC through conversion of its loan to the related party of KD 31,504 thousand (Note 27). The Group determined that it exercises significant influence over the investee company and accordingly, the Group has classified its equity interest in the related party as investment in associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

10- FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 KD 000's	2017 KD 000's
Investment in an associate – outside Kuwait	109,246	108,425
Equity securities – in Kuwait	106	186
Investment in funds – outside Kuwait	3,479	-
	<u>112,831</u>	<u>108,611</u>

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

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

As at 31 December 2018, interest bearing loan provided by the Group to Korek Telecom amounted to KD 35,321 thousand (2017: KD 35,098 thousand) (Note 27).

Korek Litigation

In February 2017, the Group filed a request for arbitration against the Republic of Iraq pursuant to Article 36 of the Convention on the Settlement of Investment Disputes between States and Nationals of Other States ("ICSID"), and Article 10 of the Agreement between the Government of the State of Kuwait and the Government of the Republic of Iraq for Reciprocal Promotion and Protection of Investments (the "2015 BIT"). The claim arises from a series of actions and inactions of the Iraqi government, including its regulatory agency Communications & Media Commission ("CMC") relating to an alleged decision by the CMC to annul the previous written consent granted in connection with the Group's investment in Korek Telecom. Without limitation, the Group's claims relate to Iraq's failure to treat the Group's investment of over USD 380 million fairly and equitably, its failure to accord the Group with due process, as well as the indirect expropriation of that investment, each in breach of the 2015 BIT. On 24 February, 2017, the Group's request for arbitration was formally registered with ICSID. The arbitration tribunal was formally constituted on 20 December 2017 and an initial procedural hearing was held on 31 January 2018. The Group's memorial was submitted on 30 April 2018. On 6 August 2018, Iraq submitted objections to jurisdiction and requested that they be determined as a preliminary matter before the case proceeds further on the merits. The tribunal bifurcated the proceedings on 31 October 2018, and the Group submitted its Counter-Memorial on Jurisdiction on 10 January 2019. The Reply of the Respondents was due on 21 February 2019, and the Group's Rejoinder will be due 14 March 2019. A hearing has been scheduled for April 2019. As the dispute remains pending without legal resolution and in the absence of clarity, the financial impact of this case may not be assessed.

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

- *Share Subscription Agreement Arbitration*
Arbitration proceedings against Korek International (Management) Ltd. ("CS Ltd.") and Mr. Sirwan Saber Mustafa. The dispute is in relation to the monies owed by CS Ltd. and guaranteed by Mr. Sirwan Saber Mustafa under a subscription agreement relating to the Group's investment in Korek Telecom. The amount in dispute is approximately USD 75 million (excluding interest). The Tribunal was constituted on 2 February 2018, with terms of reference and a procedural timetable to be issued by the Tribunal in due course. IT Ltd.'s

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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10- FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Korek Litigation (continued)

statement of claim was submitted on 17 May 2018. The Respondents' statement of defense was submitted on 12 September 2018. IT Ltd.'s Reply is due on 8 March 2019, and the Respondents' Rejoinder is due on 3 May 2019. A hearing has been scheduled for September 2019.

- *Shareholders Agreement Arbitration*
Arbitration proceedings against CS Ltd. and Mr. Sirwan Saber Mustafa. The dispute is in relation to various contractual breaches by the respondents under a shareholders' agreement relating to the Parent Company's investment in Korek Telecom. The amount in dispute is to be determined during the course of the proceedings. The Request for Arbitration was submitted on 4 June 2018, and the Respondents' reply was submitted on 10 September 2018. IT Ltd filed an amended Request for Arbitration on 15 January 2019. The tribunal is in the process of being constituted.
- *IBL Subordination Agreement Arbitration*
Arbitration proceedings against IBL Bank SAL, Korek Telecom and International Holdings Ltd. The dispute is in relation to alleged fraud orchestrated by certain Korek Telecom stakeholders with the knowledge and cooperation of IBL Bank in connection with a subordination agreement relating to a USD 150 million loan extended by IBL Bank to Korek Telecom. The amount in dispute is to be determined during the course of the proceedings. The request for arbitration was submitted on 26 June 2018, and the Respondents' reply and counter-claim was submitted on 8 October 2018. The counterclaim seeks damages for losses (still unquantified) allegedly suffered by the Respondents in relation to their reputation and good standing. IBL's Answer and Counterclaim was submitted on 8 November 2018. Korek's and IH's Answer was submitted on 14 December 2018. The tribunal is in the process of being constituted.
- *DIFC Director Claims*
Proceedings in the courts of the Dubai International Financial Centre ("DIFC") on 12 March 2018 against certain directors of International Holdings Limited (the holding company of Korek in which IT Ltd. Holds a 44% interest). The defendant directors are Abdulhameed Aqrawi, Nozad Jundi and Raymond Zina Rahmeh. The claim alleges breach of the defendants' duties as directors of International Holdings.
- *DIFC Rahmeh Claims*
Proceedings in the courts of the DIFC on 12 April 2018 against Raymond Zina Rahmeh alleging breach of his fiduciary duties.

Separately, on 5 September 2017, Modern Global Company for General Trading of Equipment, Supplier for Construction and Real Estate WLL (a wholly owned subsidiary of the Parent Company) commenced arbitration proceedings against Korek Telecom in relation to Korek's alleged failure to pay servicing fees due to Modern Global under a services agreement. The amount in dispute is approximately USD 3.4 million (excluding interest). Following Korek's submission of its Rejoinder on 14 December 2018, all pleadings have now been filed. A hearing was held on 29 January 2019. The parties are awaiting the tribunal's award.

Consequently, as a result of the ongoing litigation relating to Korek, the Group's management was unable to determine the fair value of this investment and the recoverability of interest bearing loan as at 31 December 2018 and 31 December 2017 and accordingly the investment is carried at its fair value as at 31 December 2013 of USD 359 Million equivalent to KD 109,246 thousand (2017: KD 108,425 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

11- FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND AVAILABLE FOR SALE

	2018 KD 000's	2017 KD 000's
Unquoted equity securities:		
- In Kuwait	5,491	8,851
- Outside Kuwait	9,659	13,818
	<u>15,150</u>	<u>22,669</u>
<i>Classified as followed:</i>		
Financial assets at fair value through other comprehensive income	<u>15,150</u>	-
Financial assets available for sale		
- at fair value	-	4,307
- at cost less impairment	-	18,362
	<u>-</u>	<u>22,669</u>

12- INVENTORIES

	2018 KD 000's	2017 KD 000's
Goods for resale	21,228	16,736
Provision for obsolete and slow moving inventories	(239)	(239)
	<u>20,989</u>	<u>16,497</u>

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

13- TRADE RECEIVABLES

	2018 KD 000's	2017 KD 000's
Gross trade receivables	397,665	357,055
Provision for impairment	-	(53,078)
Allowance for expected credit losses	(59,420)	-
	<u>338,245</u>	<u>303,977</u>

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

	2018 KD 000's	2017 KD 000's
As at 1 January	53,078	56,216
Impact on recognition of ECL on financial assets at 1 January (Note 25)	6,659	-
As at 1 January (restated)	59,737	56,216
Provision for doubtful debts (Note 21)	-	1,102
Expected credit losses for the year (Note 21)	905	-
Amounts written-off	(1,224)	(3,842)
Others (including exchange differences)	2	(398)
As at 31 December	<u>59,420</u>	<u>53,078</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

14- OTHER CURRENT ASSETS

	2018 KD 000's	2017 KD 000's
Prepaid expenses	31,712	26,552
Advances to suppliers	23,324	12,833
Claims in dispute [Note 26 (b)]	10,092	10,092
Deposits	7,122	10,108
Sundry receivables	10,170	7,945
Accrued income	4,340	4,079
Jobs in progress	1,471	2,804
Other claims receivable	2,648	1,759
Staff receivables	1,327	1,169
Other	7,443	6,984
	<u>99,649</u>	<u>84,325</u>

15- BANK BALANCES, CASH AND DEPOSITS

	2018 KD 000's	2017 KD 000's
Cash at banks and on hand	76,852	104,946
Short term deposits	49,075	20,744
Cash and cash equivalents	<u>125,927</u>	<u>125,690</u>

16- SHARE CAPITAL, RESERVES AND DIVIDEND

a) Share capital

	Number of shares		Amount	
	2018	2017	2018 KD '000s	2017 KD '000s
Authorized, issued and fully paid up shares of 100 fils each	1,532,983,094	1,333,028,778	153,299	133,303

b) Share premium

The share premium is not available for distribution.

c) Statutory reserve

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

d) Treasury Shares

	2018	2017
Number of treasury shares	86,062,497	74,831,667
Percentage of issued shares	5.61%	5.61%
Market value in KD 000's	69,022	60,015

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

16- SHARE CAPITAL, RESERVES AND DIVIDEND (continued)

e) Dividend

The shareholders at the Annual General Meeting ("AGM") and the Extraordinary General Meeting held on 11 April 2018 approved the distribution of cash dividends of 15 fils per share (31 December 2016: 15 fils per share) and bonus shares of 15% (31 December 2016: 10%) in respect of the year ended 31 December 2017.

On 14 February 2019, the Board of Directors of the Parent Company recommended distribution of cash dividend of 15 fils per share (2017: 15 fils per share) and bonus shares of 15% (2017: 15%) for the year ended 31 December 2018. This proposal is subject to the approval by the shareholders' at the Annual General Assembly of the Parent Company.

f) Other comprehensive income

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

	Foreign currency translation reserve KD 000's	Hedging reserve KD 000's	Investment revaluation reserve KD 000's	Other reserves KD 000's	Non- controlling interests KD 000's	Total KD 000's
2018:						
Changes in fair value of equity instruments at fair value through other comprehensive income	-	-	477	-	-	477
Loss on hedge of net investments (Note 18)	-	(874)	-	-	-	(874)
Loss on cash flow hedge	-	(109)	-	-	-	(109)
Share of other comprehensive loss of a joint venture	-	(372)	-	-	-	(372)
Foreign currency translation adjustments	(9,986)	-	-	-	(1,702)	(11,688)
Re-measurement gains on defined benefit plans (Note 17)	-	-	-	590	-	590
	(9,986)	(1,355)	477	590	(1,702)	(11,976)
	Foreign currency translation reserve KD 000's	Hedging reserve KD 000's	Investment revaluation reserve KD 000's	Other reserves KD 000's	Non- controlling interests KD 000's	Total KD 000's
2017:						
Financial assets available for sale:						
- Net changes in fair value of financial assets available for sale	-	-	444	-	-	444
Gain on hedge of net investments (Note 18)	-	40	-	-	-	40
Gain on cash flow hedge	-	219	-	-	-	219
Foreign currency translation adjustments	(5,857)	-	-	-	2,314	(3,543)
Re-measurement gains on defined benefit plans (Note 17)	-	-	-	3,748	-	3,748
	(5,857)	259	444	3,748	2,314	908

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

17- PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS

	2018 KD 000's	2017 KD 000's
Defined benefit plans	21,586	23,435
Other benefit plans	25,251	21,996
As at 31 December	46,837	45,431

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

	2018 KD 000's	2017 KD 000's
As at 1 January	45,431	46,301
Provided during the year	11,187	9,257
Paid during the year	(8,691)	(8,402)
Actuarial gain in respect of defined benefit plans	(590)	(3,748)
Others (including exchange differences)	(500)	2,023
As at 31 December	46,837	45,431

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

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

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

2018	Pension cost charged to statement of income				Re-measurement gain (losses) recognised in other comprehensive income									
	1 January 2018 KD 000's	Service cost KD 000's	Net interest KD 000's	Past service (cost)/benefit KD 000's	Sub-total KD 000's	Benefits paid KD 000's	Return on plan assets* KD 000's	Actuarial changes on demographic assumptions KD 000's	Actuarial changes on financial assumptions KD 000's	Experience adjustments KD 000's	Sub-total KD 000's	Contributions by employer KD 000's	Others (including exchange differences) KD 000's	31 December 2018 KD 000's
Defined benefit obligation	(115,625)	(1,008)	(1,509)	-	(2,517)	6,347	-	855	1,984	(1,065)	1,774	-	2,127	(107,894)
Fair value of plan assets	92,190	-	1,201	-	1,201	(5,802)	(1,184)	-	-	-	(1,184)	1,823	(1,920)	86,308
Net benefit obligation	(23,435)	(1,008)	(308)	-	(1,316)	545	(1,184)	855	1,984	(1,065)	590	1,823	207	(21,586)

2017	Pension cost charged to statement of income				Re-measurement gain (losses) recognised in other comprehensive income									
	1 January 2018 KD 000's	Service cost KD 000's	Net interest KD 000's	Past service (cost)/benefit KD 000's	Sub-total KD 000's	Benefits paid KD 000's	Return on plan assets* KD 000's	Actuarial changes on demographic assumptions KD 000's	Actuarial changes on financial assumptions KD 000's	Experience adjustments KD 000's	Sub-total KD 000's	Contributions by employer KD 000's	Others (including exchange differences) KD 000's	31 December 2018 KD 000's
Defined benefit obligation	(114,440)	(1,054)	(1,445)	2,221	(278)	6,506	-	697	286	(385)	598	-	(8,011)	(115,625)
Fair value of plan assets	86,303	-	1,145	-	1,145	(5,981)	3,150	-	-	-	3,150	1,978	5,595	92,190
Net benefit obligation	(28,137)	(1,054)	(300)	2,221	867	525	3,150	697	286	(385)	3,748	1,978	(2,416)	(23,435)

*excluding amount included in net interest.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018**

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

The actual return on plan assets for the year ended 31 December 2018 was KD 17 thousand (2017: KD 4,295 thousand).

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

	2018 KD 000's	2017 KD 000's
Quoted investments		
- Equity	29,457	36,218
- Bonds	30,343	28,188
Unquoted investments		
- Real Estate	16,318	15,693
- Insurance Policies	6,637	5,054
- Others	3,553	7,037
	86,308	92,190

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:

	2018	2017
Discount rate at 31 December	2.58%	2.15%
Expected rate of increase of employee remuneration	2.37%	2.87%
Future pension increase	1.43%	1.43%
Life expectation for pensioners at the age of 65 (years)	23	24

A quantitative sensitivity analysis for significant assumption as at 31 December 2018 and 31 December 2017 is as shown below. The sensitivity analysis above have been determined based on a method that extrapolates the impact on net defined benefit obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

	Impact on the net defined benefit obligations	
	2018 KD 000's	2017 KD 000's
Discount rate		
- 1% increase	(13,424)	(12,953)
- 1% decrease	15,853	16,185
Expected rate of increase of employee remuneration		
- 1% increase	46	388
- 1% decrease	(578)	(384)
Future pension cost increase		
- 1% increase	11,324	11,382
- 1% decrease	(5,444)	(5,533)
Life expectancy		
- increase by 1 year	4,600	4,531
- decrease by 1 year	(5,115)	(4,538)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

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

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

	2018 KD 000's	2017 KD 000's
Within the next 12 months	2,586	2,609
Between 2 and 5 years	10,026	10,078
Between 5 and 10 years	8,474	9,760
Beyond 10 years	14,230	14,737
	<u>35,316</u>	<u>37,184</u>

The average duration of the defined benefit plan obligation at the end of the reporting period is 14 years (2017: 14 years).

18- INTEREST BEARING LOANS

	2018 KD 000's	2017 KD 000's
Committed Revolving loan facility from a local bank repayable in July 2023.	21,580	16,309
Committed Term Loan obtained from local bank and is repayable in annual instalments commencing from April 2013	3,000	11,500
Committed Term Loan obtained from a foreign bank and is repayable in monthly instalments commencing from May 2016.	49,105	51,194
Committed Term Loan obtained from a foreign bank and is repayable in monthly instalments commencing from March 2016.	29,407	25,878
Committed Multicurrency Revolving Loan Facility obtained from a Group of banks - Maturing in April 2021	104,862	73,996
Uncommitted facilities from a local bank repayable on demand.	13,000	6,916
Committed Term facility from a local bank repayable in July 2019.	4,400	-
Other loans	35,628	33,142
	<u>260,982</u>	<u>218,935</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 201,135 thousand (2017: KD 134,620 thousand) carry margin ranging from 0.5% to 5% per annum (2017: 0.2% to 4.8% per annum) over the benchmark rates.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

18- INTEREST BEARING LOANS (continued)

	Current portion KD 000's	Non-current portion KD 000's	Total KD 000's
USD	19,871	197,457	217,328
KWD	23,429	-	23,429
AED	4,836	3,175	8,011
SGD	27	3,676	3,703
Others	5,371	3,140	8,511
At 31 December 2018	<u>53,534</u>	<u>207,448</u>	<u>260,982</u>
At 31 December 2017	<u>132,841</u>	<u>86,094</u>	<u>218,935</u>

Included in interest bearing loans are loans amounting to KD 112,218 thousand (2017: KD 104,597 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. Also included in interest bearing loans is a loan amounting to KD 3,000 thousand (2017: KD 11,500 thousand) which is secured by a pledge of shares of a subsidiary.

Hedge of net investments in foreign operations

Included in interest bearing loans at 31 December 2018 are loans denominated in USD 399,000 thousand (hedging instrument), which have been designated as a hedge of the net investments in the overseas subsidiaries (with functional currency USD) and are being used to hedge the Group's exposure to foreign exchange risk on these investments. Gains or losses on the retranslation of interest bearings loans are transferred to other comprehensive income to offset any gains or losses on translation of the net investments in these subsidiaries. During the year, foreign exchange loss arising on translation of the hedging instrument amounting to KD 874 thousand (2017: gain amounting to KD 40 thousand) was taken to other comprehensive income (hedging reserve).

19- OTHER NON-CURRENT LIABILITIES

	2018 KD 000's	2017 KD 000's
Non - current portion of finance lease obligations	1,693	2,398
Amounts due to related parties (Note 27)	8,153	10,616
Other liabilities	6,319	7,517
	<u>16,165</u>	<u>20,531</u>

20- TRADE AND OTHER PAYABLES

	2018 KD 000's	2017 KD 000's
Trade payables	214,914	202,141
Accrued expenses	100,539	92,760
Accrued employee related expenses	50,943	47,513
NLST payable	15,881	15,278
Taxation on overseas subsidiaries	6,010	4,332
Zakat payable	4,245	5,441
KFAS payable	920	1,359
Short term portion of finance lease obligations	1,473	1,103
Amounts due to related parties (Note 27)	389	603
Directors' remuneration	140	140
Other liabilities	49,264	41,420
	<u>444,718</u>	<u>412,090</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

21- GENERAL AND ADMINISTRATIVE EXPENSES

	2018 KD 000's	2017 KD 000's
Salaries	201,550	186,109
Employee benefits	26,123	28,177
Rent	29,714	28,909
Professional fees	27,556	30,917
Repairs and maintenance	20,152	19,392
Facilities management	12,326	11,209
Communication	6,286	5,856
Travel	8,621	7,333
Insurance	3,764	3,820
Office supplies	2,822	2,744
Provision for impairment of trade receivables (Note 13)	-	1,102
Expected credit losses for trade receivables (Note 13)	905	-
Bank charges	1,570	1,477
Advertising	1,809	1,628
Other expenses	9,385	21,841
	352,583	350,514

22- TAXATION

	2018 KD 000's	2017 KD 000's
NLST	2,121	1,793
Contribution to KFAS	764	717
Zakat	848	717
Taxation on overseas subsidiaries	6,196	7,425
	9,929	10,652

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

23- 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:

	2018 KD 000's	2017 KD 000's (Restated)*
Profit for the year attributable to equity holders of the Parent Company	81,110	68,510
	Shares	Shares
Weighted average number of paid up shares	1,532,983,094	1,532,983,094
Weighted average number of treasury shares	(86,062,497)	(84,873,211)
Weighted average number of outstanding shares	1,446,920,597	1,448,109,883
Basic and diluted earnings per share - attributable to equity holders of the Parent Company	56.06 fils	47.31 fils

* Basic and diluted earnings per share for the comparative period presented have been restated to reflect the adjustment of bonus shares following the bonus issue relating to 2017 (Note 16).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

24- DERIVATIVE FINANCIAL INSTRUMENTS

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

Derivatives held for trading

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

Forward foreign exchange contracts

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

Interest rate swaps

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

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
2018					
<i>Derivatives held for trading:</i>					
Forward foreign exchange contracts	190	-	24,934	24,934	-
<i>Derivatives held as cash flow hedge:</i>					
Interest rate swap	250	-	20,865	-	20,865
	440	-	45,799	24,934	20,865
	Positive fair value KD 000's	Negative fair value KD 000's	Notional amount KD 000's	Within one year KD 000's	1 - 5 years KD 000's
2017					
<i>Derivatives held for trading:</i>					
Forward foreign exchange contracts	153	-	2,832	2,832	-
<i>Derivatives held as cash flow hedge:</i>					
Interest rate swap	219	-	15,783	-	15,783
	372	-	18,615	2,832	15,783

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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25- IMPACT OF IFRS 9 ADOPTION

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied with effect from 1 January 2018, as described below:

- a) Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- b) The following assessments have been made based on the facts and circumstances that existed at the date of initial application:
- The determination of the business model within which a financial asset is held
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL
 - The designation of certain investments in equity instruments not held for trading as at FVOCI

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows reconciliation of original measurement categories and carrying value in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets as at 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 KD 000's	Transition adjustments KD 000's	New carrying amount under IFRS 9 KD 000's
Bank balances and short-term deposits	Loans and receivables	Amortised cost	125,690	-	125,690
Trade receivables	Loans and receivables	Amortised cost	303,977	(6,659)	297,318
Loan to a related party	Loans and receivables	Debt instrument at FVTPL	61,525	44	61,569
Loan to an associate	Loans and receivables	Debt instrument at FVTPL	35,098	-	35,098
Financial assets at fair value through profit or loss	Financial asset at FVTPL	Financial asset at FVTPL	108,611	-	108,611
Financial assets available for sale – equity securities	Financial assets available for sale	Equity instruments at FVOCI	18,362	(5,813)	12,549
Financial assets available for sale – funds	Financial assets available for sale	Financial asset at FVTPL	4,307	-	4,307
Total financial assets			657,570	(12,428)	645,142

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

25- IMPACT OF IFRS 9 ADOPTION (continued)

The impact of this change in accounting policy as at 1 January 2018 on retained earnings, non-controlling interests, investment revaluation reserve and foreign currency translation reserve is as below:

	Retained earnings KD '000	Non-controlling interests KD '000	Investment revaluation reserve KD '000	Foreign currency translation reserve KD '000
Closing balance under IAS 39 (31 December 2017)	693,404	49,787	2,280	(28,775)
Impact on reclassification and re-measurements:				
Investment securities – equity from available-for-sale to FVTPL	2,406	-	(2,406)	-
Fair value measurement of equity investments previously carried at cost less impairment	(5,813)	-	-	-
	372	-	18,615	2,832
Loan to a related party	(272)	(18)	-	333
Transition adjustment on adoption of IFRS 9 by an associate	(621)	-	-	-
Impact on recognition of ECL on financial assets other than credit facilities:				
ECL under IFRS 9 for trade receivables at amortised cost	(4,841)	(1,818)	-	-
Total	(9,141)	(1,836)	(2,406)	333
Opening balance under IFRS 9 on date of initial application of 1 January 2018	684,263	47,951	(126)	(28,442)

Adoption of IFRS 9 did not result in any change in classification or measurement of financial liabilities.

26- CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

	2018 KD 000's	2017 KD 000's
Letters of guarantee	127,107	123,149
Operating lease commitments	132,014	166,369
Capital commitments (Note below)*	108,417	115,806
	367,538	405,324

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

	2018 KD 000's	2017 KD 000's
Within one year	29,964	34,633
After one year but not more than five years	53,960	76,135
More than five years	48,090	55,601
	132,014	166,369

Included in letters of guarantee are bank guarantees of KD 30,751 thousand (2017: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

26 - CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS (continued)

* The Group (Parent Company along with its subsidiary UPAC) and an associate (NREC) are part of an arrangement to construct and develop a commercial mall in UAE ("Project"). The Group currently has an equity interest of 19.87% (2017: 13.35%) and has also extended interest bearing loan facilities to the Project (Note 27). Commitments undertaken by the Group towards further investments in the Project amount to KD 87,232 thousand as on 31 December 2018 (2017: KD 97,330 thousand). In addition to the above, the Parent Company has also provided corporate guarantees for the Project amounting to KD 57,976 thousand (2017: KD 63,700 thousand) and an undertaking for the completion of the mall within an agreed timeframe.

Legal claims

(a) PCO Contract

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

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

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

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

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

On 21 September 2018, the Parent Company filed an amended complaint in the DDKS Matter. On 3 December 2018, the Parent Company filed a Motion for Judgment on the Pleadings, as well as a motion to consolidate the DDKS matter with the still-pending COFC matter described above. On 6 December 2018, the court granted the Parent Company's motion to consolidate. On 17 December 2018, the US Government filed a Motion to Dismiss in the DDKS matter. On 28 December 2018, the Parent Company filed its Reply to the US Government's motion. The Reply of the US Government was due on 11 January 2019, but a stay was granted in the DDKS matter, pending the end of the shutdown of the US Government. Upon conclusion of the shutdown, the US Government will file its reply and a hearing will likely be scheduled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

26 - CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS (continued)

Legal claims (continued)

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

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

(b) Guarantee encashment

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

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

The Company appealed the judgment before the Court of Appeal requesting an increase in compensation. GAC also filed an appeal No. 1955 / 2014 administrative 4 before the Court of Appeal. On 13 September 2015, the Court of Appeal pronounced its judgement affirming the decision of the Court of First Instance. Both the Company and GAC appealed against this ruling before the Kuwait Court of Cassation in appeals No. 148, 1487 for the year 2015. On 15 March 2017, the Court of Cassation resolved to defer the appeal to the experts. On 7 May 2018, the experts committee issued a report affirming the Parent Company's right for the claimed compensation. The case was heard before the Court of Cassation on 3 October 2018 and a hearing is scheduled for 6 March 2019.

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

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

(c) Contract N. 157 on Phases 1 and 2 and 3 for the South Amghara Plot

Investment properties include a property with a carrying value of KD 28,500 thousand representing land located in South Amghara which is held on a lease with the Public Authority of Industry ("PAI") (Note 6).

On 3 July 2018, PAI notified the Parent Company of its intention to terminate the above mentioned lease contract alleging that it expired on 30 June 2018 and requesting the Parent Company to deliver the plot. Based on a legal opinion from the Parent Company's external legal counsel, the notice of termination is in breach of the law and the Parent Company has initiated the necessary legal actions and filed the claim No. 2587 of 2018 Commercial-General-Public/24, a protective claim on the above plot through the case No. 3686/2018 / Commercial-General-Public and the case No. 4522/2018 / Commercial-General-Public requesting for the appointment of an expert to provide an opinion on the deemed renewal of the above lease contract under the law. The Court of First Instance is yet to deliver its judgement on the above cases. On 9 September 2018, an administrative eviction decision No. (H/129/2018) was issued and the Parent Company appealed the same before the court under case No. 5600/2018 administrative / 12. This appeal is still in progress and hence, the Parent Company (after consulting the external legal counsel) is not able to comment on the likely outcome of the cases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

26- CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS (continued)

Legal claims (continued)

(d) KGL Litigation

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

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

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

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

27- RELATED PARTY TRANSACTIONS

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

Transactions and balances with related parties are as follows:

	Major shareholders KD 000's	Other related parties KD 000's	Total KD 000's
2018			
Consolidated statement of income			
Revenues	-	862	862
General and administrative expenses	(44)	(359)	(403)
Interest income	3,732	-	3,732
Finance costs	-	(81)	(81)
Consolidated statement of financial position:			
Investment in associates and joint ventures (Note 9)	31,504	69,724	101,228
Financial assets at fair value through profit or loss (Note 10)	-	109,246	109,246
Amounts due from related parties	81	2,111	2,192
Loan to a related party	42,054	-	42,054
Loan to an associate (Note 10)	-	35,321	35,321
Amounts due to related parties (Notes 19 and 20)	389	8,153	8,542
2017			
Consolidated statement of income			
Revenues	-	908	908
General and administrative expenses	(67)	(380)	(447)
Interest income	2,615	-	2,615
Finance costs	-	(154)	(154)
Consolidated statement of financial position:			
Investment in associates and joint ventures (Note 9)	-	62,814	62,814
Financial assets at fair value through profit or loss (Note 10)	-	108,246	108,246
Amounts due from related parties	356	1,752	2,108
Loan to a related party	61,525	-	61,525
Loan to an associate (Note 10)	-	35,098	35,098
Amounts due to related parties	22	11,197	11,219

The loan to a related party amounting to KD 42,054 thousand (2017: KD 30,022 thousand) is provided to the joint venture representing amounts advanced by a subsidiary of the Group towards the construction and development of a Commercial Mall in UAE ("Project"). This amount bears compounded annual interest rates as per the loan agreement and can be converted to equity in the project on completion of construction subject to the project achieving certain operational targets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

27- RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel

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

	2018 KD 000's	2017 KD 000's
Short-term benefits	3,872	3,843

Short term benefits include discretionary bonus amounting to KD 2,399 thousand (2017: KD 2,246 thousand) awarded to key management personnel.

28- OPERATING SEGMENT INFORMATION

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

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 industrial real-estate, airport and airplane ground handling and cleaning services, customs consulting, private equity and waste recycling.

Year ended 31 December 2018	Logistics and related services KD 000's	Infrastructure KD 000's	Adjustments and eliminations KD 000's	Total KD 000's
Revenues				
External customers	1,151,731	398,459	-	1,550,190
Inter-segment	1,352	13,509	(14,861)	-
Total revenues	1,153,083	411,968	(14,861)	1,550,190
Results				
Profit before interest, taxation, depreciation, amortisation and Directors' remuneration (EBITDA)	35,892	130,981	(12,032)	154,841
Depreciation				(31,362)
Amortisation				(4,632)
Profit before interest, taxation and Directors' remuneration (EBIT)				118,847
Interest income				5,130
Finance costs				(14,132)
Profit before taxation and Directors' remuneration				109,845
Taxation and Directors' remuneration				(10,069)
Profit for the year				99,776
Total assets	761,503	1,172,686	(91,030)	1,843,159
Total liabilities	465,210	936,541	(624,826)	776,925

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

28- OPERATING SEGMENT INFORMATION (continued)

	<i>Logistics and related services KD 000's</i>	<i>Infrastructure KD 000's</i>	<i>Adjustments and eliminations KD 000's</i>	Total KD 000's
Other disclosures:				
Goodwill (Note 8)	222,694	27,014	-	249,708
Intangible assets (Note 7)	5,077	20,459	-	25,536
Capital expenditure	(18,110)	(64,549)	(199)	(82,858)
Change in fair value of investment properties	-	1,320	-	1,320
<i>Year ended 31 December 2017</i>	<i>Logistics and related services KD 000's</i>	<i>Infrastructure KD 000's</i>	<i>Adjustments and eliminations KD 000's</i>	Total KD 000's
Revenues				
External customers	1,060,598	346,435	-	1,407,033
Inter-segment	967	11,784	(12,751)	-
Total revenues	<u>1,061,565</u>	<u>358,219</u>	<u>(12,751)</u>	<u>1,407,033</u>
Results				
Profit before interest, taxation, depreciation, amortisation and Directors' remuneration (EBITDA)	33,751	120,884	(19,412)	135,223
Depreciation				(29,844)
Amortisation				(4,034)
Profit before interest, taxation and Directors' remuneration (EBIT)				101,345
Interest income				3,302
Finance costs				(11,577)
Profit before taxation and Directors' remuneration				93,070
Taxation and Directors' remuneration				(10,792)
Profit for the year				<u>82,278</u>
Total assets	<u>742,337</u>	<u>1,060,781</u>	<u>(74,178)</u>	<u>1,728,940</u>
Total liabilities	<u>378,269</u>	<u>845,364</u>	<u>(518,285)</u>	<u>705,348</u>
Other disclosures:				
Goodwill (Note 8)	225,728	32,540	-	258,268
Intangible assets (Note 7)	5,899	20,045	-	25,944
Capital expenditure	(18,122)	(46,223)	(366)	(64,711)
Change in fair value of investment properties	-	12,767	-	12,767

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

28- OPERATING SEGMENT INFORMATION (continued)

Disaggregated revenue information

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

	<i>Logistics revenue KD 000's</i>	<i>Freight forwarding and project forwarding revenues KD 000's</i>	<i>Rental revenues KD 000's</i>	<i>Other services KD 000's</i>	Total KD 000's
31 December 2018					
<i>Timing of revenue recognition</i>					
Services performed at a point in time	197,408	40,161	-	150,786	388,355
Services performed over time	77,965	1,021,086	62,784	-	1,161,835
Total revenue from contracts with customers	275,373	1,061,247	62,784	150,786	1,550,190
Geographical markets					
Middle East	159,288	70,135	62,146	118,186	409,755
Europe	740	363,889	-	-	364,629
Asia	25,309	354,411	340	7,511	387,571
America	20,624	248,400	-	182	269,206
Africa	69,412	24,412	298	24,907	119,029
Total revenue from contracts with customers	<u>275,373</u>	<u>1,061,247</u>	<u>62,784</u>	<u>150,786</u>	<u>1,550,190</u>
<i>31 December 2017</i>	<i>Logistics revenue KD 000's</i>	<i>Freight forwarding and project forwarding revenues KD 000's</i>	<i>Rental revenues KD 000's</i>	<i>Other services KD 000's</i>	Total KD 000's
<i>Timing of revenue recognition</i>					
Services performed at a point in time	169,362	35,431	-	131,082	335,875
Services performed over time	74,427	936,535	60,196	-	1,071,158
Total revenue from contracts with customers	<u>243,789</u>	<u>971,966</u>	<u>60,196</u>	<u>131,082</u>	<u>1,407,033</u>
Geographical markets					
Middle East	133,123	83,211	59,685	108,436	384,455
Europe	727	350,339	-	-	351,066
Asia	24,347	308,174	336	6,977	339,834
America	25,325	210,756	-	-	236,081
Africa	60,267	19,486	175	15,669	95,597
Total revenue from contracts with customers	<u>243,789</u>	<u>971,966</u>	<u>60,196</u>	<u>131,082</u>	<u>1,407,033</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

28- OPERATING SEGMENT INFORMATION (continued)

Other geographic information

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

	2018 KD 000's	2017 KD 000's
Non-current assets		
Middle-east	719,857	701,997
Asia	180,859	185,675
Europe	52,473	44,179
America	26,926	27,876
Africa	30,720	26,805
Unallocated	18,305	17,825
	1,029,140	1,004,357

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

29- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

29- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 credit risk, liquidity risk and market risk with the latter subdivided into interest rate risk, foreign currency risk and equity price risk.

Credit risk

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

Gross maximum exposure to credit risk

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

	2018 KD 000's	2017 KD 000's
Bank balances	125,927	125,690
Trade receivables	338,245	303,977
Loan to an associate *	35,321	35,098
Loan to a related party	42,054	61,525
Other assets (excluding advances to suppliers and prepaid expenses)	44,613	44,940
	586,160	571,230

* The Group management is unable to determine the recoverability of the loan to an associate (Note 10).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

29- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Trade receivables

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

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

Upon adoption of IFRS 9 on 1 January 2018, the Group performs an impairment analysis at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 13.

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

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

31 December 2017	Days past due						Total KD 000's
	Current KD 000's	1 to 30 days KD 000's	30 to 60 days KD 000's	61 to 90 days KD 000's	91 to 120 days KD 000's	> 120 days KD 000's	
	Estimated total gross carrying amount at default	202,603	48,968	17,904	8,801	9,308	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

29- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Cash and cash equivalents

Credit risk from balances with banks and financial institutions is managed by Group's treasury in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure. The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2018 and 31 December 2017 is the carrying amounts at the reporting date.

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

Liquidity risk

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

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

Financial liabilities	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
2018					
Interest bearing loans	1,542	3,084	45,838	253,805	304,269
Trade and other payables	37,060	74,120	333,538	-	444,718
Dividends payable	-	8,223	-	-	8,223
Other non-current liabilities	-	-	-	16,165	16,165
Total financial liabilities	38,602	85,427	379,376	269,970	773,375
	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
2017					
Interest bearing loans	17,810	9,302	22,797	201,443	251,352
Trade and other payables	34,340	68,680	309,070	-	412,090
Dividends payable	-	8,361	-	-	8,361
Other non-current liabilities	-	-	-	20,531	20,531
Total financial liabilities	52,150	86,343	331,867	221,974	692,334

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 bank balances and trade receivables in foreign currencies, deposits, financial assets at fair value through profit or loss, financial assets available for sale, loan to an associate and related party, interest bearing loans, trade payables in foreign currencies and derivative financial instruments. The sensitivity analyses in the following sections relate to the position as at 31 December 2018 and 31 December 2017.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

29- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates.

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

Interest rate sensitivity

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

50 basis points movement Effect on consolidated statement of income	
2018	2017
KD 000's	KD 000's
±1,200	±895

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating and financing activities (when revenues, expenses and borrowings are denominated in a currency other than Kuwaiti Dinar) and the Group's net investments in foreign subsidiaries.

The Group manages its foreign currency risk by use of derivative financial instruments where appropriate and ensures that the net exposure is kept to an acceptable level. The Group has also designated certain interest bearing loans as hedging instruments against its net investment in foreign operations (Note 18).

Foreign currency sensitivity

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

	Change in currency rate by 1%			
	Effect on other comprehensive income		Effect on consolidated statement of income	
	2018	2017	2018	2017
	KD 000's	KD 000's	KD 000's	KD 000's
US Dollars	+1,212	±163	±52	±765

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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29- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

Equity price risk

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

Quoted Securities:

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

Unquoted securities:

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

30- FAIR VALUES OF FINANCIAL INSTRUMENTS

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

Determination of fair value and fair value hierarchy:

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

- Level 1: quoted (unadjusted) prices in an active market for identical assets and liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: other techniques which use inputs which have a significant effect on the recorded fair value are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

2018	Level 2 KD'000	Level 3 KD'000	Total fair value KD'000
Financial assets measured at fair value through profit or loss			
Investment in an associate	-	109,246	109,246
Loan to an associate	-	35,321	35,321
Loan to a related party	-	42,054	42,054
Equity securities	-	106	106
Investment in funds	3,479	-	3,479
	<u>3,479</u>	<u>186,727</u>	<u>190,206</u>
Financial assets measured at fair value through other comprehensive income			
Equity securities	-	15,150	15,150
Derivative financial assets:			
Forward foreign exchange contracts	190	-	190
Interest rate swaps	250	-	250
	<u>3,919</u>	<u>201,877</u>	<u>205,796</u>

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30- FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

	Level 2 KD'000	Level 3 KD'000	Total fair value KD'000
2017			
<i>Financial assets at fair value through profit or loss:</i>			
Investment in an associate	-	108,425	108,425
Unquoted equity securities	-	186	186
	-	108,611	108,611
<i>Financial assets available for sale:</i>			
Unquoted equity securities	-	4,307	4,307
<i>Derivative financial assets:</i>			
Forward foreign exchange contracts	153	-	153
Interest rate swaps	219	-	219
	372	112,918	113,290

The impact on the consolidated statement of financial position or the consolidated statement of shareholders' equity would be immaterial if the relevant risk variables used to fair value the unquoted securities and loan to a related party were altered by 5%.

There were no transfers between the hierarchies during 2018 and 2017.

The following table below shows a reconciliation of the opening and the closing amount of level 3 financial assets measured at fair value:

	2018 KD'000	2017 KD'000
As at 1 January	112,918	115,331
IFRS 9 impact on fair value (Note 25)	(5,769)	-
IFRS 9 impact on reclassification (Note 25)	110,678	-
	217,827	115,331
Re-measurement recognised in other comprehensive income	(16,427)	(2,857)
Others including net purchases (sales) and transfer		
As at 31 December	201,877	112,918

Fair value of the Group's financial assets that are measured at fair value on a recurring basis:

Financial assets at fair value through profit or loss:

The Group's management was unable to determine the fair value of the investment in an associate as at 31 December 2018 due to certain inherent uncertainties and accordingly the investment is carried at its fair value as at 31 December 2013 (Note 10).

Financial assets at fair value through other comprehensive income:

Fair values of financial assets classified as fair value through other comprehensive income are determined using valuation techniques that are not based on observable market prices or rates.

Financial assets available for sale – applicable before 1 January 2018:

Fair values of financial assets available for sale are measured based on their latest net asset values provided by the respective fund manager.

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31- CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 31 December 2017.

The Group includes within net debt, interest bearing loans less bank balances, cash and deposits. Capital includes equity attributable to the equity holders of the Parent Company and non- controlling interests.

	2018 KD 000's	2017 KD 000's
Interest bearing loans	260,982	218,935
Bank balances, cash and deposits	(125,927)	(125,690)
Net Debt	135,055	93,245
Equity attributable to the equity holders of the Parent Company	1,013,539	973,805
Non-Controlling interests	52,695	49,787
Capital	1,066,234	1,023,592
Gearing	12.7%	9.1%

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