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KCPC

The Kuwait Company For
Process Plant Construction & Contracting k.p.s.c.

التقرير السنوي
2018

www.kcpc.com.kw

ANNUAL REPORT 2018 التقرير السنوي www.kcpc.com.kw

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بسم الله الرحمن الرحيم

الكويت

Kuwait

H.H. SHEIKH SABAH AL-AHMAD AL-JABER AL-SABAH
THE AMIR OF THE STATE OF KUWAIT

H.H. SHEIKH NAWAF AL-AHMAD AL-JABER AL-SABAH
THE CROWN PRINCE OF THE STATE OF KUWAIT

H.H. SHEIKH JABER MUBARAK AL-HAMAD AL-SABAH
THE PRIME MINISTER OF THE STATE OF KUWAIT

KCPC

ANNUAL REPORT 2018

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BOARD OF DIRECTORS

KCPC

NAJEEB HAMAD MOSAED AL-SALEH
CHAIRMAN

MOAYED HAMAD AL-SALEH
VICE CHAIRMAN & CEO

MOHAMMAD Y. AL-HASAWI
DIRECTOR (INDEPENDENT)

BADER NASSER AL-KHASHTI
DIRECTOR (INDEPENDENT)

JAMAL ALI AL-HAZEEM
DIRECTOR

KCPC

Board of Director's Statement

Dear Shareholders

I am pleased, on behalf of the Board of Directors and myself, to present to you the Kuwait Company for Process Plant Construction & Contracting (KCPC)'s annual report, by which we demonstrate the most significant achievements realized by KCPC during the financial year ending 31/12/2018. This report shows also the positive financial results of KCPC's businesses, despite the competitive pressures which represent daily challenges to KCPC, along with the world economic changes. This reflects the magnitude of KCPC's strategy and its conservative policies and signifies the strength of its financial position. I commence our meeting with our thanks to Allah the Almighty, and would like to express to you our sincere thanks and gratitude for your trust in us and your continued support, which accounts for the core incentive for expending our maximum efforts to meet your aspirations and work to realize KCPC's objectives and strategies.

KCPC's Income

During 2018, KCPC's financial performance faced several challenges and influences, specifically on the geopolitical conditions in the region. However, KCPC endeavored to enhance its capabilities and financial adequacy by means of continuing to maintain the pace of its performance and services, thereby leading, in turn, positive outcomes. KCPC succeeded also to build firm basic foundation on which its businesses are based, pursuant to the Board of Directors' directions to maximize the value to its shareholders, and continue to realize long term feasible and growing returns. In this regard, KCPC succeeded to realize the following results:

- A total income amounting to KD 88,2 million at the end of 2018, compared to KD 50,7 million for the year 2017.
- The net profits amounted to KD 4,2 million for the year 2018, compared to KD 2,3 million for the year 2017.
- Earning per share (EP/S) reached 43,69 fils (per share) in 2018, compared to 24,05 (fils per share) for the year 2017, and that the financial statements and the reports relevant to the Company's activities have been noted and discussed at the meeting of the Board of Directors convened on 18/3/2019, and the Board of Directors undertakes to maintain the soundness and integrity of the financial statements and the reports submitted.

Demonstrating KCPC's Activities during 2018

Thanks to the expertise and efficiency of our team work, our Compan:
1. The project for Agility warehouses have been handed over at the due time, and maintenance works are expected to be completed and conclusively handing it over by mid of this year.
2. Most of the project works of Al-Bed'ea roundabout have been completed last year and have been substantially handed over as per the due date at the beginning of this year.
3. More than 60% of the project of the road between Saad Al-Abdallah road and Behaith gate.
4. More than 50% of the project of the road linking between Al-Wafra and Al-Zour Port have been completed.

Corporate Governance

The governance culture is derived from the corporates culture on all levels and practices of their staff, and applying the best governance standards and compliance with the instructions and guidelines issued by the Capital Markets Authority and Boursa Kuwait Company, based on KCPC's desire to keep monitoring and compliance.
Corporate governance is represented in a set of policies, procedures and sound practices, through which the Company's businesses and activities can be guided and monitored, let alone a set of reports that help take the appropriate resolutions to ensure enhancement of transparency and fairness principles and to realize the Company's objectives and stakeholders objectives as well, thereby casting positive impacts on the Company's businesses.
As such, the Kuwait Company for Process Plant Construction & Contracting laid down the standards and elements for activation of the communication channels with shareholders, investors and stakeholders, to let them have continued access to KCPC's developments with utmost neutrality, transparency and fairness. KCPC has delineated also dynamic instruments to ensure the protection of stakeholders rights (shareholders, customers, staff, etc.), and ensure neutrality and integrity in decision making and distribution of functions inside the Board of Directors to improve the regulatory role and curb cases of potential conflict of interests, as identified in the governance report.

Concrete and Asphalt Production Plants Works

KCPC's plants, established on its plots, are deemed among the modern establishments specialized in the production of ready mix concrete and asphalt. These plants have been awarded the world quality certificate (ISO) from the concerned bodies. For the purpose of realizing its strategic objectives, KCPC developed the plants productivity in terms of quality and quantity of the production which are deemed the largest concrete mix and asphalt production plants in the State of Kuwait.
The value of works executed by the ready mix concrete and asphalt division during the year 2018 amounted to KD 17,675,229/03.

The Commercial Sector

The supply, installation, and maintenance of elevators and swimming pools and their requisites fall within the businesses priorities of KCPC's specialties. KCPC signed several contracts for the supply, installation and maintenance of swimming pools in several areas in Kuwait and completed various projects pertaining to installation of elevators and electric stairs in the governmental and private sectors in Kuwait.

Social Responsibility

KCPC is committed to realize sustainable development to the society and the Kuwaiti economy in general, as well as to its workers in particular. KCPC's Corporate Social Responsibility (CSR) has been ratified by the Board of Directors to ensure participation in realizing the sustainable social and economic development. The Board of Directors has ratified the balancing between the Company's objectives, the society's objectives, and the programs and instruments used in the social work activity, as demonstrated in the governance report submitted.

Human Resources

KCPC has laid down a vision for development of the business regulations in the Company, along with providing salient services to its employees. As such, new systems have been introduced, which will raise the standard of the Company's performance, based on the Company's belief that the human element is deemed to be one of the most important investments which the Company endeavors to enhance and maintain them, within the highest standards. In this regard, KCPC succeeded in 2018 to maintain its efficiency and effectiveness and maintained a high degree of transparency, to keep pace with the growth taking place on the level of companies, and to ensure participation of all sectors in realizing an added value. Therefore, the best management practices have been established to realize the best results.

Future Strategies of KCPC

KCPC is always and persistently keen to be distinctive in its competitive performance and for reaching the leadership on the local and regional arenas, specifically with regard to taking advantage of the opportunities and projects for which plans have been laid down for their completion, such as the development projects included in the strategic plan for Kuwait, "Kuwait Vision 2035", out of the infrastructure projects and oil sector projects, and other projects in Kuwait, as well as the regional events and the projects associated thereto, offered in some GCC countries during the year 2019, thereby enhancing our presence and establishes it in the projects and constructions sectors.
Since its establishment, KCPC succeeded to gain the trust of its clients, especially government establishments, in cooperation with all parties which oversight the projects executed by the Company for realizing this objective. This is KCPC's policy and strategy in completion of the projects it executes. Furthermore, KCPC strongly evidences its presence in the local market through its contribution in the development projects.
We, at Kuwait Company for Process Plant Construction & Contracting, direct our future objectives towards realizing marked advancement, supported by strategic plans, in order to surpass our clients' expectations and enhance their experience, along with increasing the profitability. We have also a main objective represented in driving the growth of sustainable returns and realizing good value to our shareholders.
In KCPC, we place our concentration during the upcoming phase on the points of strength based on the well reputations we have based in the local market and through our external markets.

Recommendations of the Board of Directors to the General Assembly

1. The Board of Directors recommended to the Board of Directors to distribute cash dividends by 20% of the nominal value of share, i.e. 20 fils per share, to shareholders registered in the Company's books as at the date of maturity.
2. Ratify the remuneration to the members of the Board of Directors for the financial year ending 31/12/2018, by a total of KD 60,000 (sixty thousand Kuwaiti dinar).

In conclusion,

the Board of Directors extends its thanks and appreciation to everybody who contributed to the continued support and trust in the Company's performance. Thanks also to the Executive Management. We also extend out thanks to our clients and partners who enabled KCPC to realize this distinguished performance. My thanks also are specifically paid to my colleagues, members of the Board of Directors, and all team of the Executive Management, as well as all the Company's staff, for their effective contributions and the efforts they have expended during the year for realizing the Company's objectives and its future aspirations. Our thanks also are extended to all entities with which our Company deals, and to the regulatory authorities in Kuwait for their support and dedication of all potentials to the Company during the past years. In the name of the Board of Directors of KCPC, I extend my sincere thanks and appreciation to the Government of the State of Kuwait under the leadership of His Highness Sheikh Subah Al-Ahmad Al-Jaber Al-Subah, the Amir of the State of Kuwait, may God protect him, and to his Crown Prince, His Highness Sheikh Nawaf Al-Ahmad Al-Jaber Al-Subah, and His Highness Sheikh JAber Al-Mubarak Al-Subah, the Prime Minister, wishing them all success and prosperity in leading the State of Kuwait towards a better fruitful future.

Sincerely,

Moayad Hamad Musa'ed Al-Saleh
Vice Chairman & CEO

OUR SERVICES

ROADS & INFRASTRUCTURE

CIVIL ENGINEERING

ELECTRICAL ENGINEERING

ENGINEERING PRODUCTS

MARBLE & INTERIOR FIT-OUTS

WATER FACILITIES

BUILDING TRANSPORT SYSTEMS

SCAFFOLDING & EQUIPMENT RENTALS

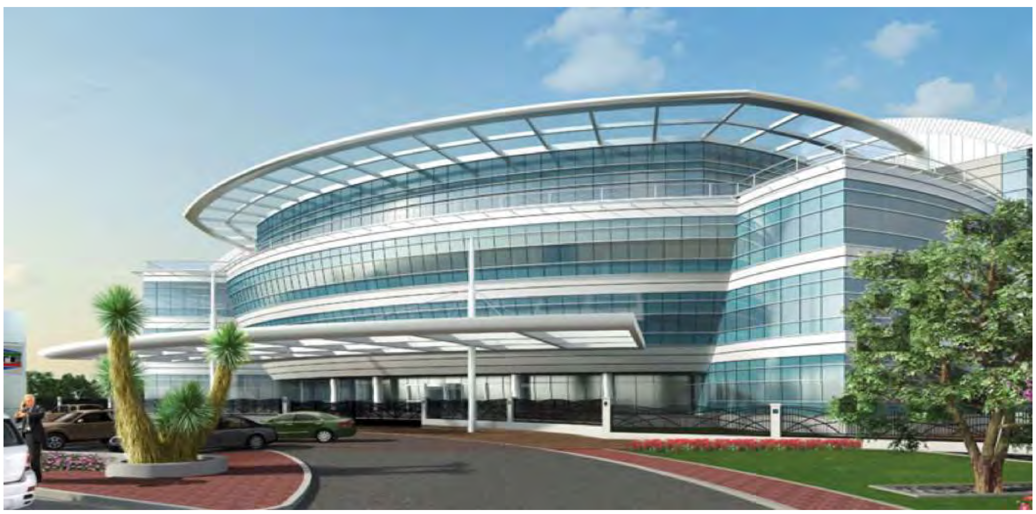
PROJECTS
& ACHIEVEMENTS

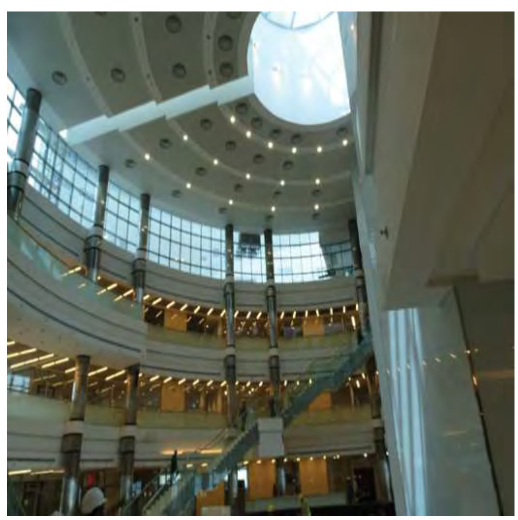
New Roads From Saad Al-Abdallah Road To Bohaith Gate – RA/225

Construction, completion and maintenance of roads, storm water streams, sanitary drainages and other services for the developed road from Saad Al-Abdallah Area Road to the Bohaith Gate. It is located north east Kuwait with a length of 28 KM. It comprises four lanes for each direction, four crossings and bridges, in addition to three rail way crossings.

EQUATE Headquarters

Construction, completion and maintenance of Equate Headquarters Complex which consists of the main office building, a multi-purpose building, a mosque, sunken garden and a car park building (190 cars), built on an area of 20,000 m2.
The office building has a circular atrium with ample public spaces, panoramic elevators and ceremonial staircases. Offices are located on the first and second floors.





RA/ 222

Construction, completion and maintenance of bridges and other services on the Arabian Gulf Road at Al Bidaa Roundabout.

RA/ 237

Construction, Completion and maintenance of roads, bridges, storm water and sanitary streams and other services for the road connecting between Al-Zoor Port and Wafra.
The project is located south Kuwait on a length of 33KM and consists of five crossings and bridges with three lanes in each direction.

4 Warehouses in Mina Abdullah

Design, Construction, Completion and Maintenance of 4 warehouses for Agility in MA Site #4.
The total build up area is 64,000 m2 consisting of ground floor and mezzanine.

CORPORATE SOCIAL RESPONSIBILITY

Blood Donation

As a part of the Kuwait Company for Process Plant Construction & Contracting (KCPC)'s initiatives, the Company organized a blood donation campaign during May 2018, in coordination with the Central Blood Bank in Kuwait at the Company's premises located in Shuwaikh Area.

Support to the Kuwaiti Red Crescent Society

The Kuwait Company for Process Plant Construction & Contracting presented a financial donation as a support to the Kuwaiti Red Crescent Society's programs. This comes as a signification to KCPC's effective role towards its contribution for improvement and enhancement of the social responsibility.

Ramadan Iftar

The Kuwait Company for Process Plant Construction & Contracting organized its Ramadan Campaign and its charity and donation annual project during the month of Ramadan in 2018, which is, "Iftar Se'em" (Feed Fasting Persons), represented in distribution of Iftar meals, which witness large congregations before the Maghreb Athan, for the purpose of targeting larger numbers of fasting persons.

Bayt Abdullah Children's Hospice

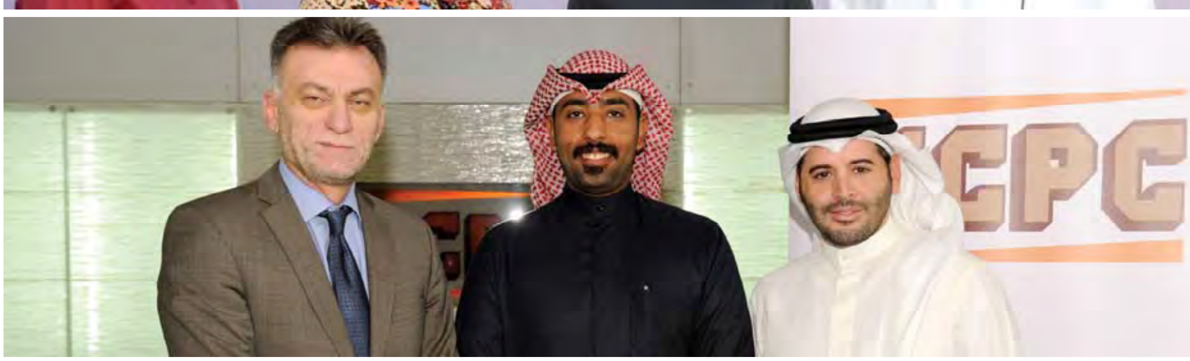
The Kuwait Company for Process Plant Construction & Contracting paid a visit to (BACCH). This visit comes within the social activity strategy by which "KCPC is committed, and KCPC donated a financial amount to Bayt Abdullah who suffer incurable diseases.

Renovation of Houses Damaged from the Heavy Rains

The Kuwait Company for Process Plant Construction & Contracting contributed in the project of "Bayt" which concentrated on renovation of houses of humble families in cooperation with "Engineers without Borders", whereby KCPC undertook to renovate a group of homes which have been damaged as a result of the heavy rains witnessed in Kuwait in November 2018.


KCPC


عبدالله لرعاية الأطفال
Abdullah



CONSOLIDATED

FINANCIAL STATEMENTS

& INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

Deloitte.

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Independent Auditors' Report to the Shareholders

The Kuwait Company for Process Plant Construction and Contracting K.S.C.P

State of Kuwait

Report on the Audit of the Consolidated Financial Statements

Qualified Opinion

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

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

Basis for Qualified Opinion

We draw attention to note 15 of the consolidated financial statements, which describes about an ongoing litigation with a Company. Subsequent to the date of the consolidated financial statements, the Appeal court adjudged ordering the Group to pay KD 4.4 million to this Company. However, based on management's estimate, the Group has recorded a provision of KD 1.7 million approximately representing the maximum limit of any liabilities. Accordingly, we were unable to obtain sufficient appropriate audit evidence related to the completeness of this provision as at 31 December 2018 and were also not able to perform appropriate alternate procedures. Consequently, we were unable to determine whether any adjustment to this amount is necessary.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified 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. In addition to the matter described in the Basis for Qualified Opinion section we have determined the matter described below to be the key audit matters to be communicated in our report.

Recognition of revenue

The construction industry is characterized by contract risk with significant judgements involved in the assessment of both current and future contract financial performance. In reference to the accounting policy Note 2.3.12 to these consolidated financial statements, Revenue from civil construction and service contracts are recognized under the percentage of completion method. The stage of completion is measured using the input method, were the Group compare the cost incurred to date as a proportion of the estimated total cost to be performed to assess the progress towards complete satisfaction of performance obligations under IFRS 15.

Deloitte. Crowe

Independent Auditors' Report to the Shareholders (continued)

The Kuwait Company for Process Plant Construction and Contracting K.S.C.P
State of Kuwait

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

Key Audit Matters (continued)

Recognition of revenue (continued)

In doing so, the Group's management are required to exercise significant judgement in their assessment of the work performed, valuation of contract variations and claims; the completeness and accuracy of forecast costs to complete; and the ability to deliver contracts within forecast timescales. Actual results of contracts may significantly differ. Dependent on the level of judgement in each, the range on each contract can be individually material. In addition, changes in these judgements, and the related estimates, as contracts progress can result in material adjustments to revenue and margin. Accordingly, we considered this as a key audit matter.

Our audit work related to contract revenue, included:

- Assessment of the design and implementation of internal controls over contract percentage of completion including completeness and accuracy of the forecast cost to complete.
- Selecting a sample of contracts in order to challenge both current and future financial performance.
- Assessment of the appropriateness of cost to complete forecasts methods ;
- Assessment of the Group's ability to deliver contracts within budgeted cost and timescales and any exposures to liquidated damages for late delivery of contract works; via inspection of performance report, legal reports, and correspondence with customers.
- Testing the existence and valuation of claims and variations costs via inspection of correspondence with customers;
- Assessment of the appropriateness of the management's estimates to determine any indication of future losses.

Valuation of investment properties

As at 31 December 2018, investment properties amounting to KD 7,690,537 represent 12% of total assets. The disclosures relating to the investment properties are given in notes 2.3.6, 4, and 6 to the consolidated financial statements.

The valuation of real estate properties requires significant estimates and judgements in arriving to the comparable market price. A small percentage difference in individual property valuations, when aggregated, could result in a material misstatement. Accordingly, we considered this as a key audit matter.

The properties valuation was carried out by independent third party valuers (the 'Valuers') engaged by the Group's management. The Valuers are certified in their relevant jurisdictions and have considerable experience of the markets in which the Group operates.

As a part of our audit procedures, we evaluated the design and implementation of controls over management's valuation process. We also involved our internal valuation experts to assess the appropriateness of the methodologies, as well as assumption and inputs used for valuations.

Expected Credit losses on trade receivables

As at 31 December 2018, Trade receivables amounting to KD 32,352,918 representing 49% of total assets (KD 36,069,825 - 31 December 2017). Effective from 1 January 2018, the Group has applied the simplified approach under IFRS9: "Financial Instruments" ("IFRS9") to measure ECL on trade receivables, which allows for lifetime ECL to be recognized on the trade receivables. The Group determines the ECL on trade receivables by using a provision matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to the individual trade receivables and the economic environment. Due to the significance of trade receivables and the complexity involved in the ECL calculation, this was considered this as a key audit matter.

As part of our audit procedures, we have assessed the reasonableness of the assumptions used in the ECL methodology by comparing them with historical data adjusted for current market conditions and assumptions used for historical loss rate adjusted with forward looking information. Further in order to evaluate the appropriateness of management judgements, we verified, the customers' historical payment patterns. And we evaluated the design and implementation of controls over management's process to compute the ECL. We also considered the adequacy of the Group's disclosures relating to ECL, management's assessment of the credit risk and their responses to such risks in Notes 3.1, 4 and 9 to the consolidated financial statements.

Deloitte. Crowe

Independent Auditors' Report to the Shareholders (continued)

The Kuwait Company for Process Plant Construction and Contracting K.S.C.P
State of Kuwait

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

Other Information

Management is responsible for the other information. The other information comprises all information included in the annual report other than the consolidated financial statements and our auditors' report thereon. The annual report for the year ended 31 December 2018 is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the 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 financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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.

Deloitte. Crowe

Independent Auditors' Report to the Shareholders (continued)

The Kuwait Company for Process Plant Construction and Contracting K.S.C.P

State of Kuwait

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

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

- 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 period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that, we obtained the information that we deemed necessary for the purpose of our audit, except for the matter described in the basis for qualified opinion section of our report, and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 1 of 2016 and its executive regulation as amended, and by the Parent Company's Memorandum 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 regulation as amended, or by the Parent Company's Memorandum and Articles of Association as amended have occurred during the financial year ended 31 December 2018, that might have had a material effect on the business of the Group or on its consolidated financial position.

Talal Yousef Al-Muzaini
License No. 209A
Deloitte & Touche, Al-Wazzan & Co.

Dr. Saad M. Al Muhanna
License No. 29A
Crowe Al-Muhanna & Co.

Kuwait, 18 March 2019

The Kuwait Company for Process Plant Construction and Contracting K.S.C.P.
And its Subsidiaries
State of Kuwait

Consolidated Statement of Financial Position as of 31 December 2018

(All amounts are in Kuwaiti Dinar)

	Note	2018	2017
Assets			
Non current assets			
Property, plant and equipment	5	14,468,520	14,948,200
Investment properties	6	7,690,537	7,937,585
Intangible asset		27,826	36,876
Investment in associates	7	1,844,462	1,900,741
		24,031,345	24,823,402
Current assets			
Inventories	8	1,915,014	1,618,131
Trade receivables and other debit balances	9	32,352,918	36,069,825
Contracts assets	10	2,512,478	2,184,749
Cash and cash equivalents	11	5,719,806	4,189,443
		42,500,216	44,062,148
Total assets		66,531,561	68,885,550
Equity and liabilities			
Equity			
Share capital	12	10,029,197	10,029,197
Treasury shares	12	(528,197)	(494,674)
Statutory reserve	12	3,806,430	3,356,990
Voluntary reserve	12	3,775,878	3,326,438
Other reserves	13	820,856	774,970
Retained earnings		6,041,354	5,482,381
Total equity		23,945,518	22,475,302
Liabilities			
Non current liabilities			
Post employment benefits		2,708,394	2,302,280
Borrowings and bank facilities	14	327,823	695,839
		3,036,217	2,998,119
Current liabilities			
Borrowings and bank facilities	14	400,142	7,334,597
Trade payables and other credit balances	15	22,862,788	29,336,489
Contracts liabilities	10	16,286,896	6,741,043
		39,549,826	43,412,129
Total liabilities		42,586,043	46,410,248
Total equity and liabilities		66,531,561	68,885,550

The accompanying notes form an integral part of these consolidated financial statements.

Moayed Hamad Al Saleh
Vice Chairman & CEO

The Kuwait Company for Process Plant Construction and Contracting K.S.C.P.
And its Subsidiaries
State of Kuwait

Consolidated Statement of Income for the year ended 31 December 2018

(All amounts are in Kuwaiti Dinar)

	Note	2018	2017
Revenue	16	88,215,093	50,705,382
Cost of sales	17	(79,164,153)	(45,824,899)
Gross profit		9,050,940	4,880,483
Other operating income		-	1,175,247
General and administrative expenses	18	(2,340,863)	(2,370,241)
Other operating expenses	19	(2,091,165)	(1,082,023)
Net Investment properties (loss)/ income	20	(40,420)	135,340
Finance cost		(84,096)	(241,378)
Profit before deductions and Board of Directors' remuneration		4,494,396	2,497,428
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		(40,450)	(22,477)
Contribution to National Labour Support Tax (NLST)		(112,360)	(61,419)
Contribution to Zakat		(44,944)	(24,568)
Board of Directors' remuneration		(60,000)	(45,000)
Net profit for the year		4,236,642	2,343,964
Earnings per share (fils)	21	43.69	24.05

The accompanying notes form an integral part of these consolidated financial statements.

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Consolidated Statement of Comprehensive Income for the year ended 31 December 2018

(All amounts are in Kuwaiti Dinar)

	2018	2017
Net profit for the year	4,236,642	2,343,964
Other comprehensive income items:		
Items that may be reclassified subsequently to consolidated statement of income:		
Foreign currency translation reserve:		
Exchange differences on translation of foreign currencies	45,886	(71,946)
Available for sale investments:		
Transferred to consolidated statement of income on sale of available for sale investments	-	(9,228)
	-	(9,228)
Total other comprehensive income items	45,886	(81,174)
Total comprehensive income for the year	4,282,528	2,262,790

The accompanying notes form an integral part of these consolidated financial statements.

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Consolidated Statement of Changes in Equity for the year ended 31 December 2018

(All amounts are in Kuwaiti Dinar)

	Share capital	Treasury shares	Statutory reserve	Voluntary reserve	Other reserves	Retained earnings	Total
Balance as at 1 January 2017	10,029,197	(414,682)	3,107,247	3,076,695	856,144	4,125,537	20,780,138
Cash dividends (Note 22)	-	-	-	-	-	(487,634)	(487,634)
Purchase of treasury shares	-	(79,992)	-	-	-	-	(79,992)
Net profit for the year	-	-	-	-	-	2,343,964	2,343,964
Total other comprehensive loss items	-	-	-	-	(81,174)	-	(81,174)
Transfer to reserves	-	-	249,743	249,743	-	(499,486)	-
Balance as at 31 December 2017	10,029,197	(494,674)	3,356,990	3,326,438	774,970	5,482,381	22,475,302
Balance as at 1 January 2018	10,029,197	(494,674)	3,356,990	3,326,438	774,970	5,482,381	22,475,302
Effect of the adoption of IFRS 9 (Note 2.2.1)	-	-	-	-	-	(1,809,372)	(1,809,372)
Balance as at 1 January 2018	10,029,197	(494,674)	3,356,990	3,326,438	774,970	3,673,009	20,665,930
Cash dividends (Note 22)	-	-	-	-	-	(969,417)	(969,417)
Purchase of treasury shares	-	(33,523)	-	-	-	-	(33,523)
Net profit for the year	-	-	-	-	-	4,236,642	4,236,642
Total other comprehensive income items	-	-	-	-	45,886	-	45,886
Transfer to reserves	-	-	449,440	449,440	-	(898,880)	-
Balance as at 31 December 2018	10,029,197	(528,197)	3,806,430	3,775,878	820,856	6,041,354	23,945,518

The accompanying notes form an integral part of these consolidated financial statements.

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Consolidated Statement of Cash Flows for the year ended 31 December 2018

(All amounts are in Kuwaiti Dinar)

	Note	2018	2017
Cash flows from operating activities			
Net profit for the year		4,236,642	2,343,964
Adjustments:			
Net losses/ (gains) on investment properties		285,720	(32,064)
Depreciation and amortization		3,092,488	1,962,527
Other operating expenses		2,264,707	809,278
Finance cost		84,096	241,378
Post-employment benefits		406,114	377,871
Operating profit before changing in working capital		10,369,767	5,702,954
Trade receivables and other debit balances		1,068,735	(21,467,530)
Inventories		(296,883)	(293,515)
Contracts assets		(327,729)	(1,619,500)
Trade payables and other credit balances		(7,884,513)	21,812,990
Contracts liabilities		9,545,853	6,291,043
Net cash generated from operating activities		12,475,230	10,426,442
Cash flows from investing activities			
Proceeds from sale of available for sale investments		-	345,616
Purchase of investment properties		(2,053)	(39,246)
Purchase of property, plant and equipment and intangible assets		(2,627,756)	(5,958,007)
Dividends received from associates		59,715	-
Proceeds from sale of property, plant and equipment		5,092	1,861
Interest income received		-	1,447
Net cash used in investing activities		(2,565,002)	(5,648,329)
Cash flows from financing activities			
Net movement of borrowings and bank facilities		(7,302,471)	(1,122,385)
Purchase of treasury shares		(33,523)	(79,992)
Dividends paid		(954,408)	(488,412)
Payment of finance cost		(84,920)	(251,142)
Net cash used in financing activities		(8,375,322)	(1,941,931)
Net changes in cash and cash equivalents		1,534,906	2,836,182
Transition adjustment on adoption of IFRS 9		(4,543)	-
Cash and cash equivalents at the beginning of the year		4,189,443	1,353,261
Cash and cash equivalents at the end of the year	11	5,719,806	4,189,443

The accompanying notes form an integral part of these consolidated financial statements.

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1. Constitution and activities

The Kuwait Company for Process Plant Construction and Contracting K.S.C.P, Kuwait (the "Parent Company") is a Kuwaiti shareholding company incorporated in the State of Kuwait on 24 February 1979. The Parent Company listed in Kuwait Stock Market.

The Parents' registered office is at P.O. Box 3404 Safat, 13035 Kuwait.

The main objectives of the Parent Company are:

- Execute civil, mechanical and electrical works.
- Import the required materials and equipment to such projects.
- Assume tasks of project management and the relevant consulting works in the field of civil, mechanical and electrical contracting.
- Execute civil, mechanical and electrical maintenance
- Import and sale of construction materials
- Direct participation in constructing the infrastructure of the projects, residential, commercial, and industrial projects through (B.O.T) system relevant to the Company's objectives
- Own properties and lands necessary to carry out its business
- Manufacture and sale of asphalt and readymade concrete and its related contracting.
- Utilize financial surpluses available to the company through investment in portfolios and funds managed by competent companies and authorities.

The Parent Company may carry out the above business in the state of Kuwait or outside by itself or through agency. Also, the Parent Company may have an interest or be involved in any way with the entities that are engaged in similar activities or that may assist the Parent Company in achieving its objectives in Kuwait and abroad. The Parent Company may also buy these entities or merge with them.

These consolidated financial statements include the financial statements of the Parent Company and its subsidiaries detailed in Note 25 (together "the Group").

These consolidated financial statements were approved for issue by the Board of Directors on 18 March 2019, and are subject to approval of shareholders at the Annual General Assembly Meeting. The General Assembly of the shareholders have the authority to amend these consolidated financial statements after issuance.

2. Basis of preparation and significant accounting policies

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. These consolidated financial statements have been prepared on the historical cost basis except for available for sale investments and investment properties as stated in the below mentioned policies.

2.2 Application of new and revised International Financial Reporting Standards (IFRS)

2.2.1 New and revised IFRSs that are effective for the current year

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2018, have been adopted in these consolidated financial statements.

- Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 and IAS 28.
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration"
- Amendments to IAS 40 "Investment Property"
- IFRS 15 "Revenue from Contracts with Customers"
- IFRS 9 "Financial Instruments"

The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years except the impact of the application of IFRS 9.

Impact of application of IFRS 9 "Financial Instruments"

In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRSs that are effective for an annual period that begins on or after 1 January 2018. The Group has elected not to restate comparatives in respect of the classification and measurement of financial instruments as allowed in the transition provisions of IFRS 9.

IFRS 9 introduces new requirements for:

1) The classification and measurement of financial assets and financial liabilities,
2) Impairment for financial assets and
3) General hedge accounting.

Classification of financial assets and financial liabilities

IFRS 9 contains a new classification and measurement approach for financial assets that reflect the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three classification categories for financial assets: measured at Amortized Cost, Fair Value through Other Comprehensive Income ("FVOCI") and Fair Value through Profit or Loss ("FVTPL"). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. The Group has evaluated the classification and measurement criteria to be adopted for various financial assets considering the IFRS 9 requirements with respect to the business model and contractual cash flow characteristics ("CCC") / Solely payment of principal and interest ("SPPI").

The Group's accounting policies for classification and measurement of financial assets under IFRS 9 is explained in note 2.3.1.

The adoption of IFRS 9 did not have a significant effect on the Group's accounting policies for financial liabilities.

Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset.

However, if the credit risk on a financial instrument has not increased significantly since initial recognition, the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

The Group's accounting policies for impairment of financial assets under IFRS 9 is explained in note 2.3.1.

Disclosures in relation to the initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

	Original measurement category under IAS 39	**New measurement category under IFRS 9**	**Original carrying amount under IAS 39**	**Additional loss allowance recognised under IFRS 9**	**New carrying amount under IFRS 9**
Receivables and other debit balances	Loans and receivables	FA at amortised cost	36,069,825	(1,804,829)	34,264,996
Cash and cash equivalents	Loans and receivables	FA at amortised cost	4,189,443	(4,543)	4,184,900
Borrowings and bank facilities	Financial liabilities at amortised cost	Financial liabilities at amortised cost	8,030,436	-	8,030,436
Payables and other credit balances	Financial liabilities at amortised cost	Financial liabilities at amortised cost	29,336,489	-	29,336,489

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Financial impact of the initial application of IFRS 9

The following table analyses the impact of transition to IFRS 9 on equity as at 1 January 2018:

	Retained earnings
Closing balance under IAS 39 (31 December 2017)	5,482,381
Impact on reclassification and re-measurements:	
Expected credit losses	(1,809,372)
Opening balance under IFRS 9 on date of initial application of 1 January 2018	**3,673,009**

Adoption of IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 Revenue from contracts with customers effective from 1 January 2018. This standard supersedes IAS 11 Construction Contracts and IAS 18 Revenue along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 3. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group adopted IFRS 15 'Revenue from Contracts with Customers' resulting in no change in the revenue recognition policy of the Group in relation to its contracts with customers and therefore it had no material impact on the Group's consolidated financial statements.

The accounting policies for the new standard is disclosed in note 2.3.12.

2.2.2 New and revised IFRS in issue but not yet effective and not early adopted

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

New and revised IFRSs	**Effective for annual periods beginning on or after**
IFRS 16 *Leases*	1 January 2019
Annual Improvements to IFRSs 2015–2017 Cycle amending IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing costs*.	1 January 2019
IFRIC 23 *Uncertainty over Income Tax Treatments*	1 January 2019
Amendments in IFRS 9 *Financial Instruments* relating to prepayment features with negative compensation.	1 January 2019
Amendment to IAS 19 *Employee Benefits* relating to amendment, curtailment or settlement of a defined benefit plan	1 January 2019
Amendments in IAS 28 *Investments in Associates and Joint Ventures* relating to long-term interests in associates and joint ventures.	1 January 2019
Amendments to References to the Conceptual Framework in IFRS Standards - amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework	1 January 2020
Amendment to IFRS 3 *Business Combinations* relating to definition of a business	1 January 2020
Amendments to IAS 1 and IAS 8 relating to definition of material	1 January 2020
IFRS 17 *Insurance Contracts*	1 January 2021
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

The Group does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

IFRS 16 'Leases'

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date.

IFRS 16 does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their consolidated statement of financial position as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the consolidated statement of income.

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. The Group believes that the application of IFRS 16 may not have a material effect on the Group's consolidated financial statements in the initial application period.

2.3 Significant Accounting Policies

Following is the significant accounting policies adopted by the Group:

2.3.1 Financial instruments (effective from 1 January 2018)

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through consolidated statement of income) are added to or deducted from the fair value of the financial assets or financial liabilities, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through statement of income are recognised immediately in statement of income.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

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

Debt instruments that meet the following conditions are subsequently measured at FVTOCI:

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

By default, all other financial assets are subsequently measured at FVTPL.

Despite the aforegoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- The Group may irrevocably elect to classifying in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- The Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant periods.

For financial instruments other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Company recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.

The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in statement of income.

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period.

Impairment of financial assets

The Company applied the simplified approach and measure the loss allowance for receivable at an amount equal to lifetime ECL. The expected credit losses on receivable are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The Company writes off receivable when there is information indicating that the debtor is in serve financial difficulty and there is no realistic prospect of recovery, when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the receivable are over two years past due.

The Company applies the general approach to providing for expected credit losses prescribed by IFRS 9, for financial instruments in Cash and bank balances. The Company uses external rating agency credit grades for assessing credit risk on these financial assets and these published grades are continuously monitored and updated.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in statement of income.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by an entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in statement of income on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in the 'other gains and losses' line item in statement of income for financial liabilities that are not part of a designated hedging relationship.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, is recognized in statement of income.

2.3.2 Financial instruments (Effective up to 31 December 2017)

Classification

In accordance with the International Accounting Standard (IAS) 39, the Group classifies its financial assets as "investments available for sale" and "loans and receivables". Financial liabilities are classified as "financial liabilities other than at fair value through profit or loss". Management determines the appropriate classification at the time of acquisition.

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Recognition and de-recognition

The Group recognizes financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instruments. A financial asset (in whole or in part) is de-recognised when the contractual right to the cash flows from the financial asset expires or, when the Group transfers substantially all the risks and rewards of ownership and has not retained control. If the Group has retained control, it continues to recognize the financial asset to the extent of its continuing involvement in the financial asset. A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

All regular way purchase and sale of financial assets are recognized using trade date accounting. Regular way purchase or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

Measurement

Financial assets and liabilities are measured initially at fair value. Transaction costs are added only for those financial instruments not measured at fair value through profit or loss.

Available for sale financial assets

Investments available for sale are those non-derivative financial assets that are designated as available for sale or are not classified as investments at fair value through profit or loss or loans and receivables, or "held to maturity investments".

After initial recognition, investments available for sale are measured at fair value with unrealised gains and losses recognised as other comprehensive income in a separate component of equity until the investments are derecognised or until the investments are determined to be impaired at which time the cumulative gain and loss previously reported in other comprehensive income is recognised in the consolidated statement of income. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured at amortized cost using the effective yield method.

Cash and bank balances, trade and other receivables and contracts in progress – due from customers are classified as loans and receivables.

Financial liabilities other than at fair value through profit or loss

Financial liabilities other than at fair value through profit or loss are subsequently measured at amortized cost using the effective yield method.

Due to banks, trade and other payables and term loans are categorized as financial liabilities other than at fair value through profit or loss.

Fair values

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

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

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

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

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

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

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

The fair value of financial instruments other than short term financial instruments carried at amortised cost is estimated by discounting the future contractual cash flows at the current market interest rates for similar financial instruments.

Impairment

Assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in consolidated statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in consolidated statement of income.

Available for sale financial investments

In the case of financial asset classified as available for sale, a significant or prolonged decline in fair value of assets below its cost is considered in determining whether the assets are impaired. If such evidence exists for available for sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated statement of income, is removed from other comprehensive income and recognised in the consolidated statement of income. Impairment losses on equities available for sale recognised in the consolidated statement of income are not reversed through the consolidated statement of income.

2.3.3 Basis of Consolidation

Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Parent Company and its subsidiaries. Control is achieved when the Parent Company (a) has power over the investee (b) is exposed, or has rights, to variable returns from its involvement with the investee and (c) has the ability to use its power to affects its returns.

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 components of controls listed above.

Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company losses control over subsidiary. Specifically, income and expenses of subsidiary acquired or disposed of during the year are included in the consolidated statement of income or other comprehensive income from the date the Company gains control until the date when Parent Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Parent Company and to the non-controlling interest. Total comprehensive income of subsidiaries is 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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries.

Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Parent Company.

When the Group loses control of a subsidiary, a gain or loss is recognized in consolidated statement of income and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses combination are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in consolidated statement of income as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except deferred tax assets or liabilities, liabilities or equity instruments related to share based payment arrangements and assets that are classified as held for sale in which cases they are accounted for in accordance with the related IFRS.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in consolidated statement of income as a bargain purchase gain.

Non-controlling interests may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in consolidated statement of income. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to consolidated statement of income where such treatment would be appropriate if that interest were disposed off.

Goodwill

Goodwill, arising on an acquisition of a subsidiary, is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in consolidated statement of income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Investment in associates and joint ventures

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

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

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

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted in order to recognise the changes in the Group's share of net assets of the associate or joint venture since the acquisition date.

Goodwill relating to the associate or joint venture is included in the investment's carrying amount and is neither amortised nor individually tested for impairment. The consolidated statement of income reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of results of an associate and a joint venture is shown on top of the consolidated statement of income off the operating profit and also represents the profit or loss after deducting tax and non-controlling interests in the subsidiaries of the associate or joint venture. The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in the associate or joint venture. At each reporting date, the Group determines whether there is an objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'Impairment of an associate or a joint venture' in the consolidated statement of income.

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

2.3.4 Cash and cash equivalents

Cash on hand, demand and time deposits with banks whose original maturities do not exceed three months are classified as cash and cash equivalents in the consolidated statement of cash flows.

2.3.5 Inventories

Inventories are stated at the lower of cost and net realisable value. Raw materials cost is determined on a weighted average cost basis. The cost of finished goods includes direct materials, direct labour and fixed and variable manufacturing overhead, and other costs incurred in bringing inventories to their present location and condition. Net realizable value is the estimated selling prices less all the estimated costs of completion and costs necessary to make the sale.

2.3.6 Investment property

Land and buildings held for the purpose of capital appreciation or for long term rental yields and not occupied by the Group is classified as investment properties. Investment property is carried at fair value, representing the open market value determined periodically by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of its specific assets. If this information is not available, the Group uses alternative valuation methods such as recent prices in less active markets or discounted cash flow projections. Changes in fair value are included in the consolidated statement of income.

Fair values of investment properties are determined by appraisers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued.

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

2.3.7 Property, plant and equipment

Property, plant and equipment are stated at historic cost less accumulated depreciation and accumulated impairment loss. Historical cost of an item of property and equipment comprises its acquisition cost and all directly attributable costs of bringing the asset to working condition for its intended use.

Capital work in progress is carried at cost less impairment losses, if any and transferred to the related asset category when ready for its intended use.

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Depreciation is provided on a straight line basis over the estimated useful lives as follows:

Buildings	10-50 years
Equipment, Heavy Equipment and Vehicles	2-10 years
Furniture and fixtures	2-5 years

The carrying amount of property, plant and equipment is reviewed at each statement of financial position date to determine whether there is any indication of impairment in its carrying value. If any such indication exists, an impairment loss is recognized in the consolidated statement of income, being the difference between carrying value and the asset's recoverable amount.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

The recoverable amount of assets is the greater of their 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 the current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of income.

2.3.8 Intangible assets

Intangible assets acquired separately are measured at cost on initial recognition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful economic lives and assessed and adjusted for impairment whenever there is an indication that an intangible asset may be impaired. Intangible assets with indefinite useful lives are not amortised but are tested annually for impairment and adjusted for the same, if any.

2.3.9 Post employment benefits

The Group is liable under various labour laws including the Kuwait Labour Law and Labour Laws of the countries in which the Group' subsidiaries operates, to make payments under defined benefit plans payable to employees at cessation of employment.

This liability, which is unfunded, has been computed as the amount payable as a result of involuntary termination on the statement of financial position date. This computation is used as a reliable approximation of the present value of this obligation to recognize this liability and the related cost as an expense of the year.

2.3.10 Provisions for liabilities

Provisions including provision for warranty costs are recognised, when as a result of past events it is probable that an outflow of economic resources will be required to settle a present legal or constructive obligation and the amount can be reliably estimated.

2.3.11 Treasury shares

Treasury shares consist of the Parent's own issued shares that have been reacquired by the Parent and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity. When the treasury shares are reissued, gains are credited to the "treasury shares reserve", which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance in that account. Any excess losses are charged to retained earnings then to the reserves. 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.

2.3.12 Revenue recognition

The Group executes construction projects for the benefit of third parties. Such contracts are entered into before executing these projects. Under the terms of these contracts, the Group has the right to receive the payments for any executed works. Therefore, revenues from these contracts shall be recognized throughout the project duration as per completion percentage method. The percentage of completion is determined based on the actual cost up to the year end to the total cost estimated for each contract. The management believes that this method is appropriate to measure of the progress towards complete satisfaction of all performance obligations under IFRS 15.

Revenue from installation contracts is recognised over time of the contract.

Revenue from sale of goods is recognised on point of time.

Interest income is recognised on effective yield basis.

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

2.3.13 Accounting for leases

Where the Group is the lessee

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight line basis over the period of the lease.

2.3.14 Foreign currency transactions

The functional currency of the Parent is the Kuwaiti Dinar. The consolidated financial statements are presented in Kuwaiti Dinars, which is the Group's functional and presentation currency.

Foreign currency transactions are translated into Kuwaiti Dinars at the rates prevailing on the transaction date. Monetary assets and liabilities are translated into Kuwaiti Dinars at the rate of exchange ruling at the consolidated statement of financial position date. Resultant gains/ losses are taken to consolidated statement of income. Translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognized in the consolidated statement of comprehensive income.

The assets and liabilities of the foreign subsidiaries and foreign operations are translated into Kuwaiti Dinars at the closing rate on the date of the consolidated statement of financial position and income and expenses are translated at average exchange rates. The resultant exchange differences are recognized in the consolidated statement of comprehensive income and foreign currency translation reserve under equity.

2.3.15 Segment reporting

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenues and incurs costs. The operating segments are used by the management of the Group to allocate resources and assess performance. Operating segments exhibiting similar economic characteristics, product and services, class of customers where appropriate are aggregated and reported as reportable segments.

3. Financial instruments

3.1 Financial risk factors

The Group's use of financial instruments exposes it to a variety of financial risks such as credit risk, market risk and liquidity risk. The Group continuously reviews its risk exposures and takes measures to limit it to acceptable levels. Risk management is carried out by a steering committee comprising of senior management and headed by the chairman. The committee identifies and evaluates financial risks in close co-operation with the Group's operating units and provides principles for overall risk management, as well as covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity. The significant risks that the Group is exposed to are discussed below:

(a) Market risk

Market risk, comprising of foreign exchange risk, interest rate risk and equity price risk arises due to movements in foreign currency rates, interest rates and market prices of assets.

(i) Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group has operations outside Kuwait and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the UAE Dirhams. Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the functional currency of the Parent Company and its subsidiaries. The Group's management monitors and measures currency exposures on recognized monetary assets and liabilities on a daily basis and manages this risk by setting limits on exposures to each currency and also to the extent possible by matching monetary assets and liabilities with similar currency exposures. The Group is not exposed to significant foreign exchange risk as significant transactions or recognised assets and liabilities of the group companies are in their respective functional currency.

(ii) Interest rate risk

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

The Group's interest rate risk arises from deposits and bank borrowings.

At 31 December 2018, if interest rates at that date had been 50 basis points higher/lower with all other variables held constant, profit for the year would have been lower/higher by KD 2,022 (KD 3,912 - 2017).

The Group's overall interest rate risks are monitored and interest rate sensitivity is measured on a daily basis by the risk management team.

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(b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets, which potentially subject the Group to credit risk, consist principally of bank deposits and trade receivables and contract assets. The Group manages this risk by dealing with government bodies, customers and financial institutions with high credit rating and obtaining guarantee whenever possible.

The table below detail the credit rating of the financial assets and contract assets and the maximum exposure to the credit risk:

	Note	1 January 2018					
		Credit rating		Method used	Gross amount	ECL	NBV
		Internal	External				
Cash and cash equivalents	11	performing	Aa3 /Baa3	12-month ECL	4,189,443	(4,543)	4,184,900
Contract assets	10	(i)	N/A	Lifetime ECL	2,184,749	-	2,184,749
Trade receivables	9	(ii)	N/A	Lifetime ECL	38,130,031	(6,666,515)	31,463,516

	Note	31 December 2018					
		Credit rating		Method used	Gross amount	ECL	NBV
		Internal	External				
Cash and cash equivalents	11	performing	Aa3 /Baa3	12-month ECL	5,724,349	(4,543)	5,719,806
Contract assets	10	(i)	N/A	Lifetime ECL	2,512,478	-	2,512,478
Trade receivables	9	(ii)	N/A	Lifetime ECL	38,182,886	(7,509,858)	30,673,028

(i) Although contract are subject to impairment testing in accordance with IFRS 9, the impact of expected credit losses is immaterial.

(ii) For trade receivables and contract assets, the Group has applied the simplified approach of IFRS 9 to measure the loss allowance at lifetime ECL for trade receivable and contract assets. The Group determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

The following table shows the calculation of credit losses as at 1 January 2018 (effective date of IFRS 9) and 31 December 2018:

	1 January 2018		
Aging brackets of post-paid trade receivables	gross carrying amount at default	Expected credit loss rate	Lifetime ECL
Less than 30 days	14,761,897	1.2%	178,146
31 – 60 days	5,562,768	4.8%	267,077
61 – 90 days	3,625,476	5.1%	183,738
91 – 120 days	2,268,328	5.5%	125,000
121 – 150 days	3,065,914	6.3%	192,009
151 – 180 days	431,987	24.3%	104,857
181 – 210 days	708,337	28.9%	204,981
211 – 240 days	125,737	37.5%	47,208
> 240 days and above	7,579,587	70.8%	5,363,499
	38,130,031		6,666,515

	31 December 2018		
Aging brackets of post-paid trade receivables	gross carrying amount at default	Expected credit loss rate	Lifetime ECL
Less than 30 days	23,897,306	0.7%	179,020
31 – 60 days	2,548,430	4.2%	106,353
61 – 90 days	1,802,769	4.8%	85,802
91 – 120 days	467,775	10.3%	48,247
121 – 150 days	415,904	11.1%	46,369
151 – 180 days	99,503	25.3%	25,140
181 – 210 days	49,783	33.5%	16,667
211 – 240 days	50,407	40.3%	20,294
> 240 days and above	8,851,009	78.9%	6,981,966
	38,182,886		7,509,858

Movement of provision for expected credit loss of trade and other receivables are as follows:

	2018	2017
Opening balance – 1 January	4,861,686	5,112,200
Amendment on IFRS 9 adoption	1,804,829	-
	6,666,515	5,112,200
Impairment losses during the year	840,855	917,849
Amounts written off during the year	-	(1,161,200)
Foreign exchange translation	2,488	(7,163)
Ending balance – 31 December	7,509,858	4,861,686

(c) Liquidity risk

Liquidity risk is the risk that the Group may not be able to meet its funding requirements. Liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the consolidated statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying values, as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years
At 31 December 2018		
Borrowings and bank facilities	422,507	345,900
Trade payables and other credit balances	20,934,051	-
At 31 December 2017		
Borrowings and bank facilities	7,373,841	734,835
Trade payables and other credit balances	28,809,950	-

3.2 Capital risk management

The Group manages its capital to ensure that` entities in the Group will be able to continue as going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net debt (borrowings offset by cash and cash equivalents) and equity (comprising share capital, reserves, retained earnings and treasury shares).

The gearing ratio as at 31 December is as follows:

	2018	2017
Total borrowings and bank facilities	727,965	8,030,436
Less: cash and cash equivalents	(5,719,806)	(4,189,443)
Net debt	(4,991,841)	3,840,993
Total equity	23,945,518	22,475,302
Total capital	18,953,677	26,316,295
Gearing ratio (%)	-	15

3.3 Fair value estimation

The fair values of financial assets and financial liabilities are determined as follows:

- Level one:Quoted prices in active markets for identical assets or liabilities.
- Level two:Quoted prices in an active market for similar instruments. Quoted prices for identical assets or liabilities in market that is not active. Inputs other than quoted prices that are observable for assets and liabilities.
- Level three: Inputs for the asset or liabilities that are not based on observable market data.

The fair values of other financial assets and financial liabilities approximately equal its book value as at the consolidated financial statements date.

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4. Critical accounting judgments and estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that may affect amounts reported in these financial statements, as actual results could differ from those estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Judgments and estimates that are significant to the consolidated financial statements are:

Judgments

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

Classification of real estate investments

Management decides on acquisition of real estate whether it should be classified as held for trading or investment property.

The Group classifies property as held for trading if this is acquired principally for sale in the ordinary course of the business.

The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation.

Sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainity at the end of the consolidated financial statements date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value measurements and valuation techniques

Certain assets and liabilities of the Group are measured at fair value for the purposes of preparing the consolidated financial statements. The Group's management determines the main appropriate techniques and inputs required for measuring the fair value. In determining the fair value of assets and liabilities, management uses observable market data as appropriate, in case no observable market data is available the Group uses an external valuer qualified to do the valuation. Information regarding the required valuation techniques and inputs used to determine the fair value of financial assets and liabilities is disclosed in note (3.3, 5 and 6).

Impairment of tangible and intangible assets

The Group reviews its financial assets classified as "loans and receivables", available for sale investments and other assets like inventory, property, plant and equipment and intangible assets periodically to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty.

Impairment of financial assets (Effective from1 January 2018)

The Group assesses whether the credit risk associated with financial assets and other items has increased substantially since the initial recognition in order to determine whether the expected credit loss for the 12 month period or expected credit loss over the lifetime of the financial instrument should be recognized (note 3.1)

Warranty and commissioning provisions

The Group's management estimates the related provision for warranty and commissioning based on historical warranty claim and commissioning cost information, as well as recent trends that might suggest that past cost information may differ from future claims. Factors that could impact the estimated warranty claim and commissioning cost include the success of Group's productivity and quality initiatives, as well as spare parts and labour costs.

Revenue recognition

Construction contract revenue is measured over the life of the project according to the percentage of completion method. The Group's management are required to exercise judgement in their assessment of the work performed, variation order; the completeness and accuracy of forecast costs to complete. The actual results of contracts can vary substantially. These estimates often need to be adjusted based on future events and when the results of items that were judged uncertain.

5. Property, plant and equipment

	Lands & buildings	Vehicles	Equipment & Heavy Equipment	Furniture & fixtures	Work-in-progress	Total
Cost						
As at 1 January 2017	11,357,848	3,435,278	8,055,651	1,712,847	100,525	24,662,149
Additions	149,431	2,827,016	2,584,368	355,169	-	5,915,984
Disposals	(14,520)	(117,174)	(63,399)	(100,069)	-	(295,162)
Transfers from work in progress	53,844	-	121	-	(53,965)	-
Foreign currency translation difference	(25,859)	(1,246)	18	(2,541)	-	(29,628)
As at 31 December 2017	11,520,744	6,143,874	10,576,759	1,965,406	46,560	30,253,343
Additions	150,984	829,244	1,560,978	77,245	9,305	2,627,756
Disposals	-	(288,279)	(297,125)	(316,338)	-	(901,742)
Transfers from work in progress	46,560	-	-	-	(46,560)	-
Foreign currency translation difference	-	503	317	381	-	1,201
As at 31 December 2018	11,718,288	6,685,342	11,840,929	1,726,694	9,305	31,980,558
Depreciation						
As at 1 January 2017	3,103,125	2,972,187	6,165,207	1,415,829	-	13,656,348
Charge for the year	236,203	614,707	896,483	204,904	-	1,952,297
Disposals	(14,514)	(117,154)	(63,295)	(99,847)	-	(294,810)
Foreign currency translation difference	(7,663)	(744)	922	(1,207)	-	(8,692)
As at 31 December 2017	3,317,151	3,468,996	6,999,317	1,519,679	-	15,305,143
Charge for the year	285,016	1,107,033	1,486,234	205,155	-	3,083,438
Disposals	-	(271,467)	(295,776)	(310,263)	-	(877,506)
Foreign currency translation difference	-	333	291	339	-	963
As at 31 December 2018	3,602,167	4,304,895	8,190,066	1,414,910	-	17,512,038
Net book value						
As at 31 December 2017	8,203,593	2,674,878	3,577,442	445,727	46,560	14,948,200
As at 31 December 2018	8,116,121	2,380,447	3,650,863	311,784	9,305	14,468,520

- Lands and buildings include leasehold lands leased from the Government of Kuwait under valid operating leases which are renewable. Its carrying value is amounted to KD 1,111,061 as at 31 December 2018 (KD 1,111,061 - 2017), on which buildings are constructed with a carrying value of KD 1,313,899 as at 31 December 2018 (KD 1,422,635 - 2017).

6. Investment properties

Investment properties represent in properties in Dubai - United Arab Emirates (UAE). The below table is the investment properties movement during the year:

	2018	2017
Balance as at 1 January	7,937,585	7,973,503
Additions	2,053	39,246
Changes in fair value	(285,720)	32,064
Foreign currency translation difference	36,619	(107,228)
Balance as at 31 December	7,690,537	7,937,585

The fair value of the Group's investment properties as at 31 December 2018 has been arrived at on the basis of a valuation carried out on the respective dates by independent values not related to the Group. The independent valuers are registered at the related governmental bodies, and they have appropriate and recent experience in the valuation of properties in the relevant locations. The fair value of properties held for trading was determined based on capitalization of net income method, where the market rental of all units of the properties (Level 2). In estimating the fair value of the properties, the highest and best use of the properties is their current use.

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7. Investment in associates

	Activities	Ownership %	2018	2017
Spears 1788 Group S.A.L.	Holding - Real Estate	40	1,708,039	1,704,603
Other			136,423	196,138
			1,844,462	1,900,741

7.1 Associates are accounted for using Equity method.

7.2 Summarized financial information of Spears 1788 Group S.A.L. as at 31 December is as follows:

	2018	2017
Current assets	7,083	95,566
Non-current assets	6,055,946	4,812,957
Current liabilities	1,792,932	632,151

8. Inventories

	2018	2017
Raw materials	1,067,178	674,443
Spare parts	1,199,099	1,295,358
	2,266,277	1,969,801
Provision for obsolescence	(351,263)	(351,670)
	1,915,014	1,618,131

9. Trade receivables and other debit balances

	2018	2017
Trade receivables	20,928,910	28,952,974
Retention receivables	17,253,976	9,177,057
	38,182,886	38,130,031
Provision for expected credit loss	(7,509,858)	(4,861,686)
	30,673,028	33,268,345
Advance to suppliers	1,139,865	2,383,576
Other debit balances	540,025	417,904
	32,352,918	36,069,825

9.1 The ECL has been estimated in accordance with the simplified approach as per IFRS 9 (Note 3).

9.2 The Group holds letter of guarantee and letter of credit amounting to KD 997,149 as collaterals (KD 319,000 – 2017).

10. Contracts assets / liabilities

	2018	2017
Construction costs incurred plus recognised profits less recognised losses to date	114,840,756	80,672,986
Less: progress billings	(128,615,174)	(85,229,280)
	(13,774,418)	(4,556,294)
Recognised and included in the consolidated financial statements as amounts:		
- Contracts liabilities	(16,286,896)	(6,741,043)
- Contracts assets	2,512,478	2,184,749
	(13,774,418)	(4,556,294)

- The Group recognizes the contracts assets of the executed works that are not invoiced to the customers. These amounts will be transferred subsequently to trade receivables upon issuing invoices to the customers.
- Contracts liabilities increased by KD 9,545,853 during the current year as a result of the increase of the billing over the executed work for certain contracts.

11. Cash and cash equivalents

	2018	2017
Cash on hand	29,610	63,473
Cheques under collection	33,998	13,105
Current and call accounts	2,809,105	3,738,415
Time deposits	2,847,093	374,450
	5,719,806	4,189,443

The average interest rate on the deposits was 0.5% to 2.75% as at 31 December 2018 (0.5% - 0.7% - 2017).

12. Equity

Share capital

As at 31 December 2018, the authorized, issued and paid up capital of the Parent Company amounted to KD 10,029,197 distributed to 100,291,968 shares of 100 fils each and all shares are in cash.

Treasury shares

	2018	2017
Number of shares	3,354,901	3,133,742
Percentage of issued shares %	3.75	3.13
Market value (KD)	771,627	438,724

The Parent Company is required to retain reserves and retained earnings equivalent to the value of treasury shares throughout the year, during which they are held by the Parent Company, pursuant to instructions of the relevant regulatory authorities.

Statutory reserve

In accordance with the Companies Law and the Parent Company's Articles of Association, and by virtue of a decision by the Ordinary General Assembly based on the BOD's proposal, a percentage not less than 10% of the profits shall be transferred annually to the statutory reserve. The General Assembly may discontinue such deduction if the statutory reserve exceeds half of the Parent Company paid up capital.

Voluntary reserve

In accordance with the Companies Law and the Parent Company's Articles of Association, and by virtue of a decision by the Ordinary General Assembly based on the BOD's proposal, a percentage not less than 10% of the net profits may be transferred to provide the voluntary reserve for the purpose specified by the General Assembly.

13. Other reserves

	Treasury share reserve	Change in fair value reserve	Foreign currency translation reserve	Total
Balance as at 1 January 2017	158,935	9,228	687,981	856,144
Total other comprehensive income items	-	(9,228)	(71,946)	(81,174)
Balance as at 31 December 2017	158,935	-	616,035	774,970
Balance as at 1 January 2018	158,935	-	616,035	774,970
Total other comprehensive income items	-	-	45,886	45,886
Balance as at 31 December 2018	158,935	-	661,921	820,856

14. Borrowings and bank facilities

	2018	2017
Short term		
Bank overdraft	-	6,267,787
Loans	400,142	1,066,810
	400,142	7,334,597
Long term		
Loans	327,823	695,839
	727,965	8,030,436

Maturity of borrowings and bank facilities is as follows:

	2018	2017
Within one year	400,142	7,334,597
More than one year to three years	327,823	695,839
	727,965	8,030,436

14.1 Borrowings and bank facilities are carried at variable interest rate. The average effective interest rate on the borrowings and bank facilities was 4.5% - 5% as at 31 December 2018 (3.75% - 4.50% - 2017).

14.2 Borrowings and bank facilities are secured against assigned of revenue for certain contracts and promissory notes.

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15. Trade payables and other credit balances

	2018	2017
Trade payables	10,854,497	10,752,676
Contract advances – construction	7,953,456	15,962,637
Provisions of claims and other *	1,928,737	526,539
Accrued to staff	1,092,925	1,211,160
Accrued expense	625,720	466,118
Cash dividends	67,631	52,622
Other credit balances	339,822	364,737
	22,862,788	29,336,489

* A Kuwaiti contracting company has sued a lawsuit to request the assignment of an expert to demonstrate physical damage sustained as a result of the parent company's failure to implement an agreement signed therewith. A first instance judgment was issued during the year to dismiss the case, which was appealed by the plaintiff. During the subsequent period, the Court of appeal annulled the appealed judgment and obliged the parent company to compensate the company by an amount of KD 4,404,045. Based on opinion of the legal counsel, the parent company management deems that it has a strong legal position since the plaintiff broke its contractual obligations. Accordingly, the parent company will challenge the judgement before the court of cassation. Based on the above, the parent company management has made a precautionary provision of KD 1,654,298, for outcomes that may result from the judgments to be issued in the next phases.

16. Revenue

The Group's revenues arise from construction, installation, maintenance and sale of goods mainly in Kuwait:

	Timing of revenue recognition	2018	2017
Construction Contracts	Lifetime	77,482,208	39,656,385
Sales of goods	Point of time	7,510,150	7,954,400
Installation and maintenance	Lifetime	3,222,735	3,094,597
		88,215,093	50,705,382

Revenues from construction contracts include revenues of KD 71,969,479 (KD 32,564,446 - 2017) realized from contracts with government entities in the State of Kuwait.

17. Cost of sales

	2018	2017
Materials	30,416,096	16,730,886
Staff costs	9,059,427	7,130,300
Subcontract costs	28,707,758	15,634,395
Depreciation and amortization	2,712,042	1,595,030
Lease rentals	3,214,279	1,460,147
Repairs and maintenance	3,588,921	1,511,120
Others	1,465,630	1,763,021
	79,164,153	45,824,899

18. General and administrative expenses

	2018	2017
Salaries and wages	1,465,969	1,585,980
Depreciation and amortization	194,163	176,613
Lease rentals	121,928	110,636
Repairs and maintenance	28,167	22,046
Others	530,636	474,966
	2,340,863	2,370,241

19. Other operating expense

	2018	2017
Gross loss from Hotel	70,557	74,841
Provide provision for expected credit losses	840,855	917,849
Provide provision for claims (Note 15)	1,154,298	-
Loss/ (gain) on sale of property, plant and equipment	19,144	(1,390)
Foreign exchange losses	3,801	21,276
Others	2,510	69,447
	2,091,165	1,082,023

20. Net properties investment income

	2018	2017
Rents revenue	377,880	256,382
Rents expenses	(132,580)	(153,106)
(losses) / gains of valuation of properties	(285,720)	32,064
	(40,420)	135,340

21. Earnings per share

Earnings per share is calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year.

The weighted average number of shares outstanding during the year is calculated as follows:

	2018	2017
Weighted average number of issued and fully paid up shares	100,291,968	100,291,968
Less: weighted average number of treasury shares	(3,329,828)	(2,829,730)
Weighted average number of shares outstanding	96,962,140	97,462,238
Net profit for the year	4,236,642	2,343,964
Earnings per share (fils)	43.69	24.05

22. Dividends

On 2 May 2018, the general assembly held and approved the financial statements for the year ended 31 December 2017 and approved cash dividends of 10% for 2017 (after deduction of treasury shares).

On 18 March 2019, the Board of Directors proposed cash dividend of 20% for the year ended 31 December 2018 (after deduction of treasury shares). This proposal is subject to approval from the General Assembly of the Parent Company and the competent authorities.

23. Segmental information

The Group's operating segments are determined based on the reports reviewed by the chief executive officer for strategic decisions. These segments are strategic business units that offer different products and services. They are managed separately since the nature of the products and services, class of customers and marketing strategies of these segments are different.

These operating segments meet the criteria for reportable segments and are as follows:

- Construction, installation and maintenance
- Investment of surplus funds
- Hotels

Segment results include revenue and expenses directly attributable to a segment.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment. Capital expenditure represents the total cost incurred during the year to acquire assets that are expected to be used for periods exceeding one year.

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	Construction, installation, & maintenance	Investments	Hotels	Unallocated	Total
Year ended 31 December 2018					
Operating income	88,215,093	-	-	-	88,215,093
Segment result	9,050,940	-	-	-	9,050,940
Net profit for the year	8,225,434	(2,510)	(86,774)	(3,899,508)	4,236,642
Assets	49,420,405	9,534,999	5,668,024	1,908,133	66,531,561
Liabilities	35,734,224	-	3,483,973	3,367,846	42,586,043

	Construction, installation, & maintenance	Investments	Hotels	Unallocated	Total
Year ended 31 December 2017					
Operating income	50,705,382	-	-	-	50,705,382
Segment result	4,880,483	-	-	-	4,880,483
Net profit for the year	4,604,343	929,172	(115,709)	(3,073,842)	2,343,964
Assets	51,316,428	9,838,326	5,763,109	1,967,687	68,885,550
Liabilities	36,547,046	-	3,492,284	6,370,918	46,410,248

Following are geographical information:

Year ended 31 December 2018	Revenues	Non-current assets
Kuwait	86,515,289	10,908,782
United Arab Emirates	-	7,694,960
Oman	1,699,804	43,469
Lebanon	-	5,384,134
	88,215,093	24,031,345

Year ended 31 December 2017	Revenues	Non-current assets
Kuwait	49,059,658	11,305,370
United Arab Emirates	32,507	7,937,597
Oman	1,613,217	55,410
Lebanon	-	5,525,025
	50,705,382	24,823,402

24. Related party transactions

The Group enters into transaction with related parties on terms and conditions approved by management. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

In the normal course of business the Group enters into transactions with related parties, (i.e. companies owned by shareholders and directors). Terms of these transactions are approved by the Group's management.

Details of related parties balances and transactions other than those disclosed elsewhere in the financial statements are as follows:

Balances:

	2018	2017
Post employment benefits	88,037	73,051
Due from related parties	830,091	782,606

Transactions:

	2018	2017
Revenues	133,905	283,108
Salaries and other short-term employee benefits	513,982	491,440
Termination benefits	33,689	53,099
Board of Directors remuneration	60,000	45,000
Provision for doubtful debts	325,500	-

25. Subsidiaries

Subsidiary	Percentage of Ownership (%)	
	2018	2017
KCPC Construction (L.L.C) - Dubai, United Arab Emirates	90	90
Prime 28 Limited - Dubai, United Arab Emirates	100	100
Mass International - Oman	70	70
KCPC - Qatar W.L.L - Qatar	50	50
Grey Lines Company O.P.C - Kuwait	100	100
Technical Kuwaiti Company for Elevators, Escalators & Contracting O.P.C - Kuwait	100	100
Tameer Holding Company S.A.L – Lebanon	100	100
Maamel Real Estate O.P.C – Kuwait	100	100

Subsidiaries total assets consolidated in the consolidated financial statements amounted to KD 18,868,369 as at 31 December 2018 (KD 19,902,624 - 2017) and its net profits amounted to KD 298,991 (KD 805,934 - 2017).

The objectives of the subsidiaries are to engage in contracting activities and ownership of real estate and land. Residual interests in subsidiaries incorporated in Kuwait are held through nominees, residual interests in subsidiaries incorporated outside Kuwait are held through letters of assignment.

26. Commitments and contingent liabilities

The Group has the following commitments and contingent liabilities:

	2018	2017
Commitments		
Capital commitments	43,065,014	77,140,964
Letters of credit	6,650,197	7,487,395
Contingent liabilities		
Letters of guarantee	44,029,480	51,216,476

THANK YOU

KCPC