

**Privatization Holding Company - KPSC and its subsidiaries  
State of Kuwait**

**Consolidated financial statements and independent auditor's report**  
For the year ended 31 December 2018

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## **Independent Auditor's Report**

To the Shareholders of Privatization Holding Company - KPSC  
State of Kuwait

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

#### **Opinion**

We have audited the consolidated financial statements of Privatization Holding Company - KPSC ("the Parent Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the related consolidated statement of income, income and other comprehensive income, changes in equity and cash flows for the financial year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, 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 financial year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with ethical requirements that are relevant to our audit of the consolidated financial statements in the State of Kuwait, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **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. We have determined the matters described below as the key audit matters.

##### **Equity Method of Accounting**

The Group has interests in number of associates which are significant to the Group's consolidated financial statements. The Group exercises significant influence over its associates and consequently accounts for under the equity method of accounting. Under the equity method, the Group's interests in the associates are initially stated at cost, and are adjusted thereafter for the post-acquisition changes in Group's share of the net assets of the associates less any impairment. The number of the associates involved increases the complexity of the Group's control environment and our ability as Group's auditors to obtain an appropriate level of understanding of these entities including any related party transactions. Due to these factors and the significance of the investment in associates to the Group's consolidated financial statements, we consider this as a key audit matter.

##### **How our audit addressed such matters**

Our audit procedures included, among others, determining the nature and extent of audit procedures to be carried out for associates and selecting significant associates based on the size and/or risk profile of these entities. During our audit, we communicated with the component auditors. We also provided detailed instructions to the component auditors covering the significant areas and risks to be addressed including the identification of related parties and transactions. Furthermore, we evaluated the Group's methodology and testing of the key assumptions used by the Group in determining the associates' recoverable amount based on value-in-use.

We also assessed the adequacy of the Group's disclosures in Notes 11 to the consolidated financial statements.



## **Independent Auditor's Report (Continued)**

### **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, but does not include the consolidated financial statements and our auditor's report thereon. The annual report is expected to be made available after the date of this auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available 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.

### **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 International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those Charged with Governance are responsible for overseeing the Group's financial reporting process.

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

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



## **Independent Auditor's Report (Continued)**

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

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.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Independent Auditor's Report (Continued)**

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

In our opinion, proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 1 of 2016 and its Executive Regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016 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 or financial position of the Group.



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**Qais M. Al Nisf**  
**License No. 38 "A"**  
**BDO Al Nisf & Partners**

**Kuwait: 25 March 2019**

**Privatization Holding Company – KPSC and its subsidiaries  
State of Kuwait**

**Consolidated statement of income**

For the year ended 31 December 2018

	Note	2018 KD	2017 KD
<b>Continuing operations</b>			
<b>Revenue</b>			
Revenue from sales and services		8,924,049	7,265,431
Unrealized (loss)/gain from change in fair value of financial assets at fair value through profit or loss		(1,634,315)	703,552
Realized gain from sale of financial assets at fair value through profit or loss		1,878,845	-
Realized gain from sale of financial assets available for sale		-	152,144
Dividend income		978,138	1,283,744
Group's share of results from associates	11	658,661	1,885,391
Loss from partial sale of investment in associates		-	(70,678)
Change in fair value of investment properties	10	32,017	117,967
(Loss) /gain on sale of investment properties	10	(1,545,071)	9,025
Interest income		137,681	122,631
Foreign exchange (loss)/gain		(43,377)	156,533
Other income		8,183	112,753
<b>Total revenue</b>		<b>9,394,811</b>	<b>11,738,493</b>
<b>Expenses and other charges</b>			
Cost of sales and services		(8,456,515)	(6,226,854)
General and administrative expenses	6	(2,966,781)	(3,119,418)
Portfolio management fees		(84,674)	(103,633)
Finance costs		(1,740,403)	(1,961,650)
Impairment loss of investment in an associate	11	(122,424)	-
<b>Total expenses and other charges</b>		<b>(13,370,797)</b>	<b>(11,411,555)</b>
<b>(Loss)/profit for the year from continuing operations before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST) and Zakat</b>		<b>(3,975,986)</b>	326,938
Contribution to Kuwait Foundation for the Advancement of Sciences		-	(20,159)
National Labour Support Tax		-	(73,206)
Zakat		-	(19,883)
<b>(Loss)/ profit for the year from continuing operations</b>		<b>(3,975,986)</b>	213,690
Profit from discontinued operations		-	3,065,667
<b>Net (loss)/ profit for the year</b>		<b>(3,975,986)</b>	<b>3,279,357</b>
<b>Attributable to:</b>			
Shareholders of the Parent Company		(4,010,424)	3,150,506
Non-controlling interests	5	34,438	128,851
<b>Net (loss)/ profit for the year</b>		<b>(3,975,986)</b>	<b>3,279,357</b>
<b>Basic and diluted (loss)/earnings per share from continued and discontinued operations attributable to the Shareholder of Parent Company (fils)</b>			
	7	<b>(6.57)</b>	5.16
<b>Basic and diluted (loss)/earnings per share from continuing operations attributable to the Shareholder of Parent Company (fils)</b>			
	7	<b>(6.57)</b>	0.14
<b>Basic and diluted (loss)/earnings per share from discontinued operations attributable to the Shareholder of Parent Company (fils)</b>			
	7	-	5.02

The notes set out on pages 11 to 67 form an integral part of these consolidated financial statements.

**Privatization Holding Company – KPSC and its subsidiaries  
State of Kuwait**

**Consolidated statement of income and other comprehensive income  
For the year ended 31 December 2018**

	Note	2018 KD	2017 KD
<b>Net (loss)/ profit for the year</b>		<b>(3,975,986)</b>	<b>3,279,357</b>
<b>Other comprehensive (loss) / income</b>			
<i>Items that may be reclassified subsequently to consolidated statement of income:</i>			
Financial assets available for sale:			
- Change in fair value		-	1,233,140
- Reversal due to sale		-	(152,144)
Reversal of reserve upon partial disposal of an associate		-	289
Exchange differences on translating of foreign operations		(4,453)	(82,356)
Group's share of other comprehensive loss of associates	11	(248,930)	(121,054)
<i>Items that will not be reclassified subsequently to consolidated statement of income:</i>			
Changes in fair value of financial assets at fair value through other comprehensive income ("FVOCI")		(300,906)	-
<b>Total other comprehensive (loss)/income for the year</b>		<b>(554,289)</b>	<b>877,875</b>
<b>Total comprehensive (loss)/income for the year</b>		<b>(4,530,275)</b>	<b>4,157,232</b>
<b>Attributable to:</b>			
Shareholders of the Parent Company		(4,339,293)	4,085,353
Non-controlling interests		(190,982)	71,879
<b>Total comprehensive (loss)/income for the year</b>		<b>(4,530,275)</b>	<b>4,157,232</b>

The notes set out on pages 11 to 67 form an integral part of these consolidated financial statements.

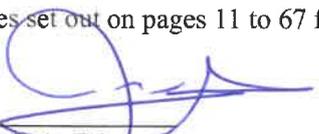
**Privatization Holding Company – KPSC and its subsidiaries**  
**State of Kuwait**

**Consolidated statement of financial position**

As at 31 December 2018

<b>Assets</b>	<b>Notes</b>	<b>2018</b> <b>KD</b>	<b>2017</b> <b>KD</b>
<b>Non-current assets</b>			
Property, plant and equipment	8	12,084,831	11,921,687
Intangible assets	9	715,356	451,940
Investment properties	10	239,862	2,802,698
Investment in associates	11	53,734,978	47,225,855
Financial assets available for sale	12	-	40,146,931
Financial assets at fair value through other comprehensive income	13	12,635,835	-
Investments held-to-maturity	14	-	1,502,156
Accounts receivable and other debit balances	16	2,677,086	7,469,238
		<u>82,087,948</u>	<u>111,520,505</u>
<b>Current assets</b>			
Inventories		1,449,307	1,355,834
Accounts receivable and other debit balances	16	14,773,828	17,730,011
Financial assets at fair value through profit or loss	17	28,328,786	14,606,582
Fixed deposits	18	34,386	34,695
Cash and cash equivalents	18	6,902,502	6,983,487
		<u>51,488,809</u>	<u>40,710,609</u>
<b>Total assets</b>		<u>133,576,757</u>	<u>152,231,114</u>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	19	61,000,000	61,000,000
Share premium	19	24,761,544	24,761,544
Statutory reserve	20	1,590,532	1,590,532
General reserve	21	3,200,595	5,619,970
Fair value reserve		-	3,998,906
Fair value reserve of financial assets at FVOCI		260,378	-
Foreign currency translation reserve		541,253	495,519
Other reserves		(862,171)	(756,169)
(Accumulated losses)/retained earnings		<u>(3,285,814)</u>	<u>630,625</u>
<b>Equity attributable to Shareholders of the Parent Company</b>		<u>87,206,317</u>	<u>97,340,927</u>
Non-controlling interests	5	895,899	1,849,963
<b>Total equity</b>		<u>88,102,216</u>	<u>99,190,890</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Employees' end of service benefits		960,621	976,099
Term loans	22	8,857,588	15,889,015
Accounts payable and other credit balances	23	5,063,321	6,045,592
		<u>14,881,530</u>	<u>22,910,706</u>
<b>Current liabilities</b>			
Term loans	22	22,437,680	23,002,842
Accounts payable and other credit balances	23	8,152,170	7,066,659
Bank overdraft	18	3,161	60,017
		<u>30,593,011</u>	<u>30,129,518</u>
<b>Total liabilities</b>		<u>45,474,541</u>	<u>53,040,224</u>
<b>Total equity and liabilities</b>		<u>133,576,757</u>	<u>152,231,114</u>

The notes set out on pages 11 to 67 form an integral part of these consolidated financial statements.

  
**Reyadh S. A. Edrees**  
*Chairman*

  
**Mohammed A. Al-Asfor**  
*Vice Chairman*

*Handwritten initials*

**Privatization Holding Company – KPSC and subsidiaries  
State of Kuwait**

**Consolidated statement of changes in equity**  
For the year ended 31 December 2018

	Equity attributable to the Shareholders of the Parent Company											
	Share Capital KD	Share premium KD	Statutory reserve KD	General reserve KD	Fair value reserve KD	Fair value financial assets at FVOCI KD	Foreign currency translation reserve KD	Other reserves KD	(Accumulated retained earnings / losses) KD	Sub-total KD	Non-controlling interests KD	Total Equity KD
At 1 January 2017	61,000,000	24,761,544	1,497,548	5,526,986	2,849,238	-	710,340	(574,267)	(2,333,913)	93,437,476	3,621,164	97,058,640
Net profit for the year	-	-	-	-	-	-	-	-	3,150,506	3,150,506	128,851	3,279,357
<b>Other comprehensive income/(loss):</b>												
Financial assets available for sale:												
- Change in fair value	-	-	-	-	1,290,113	-	-	-	-	1,290,113	(56,973)	1,233,140
- Transferred to consolidated statement of income due to sale	-	-	-	-	(152,144)	-	-	-	-	(152,144)	-	(152,144)
Reversal of reserve upon partial disposal of an associate	-	-	-	-	341	-	(52)	-	-	289	-	289
Exchange differences on translating of foreign operations	-	-	-	-	-	-	(82,356)	-	-	(82,356)	-	(82,356)
Group's share of other comprehensive income/(loss) of associates (Note 11)	-	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive income / (loss) for the year	-	-	-	-	11,358	-	(132,413)	-	-	(121,055)	1	(121,054)
Total comprehensive income/(loss) for the year	-	-	-	-	1,149,668	-	(214,821)	-	-	934,847	(56,972)	877,875
Share of other reserves of associate (Note 11)	-	-	-	-	1,149,668	-	(214,821)	-	3,150,506	4,085,353	71,879	4,157,232
Effect of disposal of a subsidiary	-	-	-	-	-	-	(269,640)	-	-	(269,640)	(88)	(269,728)
Reclassifying to investment in an associate	-	-	-	-	-	-	(402,854)	-	-	(402,854)	(3,126,051)	(3,528,905)
Reversal of reserve upon disposal of associate	-	-	-	-	-	-	489,694	-	-	489,694	1,312,059	1,801,753
Dividends to non-controlling interests	-	-	-	-	-	-	898	-	-	898	-	898
Effect of incorporation of a subsidiary	-	-	-	-	-	-	-	-	-	-	(50,000)	(50,000)
Transferred to reserves	-	-	-	92,984	92,984	-	-	-	-	-	21,000	21,000
At 31 December 2017	61,000,000	24,761,544	1,590,532	5,619,970	3,998,906	-	495,519	(756,169)	630,625	97,340,927	1,849,963	99,190,890

The notes set out on pages 11 to 67 form an integral part of these consolidated financial statements.

**Privatization Holding Company – KPSC and subsidiaries  
State of Kuwait**

**Consolidated statement of changes in equity**  
For the year ended 31 December 2018

Equity attributable to the Shareholders of the Parent Company												
Share Capital KD	Share premium KD	Statutory reserve KD	General reserve KD	Fair value reserve KD	Fair value of financial assets at FVOCI KD	Foreign currency translation reserve KD	Other reserves KD	Retained earnings/(accumulated losses) KD	Sub-total KD	Non-controlling interests KD	Total Equity KD	
61,000,000	24,761,544	1,590,532	5,619,970	3,998,906	-	495,519	(756,169)	630,625	97,340,927	1,849,963	99,190,890	
-	-	-	-	(3,998,906)	(281,944)	-	-	1,641,535	(2,639,315)	(4,870)	(2,644,185)	
61,000,000	24,761,544	1,590,532	5,619,970	-	(281,944)	495,519	(756,169)	2,272,160	94,701,612	1,845,093	96,546,705	
-	-	-	-	-	-	-	-	(4,010,424)	(4,010,424)	34,438	(3,975,986)	
-	-	-	-	-	(75,486)	-	-	-	(75,486)	(225,420)	(300,906)	
-	-	-	-	-	-	(4,453)	-	-	(4,453)	-	(4,453)	
-	-	-	-	-	(299,117)	50,187	-	-	(248,930)	-	(248,930)	
-	-	-	-	-	(374,603)	45,734	-	-	(328,869)	(225,420)	(554,289)	
-	-	-	-	-	(374,603)	45,734	-	(4,010,424)	(4,339,293)	(190,982)	(4,530,275)	
-	-	-	-	-	916,925	-	-	(916,925)	-	-	-	
-	-	-	(2,419,375)	-	-	-	-	(630,625)	(3,050,000)	-	(3,050,000)	
-	-	-	-	-	-	-	(106,002)	-	(106,002)	(31)	(106,033)	
-	-	-	-	-	-	-	-	-	-	(758,181)	(758,181)	
61,000,000	24,761,544	1,590,532	3,200,595	-	260,378	541,253	(862,171)	(3,285,814)	87,206,317	895,899	88,102,216	

At 31 December 2017 ("As previously reported")

Impact on adoption of IFRS 9 at 1 January 2018 (Note 2)

At 1 January 2018 ("Restated")

Net loss for the year

Other comprehensive (loss) / income:

Changes in fair value of financial assets at fair value through other comprehensive income  
Exchange differences on translating of foreign operations

Group's share of other comprehensive (loss)/income of associates (Note 11)

Other comprehensive (loss)/ income for the year  
Total comprehensive (loss)/ income for the year  
Transferred to retained earnings due to sale of financial assets at fair value through other

comprehensive income  
Cash dividend (Note 24)

Share of other reserves of associate (Note 11)

Reclassifying to investment in an associate (Note 11)

At 31 December 2018

The notes set out on pages 11 to 67 form an integral part of these consolidated financial statements.

**Privatization Holding Company – KPSC and subsidiaries  
State of Kuwait**

**Consolidated statement of cash flows  
For the year ended 31 December 2018**

	<b>2018</b>	<b>2017</b>
	KD	KD
<b>OPERATING ACTIVITIES</b>		
Net (loss) /profit for the year	(3,975,986)	3,279,357
Adjustments for:		
Unrealized loss/(gain) from change in fair value of financial assets at fair value through profit or loss	1,634,315	(703,552)
Realized gain from sale of financial assets at fair value through profit or loss	(1,878,845)	-
Realized gain from sale of financial assets available for sale	-	(152,144)
Dividend income	(978,138)	(1,283,744)
Group's share of results from associates	(658,661)	(1,885,391)
Loss from partial sale of investment in associates	-	70,678
Change in fair value of investment properties	(32,017)	(117,967)
Loss /(gain) on sale of investment properties	1,545,071	(9,025)
Gain on sale of investment in subsidiaries	-	(2,809,098)
Interest income	(137,681)	(122,631)
Foreign exchange loss/(gain)	43,377	(156,533)
Provision for expected credit losses	103,099	-
Depreciation	412,363	853,159
Amortization	144,165	122,539
Finance costs	1,740,403	1,961,650
Impairment loss of investment in an associate	122,424	-
Provision for employees' end of service benefits	223,232	301,778
	<u>(1,692,879)</u>	<u>(650,924)</u>
Changes in operating assets and liabilities:		
Inventories	(121,958)	59,409
Accounts receivable and other debit balances	(2,950,910)	(2,529,175)
Financial assets at fair value through profit or loss	11,311,553	(2,169)
Accounts payable and other credit balances	(127,749)	(4,052,651)
<b>Cash flows from/(used in) operating activities</b>	<u>6,418,057</u>	<u>(7,175,510)</u>
Kuwait Foundation for the Advancement of Sciences paid	(22,972)	-
National Labour Support Tax paid	(73,496)	-
Zakat paid	(20,152)	-
Employees' end of service benefits paid	(36,720)	(17,890)
<b>Net cash flows from/(used in) operating activities</b>	<u>6,264,717</u>	<u>(7,193,400)</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(865,451)	(210,622)
Proceeds from sale of property, plant and equipment	4,172	-
Purchase of intangible assets	(407,581)	(574,479)
Proceeds from sale of investment properties	1,049,782	41,820
Purchase of investment in associates	-	(10,515)
Proceeds from disposal of associates	-	523,363
Dividend income received from associates	1,684,527	595,922
Proceeds from sale of financial assets at fair value through other comprehensive income	2,007,762	-
Purchase of financial assets at fair value through other comprehensive income	(142,639)	-
Proceeds from sale of financial assets available for sale	-	1,967,042
Purchase of financial assets available for sale	-	(989,627)
Proceeds from redemption of investments held to maturity	1,502,156	3,529
Fixed deposits	309	(3,889)
Dividend income received	978,138	1,283,745
Interest income received	137,681	121,415
Net cash from acquisition / disposal of investment in subsidiaries	(6,003)	8,456,534
<b>Net cash flows generated from investing activities</b>	<u>5,942,853</u>	<u>11,204,238</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from term loans	13,386,505	14,094,893
Repayment of term loans	(21,027,056)	(15,063,309)
Finance costs paid	(1,742,534)	(1,961,192)
Dividend paid	(2,845,027)	-
Share capital repayments	-	(368,848)
Movement in non-controlling interests	-	(29,000)
<b>Net cash flows used in financing activities</b>	<u>(12,228,112)</u>	<u>(3,327,456)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<u>(20,542)</u>	<u>683,382</u>
Foreign currency translation adjustments	(3,587)	(70,821)
Cash and cash equivalents at beginning of the year	6,923,470	6,310,909
<b>Cash and cash equivalents at end of the year (Note 18)</b>	<u>6,899,341</u>	<u>6,923,470</u>
<b>Non-cash transactions</b>		
Accounts receivable and other debit balances	6,413,720	-
financial assets at fair value through other comprehensive income	555,838	-
Investment in subsidiary	758,181	1,801,754
Investment in associates	<u>(7,727,739)</u>	<u>(1,801,754)</u>

The notes set out on pages 11 to 67 form an integral part of these consolidated financial statements.

**Privatization Holding Company – KPSC and subsidiaries  
State of Kuwait**

**Notes to the consolidated financial statements**

For the year ended 31 December 2018

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**1. Incorporation and activities**

Privatization Holding Company - KPSC (the “Parent Company”) is a Kuwaiti shareholding company registered on 10 October 1994 and is listed on the Boursa Kuwait.

The Parent Company is licensed to:

- Invest in Kuwaiti and foreign shareholding companies and limited liability companies and to participate in the establishment and management of such entities,
- Lend to such entities and act as their guarantor,
- Utilization of excess funds in investment in financial portfolios or real estate portfolios through specialised parties inside or outside Kuwait,
- Invest in real estate, hold patents and copy rights, and advance loans to associates,
- Represent foreign consulting firms in local market.

The Group comprises the Parent Company and its subsidiaries. Details of subsidiaries are set out in Note 5.

The Parent Company registered office is located at Sharq, Ahmad Al-Jaber Street, Dar Al-Awadi Tower, 23 Floor, P.O. Box 4323, Safat 13104, Kuwait

The consolidated financial statements for the year ended 31 December 2018 were authorized for issue by the Parent Company’s Board of Directors on 25 March 2019 and are subject to the approval of the General Assembly of the Parent Company’s shareholders. The Annual General Assembly of the Parent Company’s Shareholders has the power to amend these consolidated financial statements after issuance.

**2. Application of new and revised International Financial Reporting Standards (IFRSs)**

**a) New standards, interpretations and amendments effective from 1 January 2018**

The accounting policies applied by the Group are consistent with those used in the previous year except for the changes due to implementation of the following new and amended International Financial Reporting Standards as of 1 January 2018:

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

The amendments is effective for annual periods beginning on or after 1 January 2018, the amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations.
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The adoption of these amendments did not have any material impact on the Group.

*Amendments to IFRS 4 – Insurance contracts (Applying IFRS 9 financial instruments)*

The amendments is effective for annual periods beginning on or after 1 January 2018, the amendments address concerns arising from implementing the new standard IFRS 9 (Financial instruments), before implementing IFRS 17, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

The adoption of these amendments did not have any material impact on the Group.

**Privatization Holding Company – KPSC and subsidiaries  
State of Kuwait**

**Notes to the consolidated financial statements**

For the year ended 31 December 2018

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**2. Application of new and revised International Financial Reporting Standards (IFRSs)  
(Continued)**

**a) New standards, interpretations and amendments effective from 1 January 2018**

*IFRS 9 - Financial Instruments*

The standard is effective for annual periods beginning on or after 1 January 2018, replaces the existing guidance in IAS 39: Financial Instruments: Recognition and Measurement. IFRS 9 specifies how an entity should classify and measure its financial instruments and includes a new expected credit loss model for calculating impairment of financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

For the initial application of IFRS 9 and its effects, kindly refer to Note (2 - c) below.

*IFRS 15 - Revenue from contracts with customers*

The standard is effective for annual periods beginning on or after 1 January 2018, establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces the following existing standards and interpretations upon its effective date:

- IAS 18 – Revenue,
- IAS 11 – Construction Contracts,
- IFRIC 13 – Customer Loyalty Programs,
- IFRIC 15 – Agreements for the Construction of Real Estate,
- IFRIC 18 – Transfers of Assets from Customers, and,
- SIC 31 – Revenue-Barter Transactions Involving Advertising Services.

For the initial application of IFRS 15, kindly refer to Note (2 - c) below.

*IFRIC 22 - Foreign Currency Transactions and Advance Consideration*

The interpretation is effective for annual periods beginning on or after 1 January 2018 and clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a nonmonetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or nonmonetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

This interpretation did not have any material impact on the Group.

*Amendments to IAS 40 Investment Property – Transfers of Investment Property*

The amendments are effective for annual periods beginning on or after 1 January 2018 and clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

The adoption of these amendments did not have any material impact on the Group.

**Notes to the consolidated financial statements**

For the year ended 31 December 2018

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**2. Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)**

**a) New standards, interpretations and amendments effective from 1 January 2018 (Continued)**

*Annual Improvements to IFRSs 2014 – 2016 Cycle*

*Amendments to IAS 28 – Investment in Associates and Joint Ventures*

The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted.

The amendments clarify that:

- a) An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- b) If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (i) the investment entity associate or joint venture is initially recognised; (ii) the associate or joint venture becomes an investment entity; and (iii) the investment entity associate or joint venture first becomes a parent.

The adoption of these amendments did not have any material impact on the Group.

**b) Standards and interpretations issued but not effective**

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

*IFRS 16 - Leases*

This standard will be effective for annual periods beginning on or after 1 January 2019. This standard will be replacing IAS 17 "Leases" and will require lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17 with limited exceptions for low-value assets and short term leases. At the commencement date of a lease, a lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The new standard does not significantly change the accounting for leases for lessors. Early application is permitted provided that IFRS 15 is applied on the same date.

The Group are currently assessing the impact of IFRS 16 and plan to adopt the new standard on the required effective date.

*IFRS 17 – Insurance Contracts*

This standard will be effective for annual periods beginning on or after 1 January 2022 and replaces IFRS 4 - Insurance Contracts. The new standard applies to all types of insurance contracts, regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (Variable fee approach).
- A simplified approach (premium allocation approach) mainly for short duration contracts.

This standard is not expected to have any material impact to the Group.

**Notes to the consolidated financial statements**

For the year ended 31 December 2018

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**2. Application of new and revised International Financial Reporting Standards (IFRSs)  
(Continued)**

**b) Standards and interpretations issued but not yet effective (Continued)**

*Amendments to IFRS 9: Prepayment features with negative compensation*

The amendments should be applied retrospectively and are effective from 1 January, 2019, with earlier application permitted. Under IFRS 9, a debt instrument can be measured at amortized 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.

These amendments are not expected to have any material impact to the Group.

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

The amendments should be applied retrospectively and are effective from 1 January, 2019, with early application permitted. 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, recognized as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28: Investments in Associates and Joint Ventures.

These amendments are not expected to have any material impact to the Group.

*Annual Improvements to IFRSs 2015 – 2017 Cycle (issued in December 2017)*

*IFRS 3 – Business Combinations*

The amendments apply to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January, 2019, with early application permitted. The amendments clarify that, obtaining control of a business that is a joint operation is a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

*IFRS 11 – Joint Arrangements*

The amendments apply to transactions in which it obtains joint control on or after the first annual reporting period beginning on or after 1 January, 2019, with early application permitted. A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

Notes to the consolidated financial statements  
For the year ended 31 December 2018

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**2. Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)**

**b) Standards and interpretations issued but not effective (Continued)**

*IAS 23 – Borrowing Costs*

The amendments will be effective for annual periods beginning on or after 1 January 2019 with early application permitted. The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.

These amendments are not expected to have any material impact to the Group.

**c) Application of new standards effective from 1 January 2018**

The Group has initially adopted IFRS 9 “Financial Instruments” (see (A) below) and IFRS 15 “Revenue from Contracts with Customers” (see (B) below) from 1 January 2018 as follow:

**a. IFRS 9: Financial Instruments**

IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non- financial items. This Standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

**i. Classification and measurement of the financial assets and liabilities**

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets held to maturity, loans and receivables and financial assets available for sale.

The adoption of IFRS 9 has not had a significant effect on the Group’s accounting policies related to financial liabilities. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

Under IFRS 9, on initial adoption, the financial asset is classified as measured at amortised cost, fair value through other comprehensive income – debt investments, fair value through other comprehensive income, equity investments or fair value through profit or loss. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

**Financial asset is measured at amortised cost**

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

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

Notes to the consolidated financial statements  
For the year ended 31 December 2018

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2. Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

c) Application of new standards effective from 1 January 2018 (Continued)

a. IFRS 9: Financial Instruments (Continued)

i. Classification and measurement of the financial assets and liabilities (Continued)

**Debt investment at fair value through other comprehensive income**

A debt investment is measured at fair value through other comprehensive income if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

**Equity securities at fair value through other comprehensive income**

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

**Equity securities at fair value through profit or loss**

All financial assets, other than those classified as financial assets measured at amortised cost or fair value through other comprehensive income as described above, are measured at fair value through profit or loss. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as financial asset recognized at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not recognized at fair value through profit or loss, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at fair value through profit or loss	These assets are subsequently measured at fair value. Net gains and losses, including any interests or dividends income, are recognised in statement of income.
Financial assets Carried at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange profits and losses and impairment are recognised in statement of income. Any gain or loss on derecognition is recognized in statement of income.
Debt investments at fair value through other comprehensive income	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in statement of income. Other net profits and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to statement of income.
Equity investments at fair value through other comprehensive income	These assets are subsequently measured at fair value. Dividends are recognised as income in statement of income unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in other comprehensive income and are never reclassified to statement of income.

**Privatization Holding Company – KPSC and subsidiaries  
State of Kuwait**

**Notes to the consolidated financial statements  
For the year ended 31 December 2018**

**2. Application of new and revised International Financial Reporting Standards (IFRSs)  
(Continued)**

**c) Application of new standards effective from 1 January 2018 (Continued)**

**a. IFRS 9: Financial Instruments (Continued)**

**i. Classification and measurement of the financial assets and liabilities (Continued)**

Impact of adoption of IFRS 9 on the carrying amounts of the financial assets at 1 January 2018 is further described below.

**Classification of financial assets and financial liabilities**

The following table and accompanying notes show reconciliation of original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for each category of financial assets and financial liabilities of the Group as at 1 January 2018:

	Note	Original Classification Under IAS 39	New classification Under IFRS 9	Original carrying amount under IAS 39 KD	New carrying value under IFRS 9 KD	Impact of adoption of IFRS 9 KD
<b><u>Financial assets</u></b>						
Cash and cash equivalents		Loans and receivables	Amortized cost	6,983,487	6,983,487	-
Fixed deposits		Loans and receivables	Amortized cost	34,695	34,695	-
Investment held to maturity		Held-to- maturity	Amortized cost	1,502,156	1,502,156	-
Equity securities	a	FVTPL	FVOCI – equity instrument	122,343	122,343	41,310
Accounts receivable and other debit balances	b	Loans and receivables	Amortised cost	25,199,249	22,270,429	(2,928,820)
Equity securities	c	Available-for sale	FVOCI – equity Instrument	15,235,361	15,235,361	-
Equity securities	d	Available-for sale	FVTPL	24,911,570	24,911,570	4,239,540
<b><u>Financial liabilities</u></b>						
Accounts payable and other credit balances		Amortized cost	Amortized cost	13,112,251	13,112,251	-
Term loans		Amortized cost	Amortized cost	38,891,857	38,891,857	-
Bank overdraft		Amortized cost	Amortized cost	60,017	60,017	-

- (a) Under IAS 39, these equity securities were designated as at fair value through profit or loss because they were managed on a fair value basis and their performance was monitored on this basis. As at 1 January 2018, and as a result of the adoption of IFRS 9, the management issued irrevocable decision recognizing the changes in fair value through other comprehensive income other than statement of income as it is strategic investments. Such changes are more relevant to other comprehensive income as deemed by the Group.

**Notes to the consolidated financial statements**  
For the year ended 31 December 2018

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**2. Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)**

**c) Application of new standards effective from 1 January 2018 (Continued)**

**a. IFRS 9: Financial Instruments (Continued)**

**i. Classification of the financial assets and liabilities (Continued)**

- (b) Accounts receivable and other debit balances that were classified as loans and receivables under IAS 39 are now classified at amortised cost. An increase of KD 2,928,820 in the allowance for impairment over these receivables was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9. There are no accounts receivable and other debit balances were recognised at 1 January 2018 on the adoption of IFRS 15.
- (c) These equity securities represent investments that the Group intend to hold for the long term for strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at fair value through other comprehensive income. Unlike IAS 39, the accumulated fair value reserve related to these investments will never be reclassified to statement of income.
- (d) These equity securities represent investments that the Group intend to hold for the short term for trading purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at fair value through profit or loss. The relative profit or loss will be recognized in statement of income.

**ii. Impairment of financial assets**

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an "expected credit loss" (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at fair value through other comprehensive income, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The financial assets at amortised cost consist of cash and cash equivalents, fixed deposits and accounts receivable and other debit balances.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- Debt securities that are determined to have low credit risk at the reporting date; and
- Other debt securities, bank balances, and fixed deposits (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

The Group has elected to measure; using the simplified approach, loss allowances for accounts receivables and other debit balances at an amount equal to lifetime ECLs.

Notes to the consolidated financial statements  
For the year ended 31 December 2018

2. Application of new and revised International Financial Reporting Standards (IFRSs)  
(Continued)

c) Application of new standards effective from 1 January 2018 (Continued)

a. IFRS 9: Financial Instruments (Continued)

ii. Impairment of financial assets (Continued)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- The financial asset is more than 365 days past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

**Measurement of ECLs**

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expect to receive). ECLs are discounted at the effective interest rate of the financial asset.

**Credit-impaired financial assets**

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

**Presentation of impairment**

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impairment losses related to accounts receivable and other debit balances including contract assets, are presented separately in consolidated statement of income.

**Impact of the new impairment model**

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an additional impairment allowance as follows.

<b>Expected loss allowance as at 1 January 2018</b>	<b>Amount (KD)</b>
Additional impairment recognised at 1 January 2018 on:	
Accounts receivable and other debit balances	(2,928,820)

**2. Application of new and revised International Financial Reporting Standards (IFRSs)  
(Continued)**

**c) Application of new standards effective from 1 January 2018 (Continued)**

**a. IFRS 9: Financial Instruments (Continued)**

**ii. Impairment of financial assets (Continued)**

**Accounts receivables and contract assets**

The following analysis provides further detail about the calculation of ECLs related to accounts receivables and contract assets on the adoption of IFRS 9. The Group considers the model and some of the assumptions used in calculating these ECLs as key sources of estimation uncertainty.

The ECLs were calculated based on actual credit loss experience over the past 3-5 years. The Group performed the calculation of ECL rates for its customers.

Exposures within each Group were segmented based on common credit risk characteristics such as credit risk grade, geographic region and industry, delinquency status, age of relationship and type of product purchased where applicable.

Actual credit loss experience was adjusted by scalar factors to reflect differences between economic conditions during the period over which the historical data was collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

At 1 January 2018, as a result of adoption of IFRS 9, the Group recorded an additional provision for expected credit losses amounting to KD 2,928,820 (Note 16).

**iii. Transition**

The Group has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. 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 generally reflect the requirements of IFRS 9 but rather those of IAS 39.

The following assessments have been made on the basis of 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 fair value through profit or loss.
- The designation of certain investments in equity instruments not held for trading as at fair value through other comprehensive income.

**b. IFRS 15: Revenue from Contracts with Customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31. It establishes a new recognition model based on the principle of control and applying five steps on all contracts with customers.

**Notes to the consolidated financial statements**

For the year ended 31 December 2018

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**2. Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)**

**c) Application of new standards effective from 1 January 2018 (Continued)**

**b. IFRS 15: Revenue from Contracts with Customers (Continued)**

The model's five steps are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when the entity satisfies a performance obligation.

Adoption of IFRS 15 by the Group on 1 January 2018 had no material impact on the Group's consolidated financial statements as at 31 December 2017 and the consolidated financial statements for the year ended 31 December 2018 as majority of the Group's revenues fall within the scope of IFRS 15 as presented in Note (3.4).

**3. Significant accounting policies**

**3.1 Statement of compliance**

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"), IFRIC interpretations as issued by the International Financial Reporting Interpretations Committee ("IFRIC") and Companies Law No. 1 of 2016 and its Executive Regulations, as amended.

**3.2 Basis of preparation**

The consolidated financial statements of the Group have been prepared under historical cost convention except for financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, financial assets available for sale and investment properties that have been measured at fair value.

The consolidated financial statements have been presented in Kuwaiti Dinars ("KD"), which is the functional and presentation currency of the Parent Company.

The preparation of consolidated financial statements in compliance with the adopted ("IFRSs") requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Group's accounting policies. The areas where significant judgments and estimates have been made in preparing the consolidated financial statements and their effect are disclosed in Note 4.

**3.3 Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Parent Company and its subsidiaries (together the "Group").

Subsidiaries (investees) are those enterprises controlled by the Parent Company. Control is achieved when the Parent Company:

- has power over the investee;
- is exposed, or has rights to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

### **3. Significant accounting policies (Continued)**

#### **3.3 Basis of consolidation (Continued)**

The Parent Company reassess 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 listed above.

When the Group has less than a majority of voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in consolidated statement of income and other comprehensive income from the date the Parent Company gains control until the date when the Parent Company ceases to control the subsidiary. All inter-company balances and transactions, including inter-company profits and unrealized profits and losses are eliminated in full on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Consolidated statement of income and each component of other comprehensive income are attributed to the owners of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. The carrying amounts of the group's ownership interests and non-controlling interests are adjusted to reflect changes in their relative interests in the subsidiaries. Any difference between the amount by which non-controlling interests are adjusted and fair value of the consideration paid or received is recognized directly in equity and attributable to owners of the Parent Company. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings as appropriate.

**Notes to the consolidated financial statements**

For the year ended 31 December 2018

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**3. Significant accounting policies (Continued)**

**3.4 Revenue recognition**

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer. The Group follows a 5-step process:

- Identifying the contract with a customer
- Identifying the performance obligations
- Determining the transaction price
- Allocating the transaction price to the performance obligations
- Recognising revenue when/as performance obligation(s) are satisfied.

The total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

IFRS 15 requires entities 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. In addition, the standard requires extensive disclosures.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

The Group transfers control of a good or service over time (rather than at a point in time) when any of the following criteria are met:

- The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs.
- The Group's performance creates or enhances an asset (e.g., work in process) that the customer controls as the asset is created or enhanced.
- The Group's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

Control is transferred at a point in time if none of the criteria for a good or service to be transferred over time are met. The Group considers the following factors in determining whether control of an asset has been transferred:

- The Group has a present right to payment for the asset.
- The customer has legal title to the asset.
- The Group has transferred physical possession of the asset.
- The customer has the significant risks and rewards of ownership of the asset.
- The customer has accepted the asset.

***Contract liabilities & assets***

The Group recognizes contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the consolidated statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognizes either a contract asset or a receivable in its consolidated statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

**3. Significant accounting policies (Continued)**

**3.4 Revenue recognition (Continued)**

Cost to obtain a contract

Incremental costs of obtaining a contract with a customer are capitalized when incurred as the Group expects to recover these costs and such costs would not have incurred if the contract has not been obtained.

Revenue for the Group arises from:

Sale of goods

Sales represent the total invoiced value of goods sold during the year. Revenue from sale of goods is recognized when or as the Group transfers control of the goods to the customer. For standalone sales, that are neither customized by the Group nor subject to significant integration services, control transfers at the point in time the customer takes undisputed delivery of the goods. Delivery occurs when the goods have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Rendering of services

Revenue from service contracts is recognized when the service is rendered. Revenue is recognized over time where performance obligations are generally satisfied within the financial period.

Construction contracts

Revenue from construction contracts is recognized over time on a cost-to-cost method (input method), i.e. based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. Profit is only recognized when the contract reaches a point where the ultimate profit can be estimated with reasonable certainty. Claims, variation orders and incentive payments are included in the determination of contract profit when approved by contract owners. Anticipated losses on contracts are recognized in full as soon as they become apparent.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

Dividend income

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

Rental income

Rental income is recognized, when earned, on a time apportionment basis.

Other income and expenses

Other income and expenses are recognized on an accrual basis.

**3.5 Finance costs**

Finance costs are recognised in the consolidated statement of income on a time proportion basis over the period of related liabilities.

**Privatization Holding Company – KPSC and subsidiaries  
State of Kuwait**

**Notes to the consolidated financial statements**

For the year ended 31 December 2018

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**3. Significant accounting policies (Continued)**

**3.6 National Labor Support Tax (NLST)**

National Labor Support Tax (NLST) is calculated at 2.5% of the profit attributable to the shareholders of the Parent Company before contribution to KFAS, NLST, Zakat, and Board of Directors' remuneration, and after deducting the Parent Company's share of profit from associates and subsidiaries listed in Bursa Kuwait, share of NLST paid by subsidiaries listed in Bursa Kuwait, and cash dividends received from companies listed in Bursa Kuwait in accordance with Law No. 19 of 2000 and Ministerial resolution No. 24 of 2006 and their Executive Regulations. No NLST has been provided for since there was no taxable profit on which NLST could be calculated.

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

Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) is calculated at 1% of the profit attributable to shareholders of the Parent Company before contribution to KFAS, NLST, Zakat, and Board of Directors' remuneration, and after deducting the Parent Company's share of income from Kuwaiti shareholding subsidiaries and associates, transfer to statutory reserve, and any accumulated losses. No KFAS has been provided for since there was no eligible profit on which KFAS could be calculated.

**3.8 Zakat**

Zakat is calculated at 1% of the profit attributable to the shareholders of the Parent Company before contribution to KFAS, NLST, Zakat, and Board of Directors' remuneration, and after deducting the Parent Company's share of profit from Kuwaiti shareholding associates and subsidiaries, share of Zakat paid by Kuwaiti shareholding subsidiaries and cash dividends received from Kuwaiti shareholding companies in accordance with Law No. 46 of 2006 and Ministerial resolution No. 58 of 2007 and their Executive Regulations. No Zakat has been provided since there was no financial profit on which Zakat could be calculated.

**3.9 Taxation**

Taxation on overseas subsidiaries is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries where these subsidiaries operate.

**3.10 Segment reporting**

The Group has two operating segments: investment and other segments. In identifying these operating segments, management generally follows the Group's service lines representing its main products and services. Each of these operating segments is managed separately as each requires different approaches and other resources. All inter-segment transfers are carried out at arm's length prices.

For management purposes, the Group uses the same measurement policies as those used in its financial statements. In addition, assets or liabilities which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

### **3. Significant accounting policies (Continued)**

#### **3.11 Business combinations**

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

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

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

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.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of (a) fair value of consideration transferred, (b) the recognised amount of any non controlling interest in the acquiree and (c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (ie gain on a bargain purchase) is recognised in consolidated statement of income immediately.

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

Property, plant and equipment are initially recognised at acquisition cost or manufacturing cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the Group's management.

Property, plant and equipment are subsequently measured using the cost model, cost less subsequent depreciation and impairment losses. Depreciation is recognised on a straight-line basis to write down the cost less estimated residual value of equipment. The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits arising from items of property, plant and equipment. The following useful lives are applied:

	<u>Years</u>
Leasehold land	20
Office building	20-30
Machinery and equipment	6-20
Furniture and fixtures	4-10

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

### **3. Significant accounting policies (Continued)**

#### **3.12 Property, plant and equipment (Continued)**

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is recognised in the consolidated statement of income.

#### **3.13 Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised 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 as 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 the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income. Intangible assets with finite lives are amortised on a straight-line basis over a period of 1 to 4 years.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life 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.

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

At the end of each reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

### **3. Significant accounting policies (Continued)**

#### **3.14 Impairment of non-financial assets (Continued)**

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in consolidated statement of income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in consolidated statement of income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### **3.15 Discontinued operations**

Discontinued operations represent part of the Group's business, which their results and cash flows can be separated clearly from rest of the Group, which are also:

- Represent substantial activity or separate geographic segment.
- Represent part of a coordinated plan to exclude substantial activity or separate geographic segment.
- Include subsidiaries acquired principally for sale subsequently.

These operations are classified as discontinued operations at sale or when classification conditions are met as discontinued operations, whichever shall first occur.

Revenues and expenses related to discontinued operations are recognised separately from revenues and expenses related to continuing operations in the consolidated statement of income until the profitability level of the period ended at the date of the consolidated financial statements and comparative periods. This is even if the Group retains non-controlling interest in the subsidiary after sale, whereas profit or loss are recognised as separate item in the consolidated statement of income.

#### **3.16 Investment properties**

Investment properties comprise completed property, property under construction or re-development held to earn rentals or for capital appreciation or both. Investment properties are initially measured at cost including purchase price and transaction costs. Subsequent to initial recognition, investment properties are stated at their fair value at the end of reporting period. Gains or losses arising from changes in the fair value of investment properties are included in consolidated statement of income for the period in which they arise.

Subsequent expenditure is capitalized to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognized.

These values are supported by market evidence and are determined by external professional valuers with sufficient experience with respect to both the location and the nature of the investment property.

**Notes to the consolidated financial statements**

For the year ended 31 December 2018

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**3. Significant accounting policies (Continued)**

**3.16 Investment properties (Continued)**

Investment properties are derecognized when either they have been disposed of (i.e. at the date the recipient obtains control) or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Gains or losses arising on the retirement or disposal of an investment property are recognized in consolidated statement of income.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale. 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.

**3.17 Investment in associates**

Associates are those entities in which the Group has significant influence which is the power to participate in the financial and operating policy decisions of the associate but is not control or joint control over those policies. Under the equity method, investment in associates are carried in the consolidated statement of financial position at cost as adjusted for changes in the Group's share of the net assets of the associate from the date that significant influence effectively commences until the date that significant influence effectively ceases, except when the investment is classified as held for sale, in which case it is accounted as per IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

The Group recognizes in its consolidated statement of income for its share of results of operations of the associate and in its other comprehensive income for its share of changes in other comprehensive income of associate.

Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognized except to the extent that the Group has an obligation or has made payments on behalf of the associate.

Gains or losses arising from transactions with associates are eliminated against the investment in the associate to the extent of the Group's interest in the associate.

The difference in reporting dates of the associates and the Group is not more than three months. Adjustments are made for the effects of significant transactions or events that occur between that date and the date of the Group's consolidated financial statements. The associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment in associates and is assessed for impairment as part of the investment. If the cost of acquisition is lower than the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities, the difference is recognized immediately in consolidated statement of income.

The Group determines at each reporting date whether there is any objective evidence that the investment in associate is impaired and determine if necessary, to recognize any impairment loss with respect to the investment. If there is such evidence, the entire carrying amount of the investment (including goodwill) is tested for impairment and the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in consolidated statement of profit or loss. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

**3. Significant accounting policies (Continued)**

**3.17 Investment in associates (Continued)**

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in consolidated statement of income.

**3.18 Financial instruments**

The Group classifies its financial instruments as financial assets and financial liabilities. Financial assets and financial liabilities are recognized when the Group becomes a party of the contractual provisions of such instruments.

Financial assets and financial liabilities carried on the consolidated statement of financial position include accounts receivable and other debit balances, investments held to maturity, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, fixed deposits, cash and cash equivalents, term loans, accounts payable and other credit balances and bank overdraft.

**Financial assets:**

**Recognition, initial measurement and derecognition**

To determine their classification and measurement category, IFRS 9 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.

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objectives and in order to generate contractual cash flows. 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 FVPL. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios.

Purchases and sales of those financial assets are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at FVPL.

A financial asset is derecognized either when: the contractual rights to receive the cash flows from the financial asset have expired; or the Group has transferred its rights to receive cash flows from the financial asset and either (a) has transferred substantially all the risks and rewards of ownership of the financial asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the financial asset, but has transferred control of the financial asset. Where the Group has retained control, it shall continue to recognize the financial asset to the extent of its continuing involvement in the financial asset.

**3. Significant accounting policies (Continued)**

**3.18 Financial instruments (Continued)**

**Financial assets: (Continued)**

**Classification of financial assets**

Financial assets are classified in the consolidated financial statements into the following categories upon initial recognition:

- Debt instruments at amortized cost
- Debt instruments at fair value through other comprehensive income.
- Equity instruments at fair value through other comprehensive income.
- Equity instruments at Fair value through profit or loss.

**Subsequent measurement**

**Debt instruments at amortized cost**

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

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

Debt instruments measured at amortized cost are subsequently measured at amortized cost using the effective yield method adjusted for impairment losses if any. Gains and losses are recognized in consolidated statement of profit or loss when the asset is derecognized, modified or impaired.

Financial assets carried at amortised cost consist of cash and cash equivalents, fixed deposits, accounts receivable and other debit balances and other assets classified as debt instruments at amortized cost.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand and at banks, deposits and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

**Term deposits**

Term deposits are placed with banks and have a contractual maturity of more than three months.

**Trade receivables**

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business and recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

Receivables which are not categorised under any of the above are classified as “other debit balances”.

**3. Significant accounting policies (Continued)**

**3.18 Financial instruments (Continued)**

**Financial assets: (Continued)**

*Equity instruments at fair value through other comprehensive income (FVOCI)*

Upon initial recognition, the Group may elect to classify irrevocably some of its 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.

Gains and losses on these equity instruments are never recycled to consolidated statement of income. Dividends are recognized in consolidated 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 instruments at FVOCI are not subject to an impairment assessment. Upon disposal, cumulative gains or losses are reclassified from cumulative changes in fair value to retained earnings in the statement of changes in equity. Interest income and dividends are recorded in consolidated statement of income.

The financial assets at FVOCI represent quoted and unquoted equity investments and funds.

*Financial assets at FVPL*

The Group classifies financial assets as held for trading 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 consolidated 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 amortized cost or at FVOCI as at FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Changes in fair value, gain on disposal, 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.

The financial assets at FVPL are represented in quoted and unquoted equity investments and funds.

**Impairment of financial assets**

IFRS 9 replaces the “incurred loss” model in IAS 39 with an expected credit loss (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at fair value through other comprehensive income, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

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.

For Contract assets and trade and other receivables, the Group has applied the standard’s simplified approach and has calculated ECLs based on lifetime expected credit losses. Accordingly, the Group does not track changes in credit risk and assesses impairment on a collective basis. 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 customers and the economic environment. Exposures were segmented based on common credit characteristics such as credit risk grade, geographic region and industry, delinquency status and age of relationship where applicable.

**3. Significant accounting policies (Continued)**

**3.18 Financial instruments (Continued)**

**Financial assets: (Continued)**

**Impairment of financial assets (Continued)**

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument. ECLs for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets and charged to consolidated statement of profit or loss. For debt instruments at FVOCI, the loss allowance is charged to consolidated statement of income.

**Financial liabilities**

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements are presented in OCI with no subsequent reclassification to consolidated statement of income.

**Accounts payable**

Accounts payable include trade and other payables. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

**Borrowings**

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in consolidated statement of income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

**Derecognition of financial liabilities**

A financial liability is derecognized 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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in consolidated statement of profit or loss.

**Offsetting of financial assets and liabilities**

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 recognized amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**Notes to the consolidated financial statements**

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**3. Significant accounting policies (Continued)**

**3.19 Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Cost of finished goods is calculated using first-in first-out method. For other items of inventory, cost is calculated using the weighted average cost method.

Net realizable value is the estimated selling price in the ordinary course of business less the costs of completion and selling expenses. Write-down is made for obsolete and slow-moving items based on their expected future use and net realizable value.

**3.20 Fair value of financial instruments**

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

**3.21 Equity, reserves and other equity items**

Share capital represents the nominal value of shares that have been issued and paid up.

Reserves (statutory and general) represent retained amounts from annual profits being withheld in such accounts by virtue of requirements established in the Parent Company's Memorandum of Incorporation and Articles of Association and Companies' law and its Executive Regulations.

Other components of equity include the following:

- Foreign currency translation reserve – comprises foreign currency translation differences arising from the translation of financial statements of the Group's foreign entities into Kuwaiti Dinars.
- Fair value reserve – comprises gains and losses relating to financial assets at fair value through other comprehensive income and financial assets available for sale.
- Other reserves – mainly comprises gains and losses arising from partial acquisition and disposal of subsidiaries.

Retained earnings / (accumulated losses) include current year profit (loss) and prior period retained profit/ (accumulated losses).

**3.22 Share premium**

This represents cash received in excess of the par value of the shares issued. The share premium is not available for distribution except in cases stipulated by law.

### **3. Significant accounting policies (Continued)**

#### **3.23 Treasury shares**

Treasury shares consist of the Parent Company's own shares that have been issued, subsequently reacquired by the Group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are credited to a separate account in shareholders' equity (treasury shares reserve) which is not distributable. Any realized 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, reserves, and then share premium respectively. Gains realized subsequently on the sale of treasury shares are first used to offset any recorded losses in the order of share premium, reserves, retained earnings and the treasury shares 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.

Where any Group's company purchases the Parent Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Parent Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs, is included in equity attributable to shareholders of the Parent Company.

#### **3.24 Dividend distribution to shareholders**

The Group recognizes a liability to make cash and non-cash distributions to shareholders of the Parent Company when the distribution is authorized and the distribution is no longer at the discretion of the Group. A distribution is authorized when it is approved by the shareholders of the Parent company at the Annual General Meeting. A corresponding amount is recognized directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognized directly in equity. Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognized in the consolidated statement of profit or loss.

Distributions for the year that are approved after the reporting date are disclosed as an event after the date of the consolidated statement of financial position.

#### **3.25 Employees' end of service benefits**

The Group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period in accordance with relevant labour law and the employees' contracts. The expected costs of these benefits are accrued over the period of employment. This liability, which is unfunded, represents the amount payable to each employee as a result of termination on the reporting date.

With respect to its Kuwaiti national employees, the group makes contributions to the Public Institution for Social Security calculated as a percentage of the employees' salaries. The group's obligations are limited to these contributions, which are expensed when due.

### **3. Significant accounting policies (Continued)**

#### **3.26 Foreign currency translation**

##### ***Functional and presentation currency***

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.

##### ***Foreign currency transactions and balances***

Foreign currency transactions are translated into the functional currency of the respective group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in consolidated statement of income. Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

##### ***Foreign operations***

In the Group's consolidated financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the KD are translated into KD upon consolidation. The functional currency of the entities in the Group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into KD at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into KD at the closing rate. Income and expenses have been translated into KD at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the foreign currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to consolidated statement of income and are recognised as part of the gain or loss on disposal.

#### **3.27 Provisions**

A provision is recognized 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 the end of each reporting period 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 required to settle the obligation. Provisions are not recognized for future operating losses.

#### **3.28 Contingent assets and liabilities**

Contingent liabilities are not recognized in the consolidated financial statements unless it is probable as a result of past events that an outflow of economic resources will be required to settle a present, legal or constructive obligation; and the amount can be reliably estimated. Else, they are disclosed unless the possibility of an outflow of resources embodying economic losses is remote.

Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits as a result of past events is probable

### **3. Significant accounting policies (Continued)**

#### **3.29 Leasing**

*Where the Group is the lessee - operating lease:*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognised as an expense in the consolidated statement of income on a straight-line basis over the period of the lease.

*The Group as a lessor*

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased assets and recognised on a straight-line basis over the lease term.

#### **3.30 Related party transactions**

Related parties consist of major Shareholders, subsidiaries, associates, directors, executive officers, their close family members and companies of which they are principal Shareholders. All related party transactions are to be approved by management.

### **4. Significant accounting judgments, estimates and assumptions**

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

#### **Significant management judgments**

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

*Classification of financial instruments*

On acquisition of a financial asset, the Group decides whether it should be classified as "at fair value through profit or loss", "at fair value through other comprehensive income" or "at amortised cost". IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the Group's business model for managing the assets of the instrument's contractual cash flow characteristics. The Group follows the guidance of IFRS 9 on classifying its financial assets and is explained in Note 3.

*The Group's status as a principal*

The Group regularly conducts a revision and assessment to determine whether its current status as a principal or an agent in its commercial transactions has changed. Such revision and assessment cover any change in the overall relationship between the Group and other parties dealing with the Group, which may mean that its current status as a principal or an agent has changed. Such as if changes occurred to rights of the Group or other parties, the Group would reconsider its current status as a principal or an agent. Initial assessment considers market conditions that originally led the Group to consider itself as principal working as a main principal or an agent in arrangements of revenues contracts. The Group concluded that it works as a main principal in all contracts and arrangements leading to revenues to the Group.

**4. Significant accounting judgments, estimates and assumptions (Continued)**

**Significant management judgments (Continued)**

Revenue recognition

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The determination of whether the revenue recognition criteria as specified under IFRS 15 and revenue accounting policy explained in Note 2r are met requires significant judgment.

Classification of properties

Upon acquisition of properties, the Group classifies the properties into one of the following categories, based on the intention of the management for the use of the properties:

- Properties under development

When the intention of the Group is to develop land in order to sell it in the future, both the land and the construction costs are classified as properties under development.

- Properties held for trading

When the intention of the Group is to sell properties in the ordinary course of business, the properties is classified as properties held for trading.

- Investment properties

When the intention of the Group is to earn rentals from properties or hold it for capital appreciation or if the intention is not determined for properties, the properties are classified as investment property.

Control assessment

When determining control over an investee, management considers whether the Group has a 'de facto' power to control an investee if it holds less than 50% of the investee's voting rights. The assessment of the investee's relevant activities and the ability to use the Group's power to affect the investee's variable returns requires significant judgment.

Significant influence assessment

When determining significant influence over an investee, management considers whether the Group has the power to participate in the financial and operating policy decisions of the investee if it holds less than 20% of the investee's voting rights. The assessment, which requires significant judgment, involves consideration of the Group's representation on the investee's board of directors, participation in policy making decisions and material transactions between the investor and investee.

**Estimates uncertainty**

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Impairment of associates

After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss on the Group's investment in its associated companies, at each reporting date based on existence of any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of income.

**4. Significant accounting judgments, estimates and assumptions (Continued)**

**Estimates uncertainty (Continued)**

*Useful lives of depreciable assets*

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain software and equipment.

*Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the “value in use” of the asset or the cash-generating unit to which the goodwill is allocated.

Estimating a value in use requires the Group to make an estimate of the expected future cash flows from the asset or the cash-generating unit and also choose an appropriate discount rate in order to calculate the present-value of the cash flows.

*Fair value of unquoted financial assets*

If the market for a financial asset is not active or not available, the Group establishes fair value by using valuation techniques which include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer’s specific circumstances. This valuation requires the Group to make estimates about expected future cash flows and discount rates that are subject to uncertainty.

*Valuation of investment properties*

The Group carries its investment properties at fair value, with change in fair values being recognized in the consolidated statement of profit or loss. The fair value of investment property is determined by real estate valuation experts using recognized valuation techniques and the principles of IFRS 13.

Two main methods were used to determine the fair value of the investment properties:

- Income approach, where the property’s value is estimated based on the income produced and is computed by dividing the property’s net operating income by the expected rate of return on the property in the market, known as ‘Capitalization Rate’.
- Comparative analysis is based on the assessment made by an independent real estate appraiser using values of actual deals transacted recently by other parties for properties in a similar location and condition and based on the knowledge and experience of the real estate appraiser.

*Impairment of non-financial assets*

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm’s length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset’s performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

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**4. Significant accounting judgments, estimates and assumptions (Continued)**

**Estimates uncertainty (Continued)**

*Provision for expected credit losses of trade receivables*

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geographical region, services type, customer and type). 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, stock market capitalization) are expected to deteriorate over the next year which can lead to an increased number of defaults in the brokerage 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 ECL on the Group's trade receivables is disclosed in Note 16.

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**5. Investment in subsidiaries**

The consolidated financial statements incorporate the financial statements of the Parent Company and the following subsidiaries (together the “Group”):

	Country of incorporation	Voting capital held %		Activities
		2018	2017	
<b>Held directly:</b>				
Global Projects Holding Company - K.S.C. (Closed) (“GPHC”) (a)	State of Kuwait	96.0%	96.0%	Investment
Specialized Environmental Services Company - W.L.L. (“SES”) (a)	State of Kuwait	99.0%	99.0%	Investment
Global Professional General Trading Company -W.L.L.	State of Kuwait	62.0%	62.0%	General trading and investment
Privatisation Agriculture Contracting Company –W.L.L. (a)	State of Kuwait	99.0%	99.0%	General trading and contracting
Global Privatisation for Medical Services Company – W.L.L. (a)	State of Kuwait	99.0%	99.0%	Medical services
Global Specialised Electrical Company – W.L.L. (a)	State of Kuwait	99.0%	99.0%	Electric power generation
Specialized Education Company – W.L.L. (a)	State of Kuwait	99.0%	99.0%	Educational services
Wuduh Financial and Economic Consulting Company – K.S.C. (Closed) (a)	State of Kuwait	99.0%	99.0%	Consultancy services
Daytona Production Company – W.L.L. (a)	State of Kuwait	99.0%	99.0%	Advertising and publishing
Privatization Holding Company–W.L.L. (Jordan)	The Hashemite Kingdom of Jordan	100%	100%	Manufacturing
PHC Renovation – LLC	USA	100%	100%	Real estate
Skills Entertainment Company – W.L.L.	State of Kuwait	99%	99%	Organizing exhibitions, conferences and theatre production
Abyar Gulf Company for General Trading and Contracting - W.L.L. (“Abyar”) (b)	State of Kuwait	50.0%	50.0%	General trading and contracting
Leader Plus General Trading Company – W.L.L.	State of Kuwait	99.0%	99.0%	General trading and contracting
Al Takhsis Al Mutamada General Trading and Contracting Company (formerly SNC-Lavalin Kuwait for General Trading and Contracting Company – W.L.L.) (a)	State of Kuwait	99.0%	99.0%	General trading and contracting
<b>Held through GPHC:</b>				
ELogics System Company – S.P.C (c)	State of Kuwait	100%	-	IT services
Fairy Hub General Trading Company - W.L.L.	State of Kuwait	85.0%	85.0%	General trading and contracting
<b>Held through Abyaar:</b>				
Privatization Engineering General Building Contracting Company WLL (d)	State of Kuwait	-	50.0%	General trading and contracting

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**5. Investment in subsidiaries (Continued)**

- The non-controlling interest of these subsidiaries is owned by other parties and was waived in favor of the Parent Company, accordingly, the Parent Company consolidated this subsidiaries as it a wholly owned subsidiaries.
- The Group classified its 50% investment in “Abyar Gulf Company for General Trading and Contracting - W.L.L. (“Abyar”)” as investment in subsidiary since the management believes the Group has the power to control the investee through key management which is also a significant owner.
- During the year 2018 the Group’s has established ELogics System Company – S.P.C with capital of KD 2,000.
- During the year, investment in a subsidiary in “Privatization Engineering General Building Contracting Company – W.L.L. which held through Abyar Gulf Company for General Trading and Contracting was reclassified to investment in an associate (Note 11) since the Group lost control over the financial and operating policies of the subsidiary.

***Subsidiaries with material non-controlling interests***

The Group’s following subsidiaries have material non-controlling interests (NCI):

	Proportion of ownership interests and voting rights held by the non- controlling interests		Profit(loss) allocated to non- controlling interests		Non-controlling interests	
	2018	2017	2018	2017	2018	2017
	%	%	KD	KD	KD	KD
Abyar Gulf Company for General Trading and Contracting - W.L.L. (“Abyar”)	50%	50%	62,743	78,080	1,301,471	1,996,909
Individual immaterial subsidiaries with non-controlling interest	-	-	(28,305)	50,771	(405,572)	(146,946)
			<b>34,438</b>	<b>128,851</b>	<b>895,899</b>	<b>1,849,963</b>

Summarized consolidated financial statements of Abyar Gulf Company for General Trading and Contract – W.L.L. before inter-group eliminations, are set out below:

	2018	2017
	KD	KD
Non-current assets	2,382,155	1,574,674
Current assets	6,176,926	5,713,069
Total assets	8,559,081	7,287,743
Non-current liabilities	204,119	170,652
Current liabilities	5,752,020	3,881,454
Total liabilities	5,956,139	4,052,106
Net assets	2,602,942	3,235,637
Non-controlling interests in the books of Abyar Gulf Company for General Trading and Contract – W.L.L.	-	758,181
Ownership interest held by the Group	50 %	50 %
Ownership interest held by non-controlling interests	50 %	50 %
Net assets attributable to the shareholders of Parent Company	1,301,471	1,238,728
Net assets attributable to non-controlling interests	1,301,471	1,996,909
Total equity	2,602,942	3,235,637
Revenues	5,110,182	3,730,758
Expenses	(4,984,697)	(3,574,093)
Net profit	125,485	156,665

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**6. General and administrative expenses**

	<u>2018</u>	<u>2017</u>
	KD	KD
Staff costs	1,810,055	1,939,596
Other expenses	1,156,726	1,179,822
	<u>2,966,781</u>	<u>3,119,418</u>

**7. Basic and diluted (loss) / earnings per share from continuing and discontinued operations**

Basic and diluted (loss)/earnings per share is calculated by dividing the net (loss)/profit for the year attributable to Shareholders of the Parent Company by the weighted average number of shares outstanding during the year, excluding treasury shares as follows:

	<u>2018</u>	<u>2017</u>
Net (loss)/profit for the year attributable to Shareholders of the Parent Company (KD)	<u>(4,010,424)</u>	<u>3,150,506</u>
Net (loss)/profit for the year from continuing operations (KD)	<u>(4,010,424)</u>	<u>84,839</u>
Profit from discontinued operations (KD)	<u>-</u>	<u>3,065,667</u>
Weighted average number of shares outstanding less treasury shares (Shares)	<u>610,000,000</u>	<u>610,000,000</u>
Basic and diluted (loss)/earnings per share attributable to Shareholders of the Parent Company (fils)	<u>(6.57)</u>	<u>5.16</u>
From continuing operations (fils)	<u>(6.57)</u>	<u>0.14</u>
From discontinued operations (fils)	<u>-</u>	<u>5.02</u>

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8. Property, plant and equipment

	Lands KD	Office building KD	Machinery and equipment KD	Furniture and fixtures KD	Capital work in progress KD	Total KD
<b>Cost:</b>						
Balance as at 31 December 2017	1,491,007	2,115,578	10,011,617	557,548	-	14,175,750
Effect of reclassification of a subsidiary to an associate (a)	(340,000)	-	(15,461)	(33,468)	-	(388,929)
Additions	-	72,664	673,357	119,430	-	865,451
Reclassification and write off	-	2,504	16,395	(31,600)	-	(12,701)
Disposals	-	-	(6,282)	(429)	-	(6,711)
<b>Balance as at 31 December 2018</b>	<b>1,151,007</b>	<b>2,190,746</b>	<b>10,679,626</b>	<b>611,481</b>	<b>-</b>	<b>14,632,860</b>
<b>Accumulated depreciation:</b>						
Balance as at 31 December 2017	68,000	164,425	1,555,165	466,473	-	2,254,063
Effect of reclassification of a subsidiary to an associate (a)	(68,000)	-	(13,292)	(21,865)	-	(103,157)
Charge for the year	-	50,451	331,977	29,935	-	412,363
Related to reclassification and write off	-	-	14,405	(27,106)	-	(12,701)
Related to disposals	-	-	(2,356)	(183)	-	(2,539)
<b>Balance as at 31 December 2018</b>	<b>-</b>	<b>214,876</b>	<b>1,885,899</b>	<b>447,254</b>	<b>-</b>	<b>2,548,029</b>
<b>Net book value:</b>						
<b>As at 31 December 2018</b>	<b>1,151,007</b>	<b>1,975,870</b>	<b>8,793,727</b>	<b>164,227</b>	<b>-</b>	<b>12,084,831</b>

a) Lands include leasehold land with carrying value of KD 272,000 represent leasehold right contract signed with the Public Authority for Industry is derecognized As a result of reclassification of a subsidiary to an associate (Privatization Engineering Company for General Contracting - W.L.L.), which is previously a subsidiary of Abyar Gulf Company for General Trading and Contract – W.L.L.

Lands with carrying value of KD 1,151,007 is registered in the name of Commercial Bank of Jordan and the title deed will be transferred to the Group in 2019.

Property, plant and equipment amounting to KD 8,963,141 (31 December 2017: KD 9,780,616) have been pledged against fixed assets payable (Note 23).

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8. Property, plant and equipment (Continued)

	Lands KD	Office building KD	Machinery and equipment KD	Furniture and fixtures KD	Capital work in progress KD	Total KD
<b>Cost:</b>						
Balance as at 31 December 2016	2,307,486	2,630,924	26,924,467	810,735	1,789,902	34,463,514
Effect of disposal of a subsidiary	(816,479)	(578,830)	(17,225,637)	(260,432)	(1,592,373)	(20,473,751)
Additions	-	38,642	134,397	37,583	-	210,622
Transfers	-	-	196,679	-	(196,679)	-
Reclassifications and write off	-	24,842	(18,289)	(28,340)	(850)	(22,637)
Disposals	-	-	-	(1,998)	-	(1,998)
Balance as at 31 December 2017	1,491,007	2,115,578	10,011,617	557,548	-	14,175,750
<b>Accumulated depreciation:</b>						
Balance as at 31 December 2016	51,000	162,748	6,440,072	590,036	-	7,243,856
Effect of disposal of a subsidiary	-	(68,108)	(5,581,454)	(168,751)	-	(5,818,313)
Charge for the year	17,000	69,898	712,329	53,932	-	853,159
Related to reclassification and write off	-	(113)	(15,782)	(6,747)	-	(22,642)
Related to disposals	-	-	-	(1,997)	-	(1,997)
Balance as at 31 December 2017	68,000	164,425	1,555,165	466,473	-	2,254,063
<b>Net book value:</b>						
As at 31 December 2017	1,423,007	1,951,153	8,456,452	91,075	-	11,921,687

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**9. Intangible assets**

	<b>Goodwill</b>	<b>Other intangible assets</b>	<b>Total</b>
	KD	KD	KD
<b>Cost:</b>			
Balance as at 31 December 2017	-	574,479	574,479
Additions*	-	407,581	407,581
Balance as at 31 December 2018	-	982,060	982,060
<b>Accumulated amortisation:</b>			
Balance as at 31 December 2017	-	122,539	122,539
Charge for the year	-	144,165	144,165
Balance as at 31 December 2018	-	266,704	266,704
<b>Net book value:</b>			
<b>As at 31 December 2018</b>	<b>-</b>	<b>715,356</b>	<b>715,356</b>
<b>Cost:</b>			
Balance as at 31 December 2016	2,492,905	1,167,502	3,660,407
Additions	-	574,479	574,479
Effect of disposal of a subsidiary	(2,492,905)	(1,167,502)	(3,660,407)
Balance as at 31 December 2017	-	574,479	574,479
<b>Accumulated amortisation:</b>			
Balance as at 31 December 2016	-	1,167,502	1,167,502
Charge for the year	-	122,539	122,539
Related to disposal of a subsidiary	-	(1,167,502)	(1,167,502)
Balance as at 31 December 2017	-	122,539	122,539
<b>Net book value:</b>			
<b>As at 31 December 2017</b>	<b>-</b>	<b>451,940</b>	<b>451,940</b>

\*Additions during the 2018 and 2017 represent cost incurred in producing TV.

**10. Investment properties**

	<b>2018</b>	<b>2017</b>
	KD	KD
Balance at the beginning of the year	2,802,698	2,717,526
Disposals (a)	(2,594,853)	(32,795)
Change in fair value	32,017	117,967
Balance at the end of the year	239,862	2,802,698

(a) During the year 2018, a foreign property owned by one of the subsidiaries had been sold by an amount of KD 959,895 which resulted in a loss of KD 1,546,656 recorded in the consolidated statement of income, also, an investment properties had been sold by an amount of KD 89,887 which resulted in a gain of KD 1,585 recorded in the consolidated statement of income.

The Investment properties amounting to KD 239,862 (2017: KD 296,147) are in the name of key management personnel and are recorded in favour of the Group based on a waiver letter.

Fair value hierarchy disclosures for investment properties are given in Note 29.3.

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**11. Investment in associates**

The details of the Group’s investment in associates are as follows:

Name of the company	Country of incorporation	Equity interest %		Activities
		2018	2017	
Kuwait Building Materials Manufacturing Company - KPSC (“KBMMC”)	State of Kuwait	46.99%	46.99%	Building materials
First Equilease for Equipment and Transportation - K.S.C. (Closed) (“FTC”) (a)	State of Kuwait	16%	16%	Transportation services
Kingdom Electricity Company – J.S.C.C (“KEC”)	The Hashemite Kingdom of Jordan	30%	30%	Energy and industrial projects
Nawand Communications Holding Company - BSC (Closed) (“Nawand”) (a)	Kingdom of Bahrain	17.3%	17.3%	Telecom services
Kuwait Pillars for Financial Investment Company – K.S.C.C.(“KPF”) [Formerly Strategia Investment Company - KPSC (“Strategia”)]	State of Kuwait	42.98%	42.98%	Investments Manufacturing and marketing building materials
National Industries Company – KPSC and subsidiaries (“NIC”) (a)	State of Kuwait	14.12%	14.13%	building materials
Middle East complex for Eng., Electronics & Heavy Industries PLC	The Hashemite Kingdom of Jordan	41.67%	-	General trading and contracting Generating and maintaining electricity and electricity plant
Canarde Group Consortium S.A.E.	Egypt	30%	30%	
Privatization Engineering General Building Contracting Company WLL (b)	State of Kuwait	50%	-	General Building Contracting
Eastern United Petroleum Services Company – KSC (Closed) (“EUPS”)	State of Kuwait	42.78%	42.78%	Oil and gas activities

- a) Investment in FTC, Nawand and NIC have been classified as investment in associates since the Group exercises significant influence over the these companies through representations on their Board of Directors and participation in their decision making process in relation to their financial and operating policies.
- b) During the year, the Group lost control over a subsidiary “Privatization Engineering General Building Contracting Company for General Contracting - W.L.L. (Note 5), accordingly, it was reclassified to investment in an associate as the Group participation in their decision making process in relation to their financial and operating policies.

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**11. Investment in associates (Continued)**

Movement in investment in associates during the year is as follows:

	<u>2018</u>	<u>2017</u>
	KD	KD
Balance at beginning of the year	47,225,855	45,107,752
Additions	6,413,720	10,515
Reclassified from investment in subsidiaries	758,181	1,746,914
Reclassified from financial assets at fair value through other comprehensive income	555,838	-
Disposal	-	(538,013)
Impairment loss	(122,424)	-
Cash dividends received from associates	(1,684,527)	(595,922)
Group's share of results from associates	658,661	1,885,391
Group's share of other comprehensive (loss) income from associates' cumulative changes in fair value	(299,117)	11,359
Group's share of other comprehensive income (loss) from associates' foreign currency translation adjustment	50,187	(132,413)
Effect of adoption of IFRS 9 as at 1 January 2018	284,637	-
Other reserves	(106,033)	(269,728)
Balance at end of the year	<u>53,734,978</u>	<u>47,225,855</u>

Certain associates are quoted and listed in exchange markets. The carrying amount of the Group's investment in these listed associates is KD 23,564,384 (2017: KD 16,792,487) and its market value is KD 11,837,387 as at 31 December 2018 (2017: KD 10,194,317).

Management has performed a review of investments in associates to assess whether impairment has occurred and has taken impairment of KD 122,424 (2017: KD nil) in the consolidated statement of income.

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**11. Investment in associates (Continued)**

Summarised financial statements of Group's material associates are set out below:

	KBMMC		KEC		KPFI		NIC		MECE	
	KD		KD		KD		KD		KD	
<b>31 December 2018</b>										
<b>Assets</b>										
Current assets	3,235,458		197,461,561		8,740,068		44,778,383		21,763,005	
Non-current assets	2,168,267		206,635,619		31,452,500		67,294,746		2,772,120	
<b>Liabilities</b>										
Current liabilities	(445,656)		(218,887,266)		(881,961)		(16,450,984)		(16,784,126)	
Non-current liabilities	(609,563)		(162,370,491)		(4,748,900)		(6,640,364)		-	
Net assets	4,348,506		22,839,423		34,561,707		88,981,781		7,750,999	
Non-controlling interests	-		(6,569,346)		-		(4,983,379)		-	
Net assets attributable to shareholder	4,348,506		16,270,077		34,561,707		83,998,402		7,750,999	
Group's holding ownership %	46.99%		30%		42.98%		14.12%		41.67%	
Group's share of net assets	2,043,671		4,881,023		14,854,205		11,856,857		3,230,351	
Goodwill	439,867		3,436,830		131,265		4,763,933		3,713,243	
Carrying value as at 31 December 2018	2,483,538		8,317,853		14,985,470		16,620,790		6,943,594	
<b>Revenues</b>										
Revenues	2,586,836		183,094,357		2,341,543		52,792,308		277,244	
Expenses and other charges	(2,409,205)		(184,436,453)		(1,314,029)		(48,953,908)		(350,373)	
Net profit/(loss) attributable to Shareholders	177,631		(1,342,096)		1,027,514		3,838,400		(73,129)	
Total comprehensive (loss)/income	177,631		(1,342,096)		1,029,345		1,661,214		(73,129)	
Group's share of total comprehensive income/(loss)	83,481		(402,629)		442,392		231,695		(25,968)	
Dividend received	712,446		576,185		-		395,896		-	

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**11. Investment in associates (Continued)**

<b>31 December 2017</b>	<b>KBMMC</b>	<b>KEC</b>	<b>KPFI</b>	<b>NIC</b>
	<b>KD</b>	<b>KD</b>	<b>KD</b>	<b>KD</b>
<b>Assets</b>				
Current assets	4,286,725	150,293,260	4,108,849	45,460,612
Non-current assets	2,349,425	194,899,038	29,636,273	68,260,650
<b>Liabilities</b>				
Current liabilities	(399,365)	(172,657,974)	(669,266)	(14,488,615)
Non-current liabilities	(549,972)	(145,715,555)	-	(8,944,191)
Net assets	5,686,813	26,818,769	33,075,856	90,288,456
Non-controlling interests	-	(7,385,610)	-	(5,164,033)
Net assets attributable to shareholder	5,686,813	19,433,159	33,075,856	85,124,423
Group's holding ownership %	46.99%	30%	42.98%	14.13%
Group's share of net assets	2,672,636	5,829,948	14,215,604	12,028,554
Goodwill	439,867	3,419,295	131,264	4,763,933
Carrying value as at 31 December 2017	3,112,503	9,249,243	14,346,868	16,792,487
<b>Revenues</b>				
Expenses and other charges	2,412,947	187,376,317	2,043,607	45,141,856
Net profit attributable to Shareholders	(2,210,173)	(184,559,432)	(1,010,740)	(42,042,750)
Total comprehensive income	202,774	2,816,885	1,032,867	3,099,106
Group's share of total comprehensive income	202,774	2,816,885	1,028,018	3,118,107
Dividend received	95,458	845,066	442,321	486,717
	100,552	-	-	495,370

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**12. Financial assets available for sale**

	<u>2018</u>	<u>2017</u>
	KD	KD
Quoted equity securities	-	16,356,863
Unquoted equity securities	-	13,553,801
Mutual funds	-	10,236,267
	<u>-</u>	<u>40,146,931</u>

At 31 December 2018, the Group held certain equity securities of related parties with a carrying value of KD Nil (31 December 2017: KD 8,512,602).

Financial assets available for sale amounting to KD Nil (31 December 2017: KD 22,731,753) are pledged against certain term loans (Note 22).

Certain financial assets available for sale with amount of KD Nil (31 December 2017: KD 2,896,101) are registered in the name of a major shareholder of the Parent Company who confirmed in writing that they hold these equity securities on behalf of the Parent Company.

At 1 January 2018, as a result of adoption of IFRS 9, the Group elected to reclassify financial assets available for sale with a carrying value of KD 15,235,361 and KD 24,911,570 to financial assets at fair value through other comprehensive income (“FVOCI”) and financial assets at fair value through profit or loss, respectively (Note 13 and Note 17).

**13. Financial assets at fair value through other comprehensive income**

	<u>2018</u>	<u>2017</u>
	KD	KD
Quoted securities	241,651	-
Unquoted securities	8,930,596	-
Funds and portfolios	3,463,588	-
	<u>12,635,835</u>	<u>-</u>

Financial assets at fair value through other comprehensive income (“FVOCI”) comprise equity securities which are not held for trading, and for which the Group has made an irrevocable election at initial recognition to recognise changes in fair value through other comprehensive rather than profit or loss as these are strategic investments and the Group considered this to be more relevant.

At 1 January 2018, as a result of adoption of IFRS 9, the Group elected to reclassify financial assets available for sale amounting to KD 15,235,361 (Note 12) and financial assets at fair value through profit or loss amounting to KD 122,343 (Note 17) to financial assets at fair value through other comprehensive income.

At 31 December 2018, the Group held certain equity securities of related parties with a carrying value of KD 4,903,268(31 December 2017: KD Nil).

Certain financial assets at fair value through other comprehensive income with amount of KD 2,674,330 (31 December 2017: KD Nil,) are registered in the name of a major shareholder of the Parent Company who confirmed in writing that they hold these equity securities on behalf of the Parent Company.

Financial assets at fair value through other comprehensive income amounting to KD 4,429,442 (31 December 2017: KD Nil) are secured against certain term loans (Note 22).

Valuation techniques of financial assets at fair value through other comprehensive income (“FVOCI”) are disclosed in (Note 29).

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**14. Held-to-maturity investment**

Held to maturity investment represents the amount invested in SUKUK with a local Islamic financial institution amounting KD 1,500,000 carrying profit rate as of 31 December 2017 of 2% above Central Bank Kuwait discount rate and matures on 12 August 2018.

At 1 January 2018, as a result of adoption of IFRS 9, the Group elected to reclassify investment held to maturity amounting to KD 1,502,156 to other financial assets at amortized cost (Note 15).

**15. Other financial assets at amortized cost**

Other financial assets at amortized cost represents the amount invested in SUKUK with a local Islamic financial institution amounting KD 1,500,000 carrying profit rate as of 2% above Central Bank Kuwait discount rate and matures on 12 August 2018.

During the year 2018, The Group redeemed its other financial assets at amortized cost in SUKUK with a local Islamic financial institution for an amount of KD 1,500,000.

**16. Accounts receivable and other debit balances**

	<u>2018</u> KD	<u>2017</u> KD
Trade receivables	6,809,163	6,224,857
Amounts due from related parties (Note 25)	3,339,828	8,060,787
Interest receivable	3,000,000	3,000,000
Prepaid expenses and accrued income	113,940	94,849
Due from sale of subsidiary	-	5,600,000
Advances to supplier	4,625,612	1,556,815
Other receivables	2,694,290	761,941
	<u>20,582,833</u>	<u>25,299,249</u>
Provision for expected credit losses (a)	<u>(3,131,919)</u>	<u>(100,000)</u>
	<u>17,450,914</u>	<u>25,199,249</u>

a) The movement in provision for expected credit losses is as follows:

	<u>2018</u> KD	<u>2017</u> KD
Balance at the beginning of the year	100,000	100,000
Impact on adoption of IFRS 9 (Note 2)	2,928,820	-
Charge for the year	103,099	-
Balance at the end of the year	<u>3,131,919</u>	<u>100,000</u>

Account receivable and other debit balances are represented in the following:

	<u>2018</u> KD	<u>2017</u> KD
Non-current portion	2,677,086	7,469,238
Current portion	<u>14,773,828</u>	<u>17,730,011</u>
	<u>17,450,914</u>	<u>25,199,249</u>

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

	<u>2018</u>	<u>2017</u>
	KD	KD
Quoted securities	10,925,122	3,486,511
Unquoted securities	14,854,554	11,064,035
Mutual funds	2,549,110	56,036
	<u>28,328,786</u>	<u>14,606,582</u>

At 1 January 2018, as a result of adoption of IFRS 9, the Group elected the following reclassifications:

- Reclassification of financial assets available for sale with a carrying value of KD 24,911,570 to financial assets at fair value through profit or loss (Note 12).
- Reclassification of financial assets at fair value through profit or loss with a carrying value of KD 122,343 to financial assets at fair value through other comprehensive income ("FVOCI") (Note 13).

At 31 December 2018, the Group held certain equity securities of related parties with a carrying value of KD 3,349,916 (31 December 2017: KD 142,943).

Financial assets at fair value through profit or loss amounting to KD 21,937,138 (31 December 2017: KD 14,444,689) are pledged against certain term loans (Note 22).

Valuation techniques of financial assets at fair value through profit or loss are disclosed in (Note 29).

**18. Cash and cash equivalents and fixed deposits**

Cash and cash equivalents included in the consolidated statement of cash flows comprise of the following:

	<u>2018</u>	<u>2017</u>
	KD	KD
Cash on hand and at banks	5,423,250	3,715,732
Cash at portfolios	850,021	1,724,548
Short term bank deposits	563,618	550,423
Restricted cash*	65,613	992,784
	<u>6,902,502</u>	<u>6,983,487</u>
Less: Bank overdraft	(3,161)	(60,017)
Cash and cash equivalents as per statement of cash flow	<u>6,899,341</u>	<u>6,923,470</u>
Fixed deposits with original maturity exceeding three months	<u>34,386</u>	<u>34,695</u>

\* This balance represents cash restricted against bank facilities.

The effective interest rate on local and foreign short term bank deposits and fixed deposits ranges from 0.6% to 12.5% (2017: 0.6% to 13.5%) per annum.

Bank overdraft includes a bank overdraft facility carries interest rate of 2.5% (2017: 2.5%) per annum above the Central Bank of Kuwait discount rate.

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**19. Share capital and share premium**

The authorized, issued and fully paid capital is KD 61,000,000 divided into 610,000,000 shares with a nominal value of 100 fils each and all shares are paid in cash.

Share premium represents cash received in excess of the par value of the shares issued. The share premium is not available for distribution except in cases stipulated by law.

**20. Statutory reserve**

As required by the Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year attributable to shareholders of the Parent Company before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labor Support Tax (NLST), Zakat and Board of Directors' remuneration is transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve exceeds 50% of the capital. Distribution of statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when retained earnings are not sufficient for the payment of a dividend of that amount. Since there is a net loss for the year, there was no transfer to statutory reserve during the year.

**21. General reserve**

As required by the Parent Company's Articles of Association, 10% of the profit for the year attributable to shareholders of the Parent Company before contribution to KFAS, NLST, Zakat and Board of Directors' remuneration is transferred to the general reserve. Such annual transfers may be discontinued by a resolution of the shareholders' General Assembly upon recommendation by the Board of Directors. Since there is a net loss for the year, there was no transfer to general reserve during the year.

**22. Term loans**

	<u>2018</u>	<u>2017</u>
	KD	KD
Term loans obtain from local financial institutions and carrying interest rate range from 2% to 4% per annum over the Central Bank of Kuwait discount rate	27,153,074	32,467,931
Term loans obtain from a foreign financial institutions and carry interest rate range from 8.5% to 9.75% per annum	4,142,194	6,423,926
	<u>31,295,268</u>	<u>38,891,857</u>

Certain financial assets available for sale, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income are secured against term loans (Note 12, 13 and 17).

Term loans are represented in the following:

	<u>2018</u>	<u>2017</u>
	KD	KD
Non-current portion	8,857,588	15,889,015
Current portion	22,437,680	23,002,842
	<u>31,295,268</u>	<u>38,891,857</u>

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**23. Accounts payable and other credit balances**

	<u>2018</u>	<u>2017</u>
	KD	KD
Accounts payable	853,182	503,572
Amounts due to related parties (Note 25)	2,060,197	2,098,633
Fixed assets payable*	6,075,985	7,053,191
Accrued expenses and other liabilities	4,226,127	3,456,855
	<u>13,215,491</u>	<u>13,112,251</u>

Accounts payable and other credit balances are represented in the following:

	<u>2018</u>	<u>2017</u>
	KD	KD
Non-current portion	5,063,321	6,045,592
Current portion	8,152,170	7,066,659
	<u>13,215,491</u>	<u>13,112,251</u>

\*Property, plant and equipment amounting to KD 8,963,141 (31 December 2017: KD 9,780,616) are secured against fixed assets payable (Note 8). This balance is payable in 8 installments on annual basis and carry interest rate of 5.3% per annum.

**24. Annual General Assembly**

The Shareholders' Annual General Assembly meeting on 28 May 2018 had approved the consolidated financial statements for the year ended 31 December 2017 and a approve distribution of cash dividends of 5 fils per share for the year ended 31 December 2017.

**25. Related party transactions and balances**

Related parties represent major Shareholders, associates, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are to be approved by the Group's management.

Transactions and balances with related parties included in the consolidated financial statements are as follows:

	<u>2018</u>	<u>2017</u>
	KD	KD
<b>Transactions included in consolidated statement of income:</b>		
Dividend Income	31,456	1,000
Finance costs	-	(35,915)
Portfolio management fees	(74)	(111)

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**25. Related party transactions and balances (Continued)**

	<u>2018</u>	<u>2017</u>
	KD	KD
<b>Consolidated statement of financial position</b>		
Cash with portfolio manager	2,017	2,260
Financial assets available for sale (Note 12)	-	8,512,602
Financial assets at FVOCI (Note 13)	4,903,268	
Financial assets at fair value through profit or loss (Note 17)	3,349,916	142,943
Due from related parties (Note 16)	3,339,828	8,060,787
Due to related parties (Note 23)	(2,060,197)	(2,098,633)

Amounts due from/to related parties are interest free and are receivable/payable on demand.

**Compensation of key management personnel**

	<u>2018</u>	<u>2017</u>
	KD	KD
Short-term benefits	502,560	557,021
End of service benefits	117,010	156,923
	<u>619,570</u>	<u>713,944</u>

**26. Capital commitments and contingencies**

	<u>2018</u>	<u>2017</u>
	KD	KD
<b>Capital commitments</b>		
Purchase of financial assets available for sale	-	3,156,869
Purchase of financial assets at fair value through other comprehensive income	2,537,882	-
Other commitments	826,961	4,232,701

**Contingencies**

At the reporting date, the Group has provided performance bank guarantees to a customer and suppliers amounting to KD 4,400,676 (31 December 2017: KD 4,518,766) from which it is anticipated that no material liabilities will arise.

The Parent Company and Al Khair National for Stocks and Real Estate Company have provided a guarantee to National Bank of Kuwait against a loan of KD 36,442,427 (2017: KD 36,880,529) assigned to a third party during 2012. This loan was rescheduled during 2013 and the principal (excluding interest) is repayable in eleven annual installments commencing 15 June 2016.

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**27. Segmental information**

For management purposes, the Group is organised into business units based on nature of business and has two reportable operating segments as follows:

- i) Investment segment represents trading in equities including certain investment in associates and other strategic investments; and
- ii) Other segment represents rendering of non-investment services and general trading and contracting.

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 return on investments.

	Investment		Other		Total	
	2018	2017	2018	2017	2018	2017
	KD	KD	KD	KD	KD	KD
<b>Revenues</b>	489,343	4,438,904	8,905,468	7,299,589	9,394,811	11,738,493
<b>Segment profit/(loss)</b>	<b>(3,045,661)</b>	<b>981,623</b>	<b>(930,325)</b>	<b>(767,933)</b>	<b>(3,975,986)</b>	<b>213,690</b>
<b>Other disclosures:</b>						
Depreciation (Note 8)	(13,724)	(20,659)	(398,639)	(832,500)	(412,363)	(853,159)
Impairments losses	(122,424)	-	-	-	(122,424)	-
Group's share of results of associates (Note 11)	725,088	1,885,391	(66,427)	-	658,661	1,885,391
<b>Assets</b>	<b>99,250,700</b>	<b>121,237,999</b>	<b>34,326,057</b>	<b>30,993,115</b>	<b>133,576,757</b>	<b>152,231,114</b>
<b>Liabilities</b>	<b>27,635,050</b>	<b>35,476,054</b>	<b>17,839,491</b>	<b>17,564,170</b>	<b>45,474,541</b>	<b>53,040,224</b>
<b>Other disclosures:</b>						
Investment in associates (Note 11)	46,621,629	47,225,855	7,113,349	-	53,734,978	47,225,855
Additions to property, plant and equipment (Note 8)	12,636	9,516	852,815	201,106	865,451	210,622

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**27. Segmental information (Continued)**

**Geographic information**

The Group operates in two geographic regions; Kuwait and Non-Kuwait. The following table shows the distribution of the Group's segment revenue and non-current assets by region:

	<u>2018</u>	<u>2017</u>
	KD	KD
<b>Revenues</b>		
Kuwait	<b>8,761,932</b>	7,711,705
Non-Kuwait	<b>632,879</b>	4,026,788
	<u><b>9,394,811</b></u>	<u>11,738,493</u>

The revenue information above is based on the location of the assets generating the income.

	<u>2018</u>	<u>2017</u>
	KD	KD
<b>Non-current assets</b>		
Kuwait	<b>47,053,599</b>	60,566,611
Non-Kuwait	<b>35,034,349</b>	50,953,894
	<u><b>82,087,948</b></u>	<u>111,520,505</u>

**28. Financial risk management**

The Group's activities expose it to variety of financial risks: market risk (including currency risk, equity price risk and interest rate risk), credit risk and liquidity risk.

The Parent Company's Board of Directors is ultimately responsible for the overall risk management and for approving risk strategies and principles. The Group's risk management focuses on actively securing the Group's short to medium term cash flows by minimizing the potential adverse effects on the Group's financial performance. Long term financial investments are managed to generate lasting returns.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The most significant financial risks to which the Group is exposed are described below.

**28.1 Market risk**

**a) Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group mainly operates in Kuwait and the Middle East and is exposed to foreign currency risk arising from various foreign currency exposures, primarily with respect to US Dollar, Euro, Jordanian Dinar and Egyptian Pound. The Group's financial position can be significantly affected by the movement in these currencies. To mitigate the Group's exposure to foreign currency risk, non-Kuwaiti Dinar cash flows are monitored.

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**28. Financial risk management (Continued)**

**28.1 Market risk (continued)**

**a) Foreign currency risk (continued)**

The Group had the following net significant exposures denominated in foreign currencies, translated into Kuwaiti Dinar at the closing rate:

	<u>2018</u>	<u>2017</u>
	KD	KD
US Dollar	424,897	1,434,017
Euro	2,372,056	3,056,359
Jordanian Dinar	41,757	3,473,570
Egyptian Pound	641,858	510,075
Others	200,967	44,187

The foreign currency sensitivity is determined based on 5%, increase or decrease in exchange rates. There has been no change during the year in the methods and assumptions used in the preparation of the sensitivity analysis.

If the Kuwaiti Dinar had strengthened/(weakened) against the foreign currencies assuming the above sensitivity, then this would have the following impact on the profit for the year and equity:

	<u>31 December 2018</u>		<u>31 December 2017</u>	
	<u>Effect on profit</u>	<u>Effect on other comprehensive income</u>	<u>Effect on profit</u>	<u>Effect on other comprehensive income</u>
	KD	KD	KD	KD
US Dollar	±217,969	±196,724	±472,119	±400,418
Euro	±118,603	-	±130	±152,688
Jordanian Dinar	±480	±1,608	±409	±173,270
Egyptian Pound	±32,093	-	±25,504	-
Others	±498	±9,551	±948	±1,261

Exposures to foreign exchange rates vary during the year depending on the volume and nature of the transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to the foreign currency risk.

**b) Equity price risk**

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

The Group is exposed to equity price risk mainly to its quoted investments. To manage its equity price risk the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

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**28. Financial risk management (Continued)**

**28.1 Market risk (continued)**

**b) Equity price risk (continued)**

The sensitivity analyses below have been determined based on the exposure to price risks at the reporting date.

If prices had been 5% higher/lower, the effect on the changes in profit and other comprehensive income for the years ended 31 December 2018 and 2017 and equity would have been as follows:

	2018		2017	
	Profit for the year	Other comprehensive income	Profit for the year	Other comprehensive income
	KD	KD	KD	KD
Financial assets available for sale	-	-	-	±817,843
Financial assets at fair value through other comprehensive income	-	±12,083	-	-
Financial assets at fair value through profit or loss	±546,256	-	±174,326	-

**c) 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 term loans and bank overdrafts with floating interest rates as well as fixed deposits. The effect on Group's profit due to (increase)/decrease in the interest rate by 25 basis points, with all variables held constant is as follows

The calculations are based on the group's financial instruments held at each financial position date. All other variables are held constant. There is no impact on the Group's equity:

	2018	2017
	KD	KD
Effect on profit	±54,515	±68,423

There has been no change during the year in the methods and assumption used in preparing the sensitivity analysis

**28.2 Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge a contractual obligation causing the other party to incur a financial loss. Financial assets which potentially subject the Group to credit risk consist principally of cash at banks, fixed and short term bank deposits and accounts receivable. Accounts receivables are presented net of allowance for expected credit losses.

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**28. Financial risk management (Continued)**

**28.2 Credit risk (continued)**

**Trade receivables**

The Group applies the IFRS 9 simplified model of recognizing lifetime expected credit losses for all trade receivables as these items do not have a significant financing component. In measuring the expected credit losses, trade receivables have been assessed on a collective basis respectively and grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profile for sales over the past before December 31, 2018 and January 1, 2018 respectively as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. However given the short period exposed to credit risk, the impact of these macroeconomic factors has not been considered significant within the reporting period.

Trade receivables are written off (i.e. derecognized) when there is no reasonable expectation of recovery. Failure to make payments within 365 days from the invoice date and failure to engage with the Group on alternative payment arrangement amongst other is considered indicators of no reasonable expectation of recovery and therefore is considered as credit impaired.

As at 1 January 2018, the Group recognized allowance for expected credit losses of KD 2,928,820.

*Financial instruments, deposits and bank balances*

The Group's cash at banks and fixed deposits measured at amortized cost are considered to have a low credit risk and the loss allowance is based on the 12 months expected loss. The Group's cash and fixed deposits are placed with high credit rating financial institutions with no recent history of default. Based on management's assessment, the expected credit loss impact arising from such financial assets are insignificant to the Group as the risk of default has not increased significantly since initial recognition.

The Group's exposure to credit risk is limited to the carrying amounts of financial assets recognised at the financial position date, as summarized below:

	<u>2018</u>	<u>2017</u>
	KD	KD
Cash and cash equivalents (excluding cash)	6,878,279	6,952,647
Fixed deposits	34,386	34,695
Accounts receivable (excluding prepayments and advances)	12,711,362	23,547,585
Held-to-maturity investments	-	1,502,156
	<u>19,624,027</u>	<u>32,037,083</u>

**28.3 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 daily basis.

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**28. Financial risk management (Continued)**

**28.3 Liquidity risk (Continued)**

The table below summarises the maturity profile of the Group's assets and liabilities. The maturities of assets and liabilities have been determined on the basis of the remaining period from the financial position date to the contractual maturity date. The maturity profile for available for sale investments is determined based on management's estimate of liquidation of those investments.

The contractual maturity profile of the financial liabilities based on undiscounted cash flow is as follows:

	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>Over 1 year</b>	<b>Total</b>
	KD	KD	KD	KD
<b>31 December 2018</b>				
Term loans	600,348	21,837,332	8,857,588	31,295,268
Accounts payable and other credit balances	6,670,272	1,481,898	5,063,321	13,215,491
Bank overdraft	3,161	-	-	3,161
	<u>7,273,781</u>	<u>23,319,230</u>	<u>13,920,909</u>	<u>44,513,920</u>
Commitments	-	3,364,843	-	3,364,843
Contingency – guarantee	-	4,400,676	36,442,427	40,843,103
	<u>7,273,781</u>	<u>31,084,749</u>	<u>50,363,336</u>	<u>88,721,866</u>
<b>31 December 2017</b>				
Term loans	2,003,966	20,998,876	15,889,015	38,891,857
Accounts payable and other credit balances	5,814,141	1,252,518	6,045,592	13,112,251
Bank overdraft	60,176	-	-	60,176
	<u>7,878,283</u>	<u>22,251,394</u>	<u>21,934,607</u>	<u>52,064,284</u>
Commitments	-	7,389,570	-	7,389,570
Contingency – guarantee	-	4,518,766	36,880,529	41,399,295
	<u>7,878,283</u>	<u>34,159,730</u>	<u>58,815,136</u>	<u>100,853,149</u>

**29. Fair value measurement**

**29.1 Fair value hierarchy**

Fair value represents 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.

Financial assets and financial liabilities measured at fair value in the consolidated statement of financial position are Grouped into three Levels of a fair value hierarchy.

The three Levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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**29. Fair value measurement (Continued)**

**29.2 Fair value measurement of financial instruments**

The carrying amounts of the Group's financial assets and liabilities as stated in the consolidated statement of financial position are as follows:

	<u>2018</u>	<u>2017</u>
	KD	KD
<b>Financial assets:</b>		
<i>Financial assets available for sale:</i>		
Financial assets available for sale at cost	-	377,000
Financial assets available for sale at fair value	-	39,769,931
<i>Financial assets at fair value through other comprehensive income:</i>		
Financial assets at fair value through other comprehensive income	<b>12,635,835</b>	-
<i>Held-to-maturity investment at amortised cost:</i>		
Held-to-maturity investment	-	1,502,156
<i>Loans and receivables at amortised cost:</i>		
Accounts receivable and other debit balances (excluding prepayments and advances)	<b>12,711,362</b>	23,547,585
Fixed deposits	<b>34,386</b>	34,695
Cash and cash equivalents	<b>6,902,502</b>	6,983,487
<i>Investments at fair value through profit or loss at fair value:</i>		
Investments at fair value through profit or loss	<b>28,328,786</b>	14,606,582
	<b><u>60,612,871</u></b>	<b><u>86,821,436</u></b>
<b>Financial liabilities:</b>		
<i>Financial liabilities at amortised cost:</i>		
Term loans	<b>31,295,268</b>	38,891,857
Accounts payable and other credit balances (excluding advances)	<b>12,823,318</b>	13,042,661
Bank overdraft	<b>3,161</b>	60,017
	<b><u>44,121,747</u></b>	<b><u>51,994,535</u></b>

Management considers that the carrying amounts of loans and receivable and all financial liabilities, which are stated at amortised cost, approximate their fair values.

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The financial assets and liabilities measured at fair value on a recurring basis in the consolidated statement of financial position are grouped into the fair value hierarchy as follows:

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**29. Fair value measurement (Continued)**

**29.2 Fair value measurement of financial instruments (continued)**

31 December 2018

		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
		KD	KD	KD	KD
<b>Financial assets at fair value through other comprehensive income</b>					
Quoted securities	(a)	241,651	-	-	241,651
Funds and portfolio	(b)	-	3,463,588	-	3,463,588
Unquoted securities	(c)	-	-	8,930,596	8,930,596
<b>Financial assets at fair value through profit or loss</b>					
Quoted securities	(a)	10,925,122	-	-	10,925,122
Mutual funds	(b)	-	2,549,110	-	2,549,110
Unquoted securities	(c)	-	2,846,606	12,007,948	14,854,554
		<u>11,166,773</u>	<u>8,859,304</u>	<u>20,938,544</u>	<u>40,964,621</u>

31 December 2017

		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
		KD	KD	KD	KD
<b>Financial assets available for sale</b>					
Quoted securities	(a)	13,937,995	-	2,418,868	16,356,863
Managed funds	(b)	-	10,236,267	-	10,236,267
Unquoted securities	(c)	-	3,838,575	9,338,226	13,176,801
<b>Financial assets at fair value through profit or loss</b>					
Quoted securities	(a)	3,486,511	-	-	3,486,511
Mutual funds	(b)	-	56,036	-	56,036
Unquoted securities	(c)	-	-	11,064,035	11,064,035
		<u>17,424,506</u>	<u>14,130,878</u>	<u>22,821,129</u>	<u>54,376,513</u>

**Measurement at fair value**

**a) Quoted securities**

Quoted shares represent all listed equity securities which are publicly traded in stock exchanges. Where quoted prices in an active market are available, the fair value of such investments have been determined by reference to their quoted bid prices at the reporting date (level 1) and if the market for an investment is not active, the Group has established fair value by using valuation techniques (Level 3).

**b) Mutual funds**

The underlying investments in these private equity funds mainly represent foreign quoted and unquoted securities. Information for these investments is limited to periodic financial reports provided by the investment managers. These investments are carried at net asset values reported by the investment managers. Due to the nature of these investments, the net asset values reported by the investment managers represent the best estimate of fair values available for these investments.

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**29 Fair value measurement (Continued)**

**29.2 Fair value measurement of financial instruments (Continued)**

**Measurement at fair value (Continued)**

**c) Unquoted securities**

Unlisted securities are measured at fair value estimated using various models like discounted cash flow model, which includes some assumptions that are not supportable by observable market prices or rates.

**d) Financial liabilities**

The Group does not have any financial liabilities at fair value.

**Level 3 fair value measurements**

The Group's financial assets classified in Level 3 use valuation techniques based on significant inputs that are not based on observable market data. The financial instruments within this level can be reconciled from beginning to ending balances as follows:

	<u>2018</u>	<u>2017</u>
	KD	KD
Opening balance	22,821,128	23,218,192
Transfer to level 1	(2,418,868)	(5,153,197)
Additions	91,215	3,640,360
Transfer from cost	377,000	-
Disposal	(940,501)	-
(Loss)/gain recognised in:		
Profit or loss	-	850,145
Other comprehensive income	1,008,570	265,629
Closing balance	<u>20,938,544</u>	<u>22,821,129</u>

The Group's investment team performs valuations of financial items for financial reporting purposes, including Level 3 fair values, in consultation with third party valuation specialists for complex valuations, where required. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

The valuation techniques used for instruments categorised in Levels 2 and 3 are described below:

**Financial assets available for sale, financial assets at FVOCI and financial assets at fair value through profit or loss:**

The fair value of financial instruments that are not traded in an active market (e.g. unquoted securities) is determined by using valuation techniques. Fair value for the underlying unquoted securities are approximately the summation of the estimated value of underlying investments as if realised on the consolidated statement of financial position date.

**29. Fair value measurement (Continued)**

**29.2 Fair value measurement of financial instruments (Continued)**

**Financial assets available for sale, financial assets at FVOCI and financial assets at fair value through profit or loss: (Continued)**

The investment managers in determining the fair value of these investments use a variety of methods and make assumptions that are based on market conditions existing at each financial position date. Investment managers use techniques such as discounted cash flow analysis, recent transactions prices and market multiples to determine fair value.

Changing inputs to the level 3 valuations to reasonably possible alternative assumptions would not change significantly amounts recognized in the consolidated statement of income, total assets, total liabilities or total equity.

**29.3 Non-financial instruments**

Investment properties were fair valued at 31 December 2018 and are classified under level 3 fair value hierarchy and reconciliation is provided in (Note 10).

**Description of significant unobservable inputs to valuation of non-financial assets:**

Fair value of investment properties were determined using Mark to Market method, conducted by independent valutors considering transaction prices of the property and similar properties. The significant unobservable valuation input used for the purpose of valuation is the market price per square foot / meter and varies from property to property. A reasonable change in this input would result in an equivalent amount of change in fair value.

**30. Capital management objectives**

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide adequate return to its Shareholders through the optimization of the capital structure.

The capital of the Group comprise of total equity. The Group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to Shareholders, return capital to Shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio.

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**30. Capital management objectives (Continued)**

This ratio is calculated as net debt divided by the total equity as follows:

	<u>2018</u>	<u>2017</u>
	KD	KD
Term loans	31,295,268	38,891,857
Bank overdraft	3,161	60,017
Fixed assets payable	6,075,985	7,053,191
Less: Cash and cash equivalents and fixed deposits	<u>(6,936,888)</u>	<u>(7,018,182)</u>
Net debt	30,437,526	38,986,883
Equity attributable to Shareholders of the Parent Company	<u>87,206,317</u>	<u>97,340,927</u>
Total capital and net debt	<u>117,643,843</u>	<u>136,327,810</u>
Gearing ratio	<u>25.87%</u>	<u>28.60%</u>

**31. Comparative figures**

Certain comparative amounts have been reclassified to conform to the presentation in the current year. Such reclassification does not affect previously reported equity or net profit for the year.