CONTRACTING AND MARINE SERVICES COMPANY - K.S.C. (CLOSED)
AND SUBSIDIARIES
STATE OF KUWAIT

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
WITH
INDEPENDENT AUDITOR'S REPORT

CONTRACTING AND MARINE SERVICES COMPANY - K.S.C. (CLOSED)
AND SUBSIDIARIES
STATE OF KUWAIT

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WITH
INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

The Shareholders
Contracting and Marine Services Company - K.S.C. (Closed)
State of Kuwait

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Contracting and Marine Services Company - K.S.C. (Closed) ("the Parent Company") and subsidiaries (collectively, "the Group"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with ethical requirements that are relevant to our audit of the consolidated financial statements in the State of Kuwait, 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 opinion.

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.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

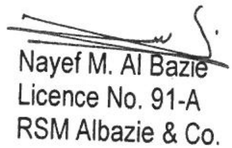
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 1 of 2016 and its Executive Regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016 and its Executive Regulations, as amended or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the financial year ended December 31, 2018 that might have had a material effect on the business or financial position of the Parent Company.



State of Kuwait
March 31, 2019

Nayef M. Al Bazie
Licence No. 91-A
RSM Albazie & Co.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2018

(All amounts are in Kuwaiti Dinars)

	Note	2018	2017
ASSETS			
Current assets:			
Cash and cash equivalents	4	**7,390,489**	10,126,093
Time deposits	5	**1,255,622**	2,012,859
Financial assets at fair value through profit or loss ("FVTPL")		**360,997**	588,036
Accounts receivable and other debit balances	6	**36,187,338**	35,247,316
Inventories	7	**4,194,924**	4,852,182
Total current assets		**49,389,370**	52,826,486
Non-current assets:			
Financial assets at fair value through other comprehensive income ("FVOCI")	8	**1,331,278**	-
Financial assets available for sale	9	**-**	2,535,625
Investment in unconsolidated subsidiaries		**108,000**	9,000
Investment property	10	**2,191,077**	-
Property, plant and equipment	11	**324,474,015**	341,855,791
Total non-current assets		**328,104,370**	344,400,416
Total assets		**377,493,740**	397,226,902
LIABILITIES AND EQUITY			
Current liabilities:			
Due to banks		**375,623**	337,730
Term loans	12	**37,044,889**	44,560,536
Murabaha payable	13	**5,874,000**	5,689,000
Accounts payable and other credit balances	14	**34,779,204**	36,695,403
Advances from customers		**11,116,388**	17,192,353
Total current liabilities		**89,190,104**	104,475,022
Non-current liabilities:			
Term loans	12	**170,982,834**	166,166,013
Advances from customers		**16,733,877**	22,875,627
Provision for end of service indemnity	15	**5,700,107**	5,164,099
Total non - current liabilities		**193,416,818**	194,205,739
Total Liabilities		**282,606,922**	298,680,761
Equity:			
Share capital	16	**22,916,620**	22,916,620
Share premium		**8,998,290**	8,998,290
Treasury shares	17	**(110,308)**	(110,308)
Statutory reserve	18	**6,951,161**	6,854,243
Voluntary reserve	19	**613,164**	613,164
General reserve		**605,480**	605,480
Treasury shares reserve		**108,025**	108,025
Other reserve		**(86,887)**	(86,887)
Fair value reserve		**(1,564,896)**	(493,728)
Revaluation surplus		**1,144,127**	-
Retained earnings		**7,775,265**	10,510,322
Equity attributable to shareholders of the Parent Company		**47,350,041**	49,915,221
Non-controlling interests	20	**47,536,777**	48,630,920
Total equity		**94,886,818**	98,546,141
Total liabilities and equity		**377,493,740**	397,226,902

The accompanying notes (1) to (30) form an integral part of the consolidated financial statements.

Faisal Ibrahim Al-Hajree
Chairman

Ahmed Saad Al-Munaifi
Vice Chairman

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED DECEMBER 31, 2018
(All amounts are in Kuwaiti Dinars)

	Note	2018	2017
Operating revenue	22	**128,163,194**	107,821,106
Operating costs	11, 23	**(111,600,214)**	(90,513,517)
Gross profit		**16,562,980**	17,307,589
General and administrative expenses	23	**(5,632,968)**	(5,157,864)
Depreciation and amortization	10,11	**(278,628)**	(128,228)
Provision for doubtful debts	6	**(200,000)**	-
Provision for slow-moving inventories	7	**(51,313)**	(51,134)
Profit from operations		**10,400,071**	11,970,363
Impairment loss on financial assets available for sale		**-**	(350,000)
Finance charges		**(8,921,477)**	(6,831,517)
Net investment (loss) income		**(103,001)**	47,719
Foreign exchange (loss) gain		**(20,463)**	3,098
Interest income		**30,441**	16,389
Other income		**319,443**	11,595
Profit for the year before National Labour Support Tax (NLST) and Board of Directors' remuneration		**1,705,014**	4,867,647
NLST		**-**	(37,051)
Board of Directors' remuneration	24	**-**	(102,000)
Profit for the year		**1,705,014**	4,728,596
Attributable to:			
Shareholders of the Parent Company		**969,177**	2,269,170
Non-controlling interests		**735,837**	2,459,426
Profit for the year		**1,705,014**	4,728,596
		Fils	Fils
Basic and diluted earnings per share attributable to shareholders of the Parent Company	21	**4.24**	9.92

The accompanying notes (1) to (30) form an integral part of the consolidated financial statements.

CONTRACTING AND MARINE SERVICES COMPANY - K.S.C. (CLOSED) AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018
(All amounts are in Kuwaiti Dinars)

	Note	2018	2017
Profit for the year		**1,705,014**	4,728,596
Net other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Changes in fair value of financial assets available for sale		-	147,284
Reversal due to impairment of financial assets available for sale		-	350,000
Items that will not be reclassified subsequently to profit or loss			
Changes in fair value of financial assets at FVOCI		**54,172**	-
Revaluation surplus	11	**2,361,459**	-
Net other comprehensive income for the year		**2,415,631**	497,284
Total comprehensive income for the year		**4,120,645**	5,225,880
Attributable to:			
Shareholders of the Parent Company		**2,227,693**	2,766,454
Non-controlling interests	20	**1,892,952**	2,459,426
Total comprehensive income for the year		**4,120,645**	5,225,880

The accompanying notes (1) to (30) form an integral part of the consolidated financial statements.

CONTRACTING AND MARINE SERVICES COMPANY - K.S.C. (CLOSED) AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018
(All amounts are in Kuwaiti Dinars)

	Equity attributable to shareholders of the Parent Company													
	Share capital	Share premium	Treasury shares	Statutory reserve	Voluntary reserve	General reserve	Treasury shares reserve	Other reserve	Fair value reserve	Revaluation surplus	Retained earnings	Sub-total	Non-controlling interests	Tota
Balance as at December 31, 2016	22,916,620	8,998,290	(110,308)	6,613,421	613,164	605,480	108,025	(86,887)	(991,012)	-	8,481,974	47,148,767	47,249,494	94,398,
Dividends to non–controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(1,078,000)	(1,078
Total comprehensive income for the year	-	-	-	-	-	-	-	-	497,284	-	2,269,170	2,766,454	2,459,426	5,225,
Transfer to statutory reserve	-	-	-	240,822	-	-	-	-	-	-	(240,822)	-	-	-
Balance as at December 31, 2017	22,916,620	8,998,290	(110,308)	6,854,243	613,164	605,480	108,025	(86,887)	(493,728)	-	10,510,322	49,915,221	48,630,920	98,546,
Effect of adoption of IFRS 9 (Note 3)	-	-	-	-	-	-	-	-	(1,125,340)	-	(1,405,474)	(2,530,814)	(1,370,095)	(3,900,
Balance as at January 1, 2018 (Restated)	22,916,620	8,998,290	(110,308)	6,854,243	613,164	605,480	108,025	(86,887)	(1,619,068)	-	9,104,848	47,384,407	47,260,825	94,645,
Cash Dividends (Note 24)	-	-	-	-	-	-	-	-	-	-	(2,286,620)	(2,286,620)	-	(2,286,
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(1,617,000)	(1,617,
Transfer to retained earnings on disposal of financial assets at FVOCI	-	-	-	-	-	-	-	-	-	-	24,561	24,561	-	24,
Transfer from revaluation surplus to retained earnings	-	-	-	-	-	-	-	-	-	(60,217)	60,217	-	-	-
Total comprehensive income for the year	-	-	-	-	-	-	-	-	54,172	1,204,344	969,177	2,227,693	1,892,952	4,120,
Transfer to statutory reserve	-	-	-	96,918	-	-	-	-	-	-	(96,918)	-	-	-
Balance as at December 31, 2018	**22,916,620**	**8,998,290**	**(110,308)**	**6,951,161**	**613,164**	**605,480**	**108,025**	**(86,887)**	**(1,564,896)**	**1,144,127**	**7,775,265**	**47,350,041**	**47,536,777**	**94,886,**

The accompanying notes (1) to (30) form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
(All amounts are in Kuwaiti Dinars)

	2018	2017
Cash flows from operating activities:		
Profit for the year before NLST and Board of Directors' remuneration	**1,705,014**	4,867,647
Adjustments for:		
Provision for end of service indemnity	**1,092,625**	1,180,843
Depreciation and amortization	**32,271,971**	25,275,323
Provision for doubtful debts	**200,000**	-
Provision for slow-moving inventories	**51,313**	51,134
Impairment loss on financial assets available for sale	**-**	350,000
Finance charges	**8,921,477**	6,831,517
Net investment loss (income)	**103,001**	(47,719)
Interest income	**(30,441)**	(16,389)
Provision for end of service indemnity no longer required	**(9,077)**	(2,070)
Foreign exchange loss (gain)	**20,463**	(3,098)
Gain on sale of property, plant and equipment	**-**	(673)
	44,326,346	38,486,515
Change in operating assets and liabilities:		
Accounts receivable and other debit balances	**(3,931,728)**	2,372,862
Inventories	**605,945**	494,196
Accounts payable and other credit balances	**(2,346,004)**	2,249,755
Advances from customers	**(12,217,715)**	(4,672,509)
Cash generated from operations	**26,436,844**	38,930,819
Payment of end of service indemnity	**(547,540)**	(424,385)
Payment of NLST	**(37,051)**	(31,717)
Payment of Board of Directors' remuneration	**(102,000)**	-
Net cash generated from operating activities	**25,750,253**	38,474,717
Cash flows from investing activities:		
Time deposits	**757,237**	(1,373,245)
Proceeds from sale of financial assets at FVTPL	**110,000**	-
Cash withdrawal from (injection in) investment portfolio	**11,435**	(9,044)
Proceeds from sale of financial assets at FVOCI	**124,658**	-
Purchase of property, plant and equipment	**(14,719,813)**	(60,348,747)
Proceeds from sale of property, plant and equipment	**-**	21,000
Paid for investment in unconsolidated subsidiaries	**(99,000)**	(9,000)
Cash dividends received	**56,230**	16,593
Interest received	**26,035**	16,389
Net cash used in investing activities	**(13,733,218)**	(61,677,054)
Cash flows from financing activities:		
Due to banks	**37,893**	(146,912)
Term loans	**(2,698,826)**	32,421,574
Murabaha payable	**185,000**	905,000
Dividends paid to shareholders of the Parent Company	**(2,254,524)**	-
Dividends paid to non–controlling interests	**(1,617,000)**	(1,078,000)
Finance charges paid	**(8,405,182)**	(6,831,517)
Net cash (used in) generated from financing activities	**(14,752,639)**	25,270,145
Net (decrease) increase in cash and cash equivalent	**(2,735,604)**	2,067,808
Cash and cash equivalent at beginning of the year	**10,126,093**	8,058,285
Cash and cash equivalent at end of the year	**7,390,489**	10,126,093

The accompanying notes (1) to (30) form an integral part of the consolidated financial statements.

1. Incorporation and activities

Contracting and Marine Services Company (the Parent Company) is a Kuwaiti Closed Shareholding Company incorporated through Agreement No. 1166/Vol 3 dated September 13, 1973. The Parent Company's commercial registration number is 19481 dated September 30, 1973.

The principal activities of the Parent Company include:
- Carrying out all marine & oil contracting services including related maintenance works and conduct similar activities through participation or interests in other entities.
- Investing the Parent Company's surplus funds in investment portfolios managed by specialized entities.

The Parent Company is located in the Kuwait Chamber of Commerce and Industry Building, First floor, Mubarak Al-Kabeer St., 9th Trade Area, and its registered address is P.O. Box No. 22853, Safat 13089, State of Kuwait.

The total number of employees of the Group as at December 31, 2018 is 4,771 employees (2017: 4,505 employees).

The consolidated financial statements were authorized for issue by the Parent Company's Board of Directors on March 31, 2019. The Shareholders' General Assembly has the power to amend these consolidated financial statements after issuance.

2. Significant accounting policies

The accompanying consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Significant accounting policies are summarized as follows:

a) Basis of preparation

The consolidated financial statements are presented in Kuwaiti Dinars ("KD") which is the functional currency of the Parent Company and are prepared under the historical cost basis, except for financial assets at FVTPL, financial assets at FVOCI and right of utilization of leasehold land that are stated at their fair value.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions in the process of applying the Group's accounting policies. Significant accounting judgments, estimates and assumptions are disclosed in Note 2(u).

Standards and Interpretations issued and effective

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year except for the changes in accounting policies due to the change in accounting policy for right of utilization of leasehold land as mentioned in the Note 2 (g) and the changes due to implementation of the following new and amended International Financial Reporting Standards as of January 1, 2018:

IFRS 9 - Financial Instruments

The standard, effective for annual periods beginning on or after January 1, 2018, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 specifies how an entity should classify and measure its financial instruments and includes a new expected credit loss model for calculating impairment of financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. Kindly refer to Note (3) for the effect of initially application IFRS 9.

IFRS 15 - Revenue from Contracts with Customers

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

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

This standard applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as IAS 17. Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, plant and equipment and intangible assets. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The adoption of this standard did not result in any change in the accounting policies of the Group and did not have any significant effect on the Group's consolidated financial statements.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration

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

Amendments to IAS 28 – Investment in Associates and Joint Ventures

The amendments clarify that:

a) An entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.

b) If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (i) the investment entity associate or joint venture is initially recognized; (ii) the associate or joint venture becomes an investment entity; and (iii) the investment entity associate or joint venture first becomes a parent.

Amendments to IAS 40 – Transfers of Investment Property

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

IFRIC 22 and amendments to IAS 28 and IAS 40 do not have any material impact on the consolidated financial statements.

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

Standards and Interpretations issued but not effective

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

IFRS 16 - Leases

This standard will be effective for annual periods beginning on or after January 1, 2019 and will be replacing IAS 17 "Leases". The new standard does not significantly change the accounting for leases for lessors and requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17 with limited exceptions for low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. The Group is in the process of assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

Amendments to IFRS 9: Prepayment features with negative compensation

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

Annual Improvements 2015 – 2017 Cycle (issued in December 2017)

IFRS 3 – Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2019, with early application permitted.

IFRS 11 – Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the first annual reporting period beginning on or after January 1, 2019, with early application permitted.

IAS 23 – Borrowing Costs

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

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

Amendments to the standards mentioned above are not expected to have any material impact on the consolidated financial statements.

b) Basis of consolidation

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

Name of the subsidiary	Country of incorporation	Principal activities	Percentage of holding %	
			2018	2017
International Marine Construction Company (K.S.C.C)	Kuwait	Offshore works for the petroleum industry	**98.5%**	98.5%
Kuwait Drilling Company (K.S.C.C) and its wholly owned subsidiaries	Kuwait	Drilling Operations	**51%**	51%

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

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

The Parent Company reassess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

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

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. All inter-company balances and transactions, including inter-company profits and unrealized profits and losses are eliminated in full on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling shareholders' share of changes in equity since the date of the combination. Non-controlling interests are measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. The carrying amounts of the Group's ownership interests and non-controlling interests are adjusted to reflect changes in their relative interests in the subsidiaries.

Any difference between the amount by which non-controlling interests are adjusted and fair value of the consideration paid or received is recognized directly in equity and attributable to owners of the Parent Company. Losses are attributed to the non-controlling interest even if that results in a deficit balance. If the Group loses control over a subsidiary, it:

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

c) Current vs non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current / non-current classification.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

A liability is current when:

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

The Group classifies all other assets and liabilities as non-current.

d) Financial instruments

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

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets and financial liabilities carried on the consolidated statement of financial position include cash and cash equivalents, time deposits, receivables, financial assets at FVTPL, financial assets at FVOCI, due to banks, term loans, Murabaha payable and accounts payable.

(A) Financial assets

Accounting policy effective January 1, 2018

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

I. Classification of financial assets

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

Business model assessment

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

Initial recognition

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

Derecognition

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

Measurement categories of financial assets

The IAS 39 measurement categories of financial assets (fair value through statement of profit or loss (FVTPL), available for sale (AFS), held-to-maturity, loans and receivables) have been replaced by:

- Debt instruments at amortized cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to consolidated statement of profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to consolidated statement of profit or loss on derecognition
- Financial assets at FVPTL

Debt instruments at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions:

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

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

Cash and cash equivalents, time deposits and trade and other receivables are classified as debt instruments at amortized cost.

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

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

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

Debt instruments at FVOCI
The Group measures debt instruments at FVOCI when both of the following conditions are met:
- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in OCI. Interest income and foreign exchange gains and losses are recognized in consolidated statement of profit or loss. On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to consolidated statement of profit or loss.

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

Gains and losses on these equity instruments are never recycled to consolidated statement of profit or loss. Dividends are recognized in consolidated statement of profit or loss when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal, cumulative gains or losses are reclassified from cumulative changes in fair value to retained earnings in the consolidated statement of changes in equity. The Group classifies investments in quoted and unquoted equity investments under financial assets at FVOCI in the consolidated statement of financial position.

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

Changes in fair value, gain on disposal, interest income and dividends are recorded in consolidated statement of profit or loss according to the terms of the contract, or when the right to payment has been established.

The Group classifies investments in quoted equity investments under financial assets at FVTPL in the consolidated statement of financial position.

II. **Impairment of financial assets**

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Group to record an allowance for ECLs for all debt instruments not held at FVTPL.

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

Kindly refer to Note (3) for the transition impact of adopting IFRS (9).

Accounting policies applied until December 31, 2017

The Group has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Classification

Until December 31, 2017, the Group classified its financial assets in the following categories:

a) Financial assets at fair value through profit or loss - The policy is same as explained above.
b) Loans and receivables - The policy is same as explained above for debt instruments at amortized cost.
c) Financial assets available for sale - These are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

The classification depended on the purpose for which the investments were acquired and management determined the classification of its investments at initial recognition.

Subsequent measurement

Subsequent to the initial recognition, loans and receivables were carried at amortized cost using the effective interest method. Financial assets available for sale and financial assets at FVTPL were subsequently carried at fair value.

Gains or losses arising from changes in the fair value were recognized as follows:
a) for financial assets at FVTPL – in consolidated statement of profit or loss.
b) for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortized cost of the security were recognized in consolidated statement of profit or loss and other changes in the carrying amount were recognized in other comprehensive income.
c) for other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income.

When available-for-sale financial assets were sold, the cumulative changes in fair value recognized in other comprehensive income were reclassified to consolidated statement of profit or loss.

Details on fair value measurement of financial assets is disclosed in Note 28.

Impairment
The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired. Significant decline is evaluated against the original cost of the financial asset and prolonged against the period in which fair value has been below its original cost. If any such evidence exists for financial assets available for sale, 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 recognized in consolidated statement of profit or loss – is removed from other comprehensive income and recognized in consolidated statement of profit or loss. Impairment losses recognized in the consolidated statement of profit or loss on available for sale equity instruments are not reversed through the consolidated statement of profit or loss.

For debt securities, object evidence of impairment includes significant financial difficulty of the issuer or counterparty, breach of contract, such as default or delinquency in interest and principal payments, it is becoming probable that the borrower will enter bankruptcy or financial reorganization or the disappearance of an active market for the financial asset. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Impairment losses recognized for available for sale debt investments are reversed through consolidated statement of profit or loss if the increase in fair value can be objectively related to an event occurring after the impairment loss was previously recognized.

(B) Financial liabilities

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

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

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

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

iii) Murabaha payable
Murabaha payables are reported with full credit balances after deducting finance charges pertaining to future periods. Those finance charges are amortized on a time apportionment basis using effective interest method.

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

(C) <u>Offsetting of financial assets and liabilities</u>

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

e) <u>Inventories</u>
Inventories are valued at the lower of cost or net realizable value after providing allowances for any obsolete or slow-moving items. Costs comprise direct materials and where applicable, direct labor costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is determined on a weighted average basis.

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

f) <u>Investment properties</u>
Investment properties comprise completed property, property under construction or re-development held to earn rentals or for capital appreciation or both. Investment properties are initially measured at cost including purchase price and transactions costs less accumulated depreciation and impairment losses. Land on which the investment property is constructed is not depreciated. Depreciation is computed on a straight-line basis over the useful life of the buildings.

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

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Gains or losses arising on the retirement or disposal of an investment property are recognized in the statement of profit or loss. Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

g) <u>Property, plant and equipment</u>
The initial cost of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to consolidated statement of profit or loss in the period in which the costs are incurred.

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment.

Right of utilization of leasehold land is shown at fair value, based on periodic valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Increases in the carrying amount arising on revaluation of right of utilization of leasehold land is credited to revaluation surplus in other comprehensive income. Decreases that offset previous increases of the same asset are charged against revaluation surplus directly in other comprehensive income; all other decreases are charged to consolidated statement of profit or loss for the period. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to consolidated statement of profit or loss for the period and depreciation based on the asset's original cost is transferred from revaluation surplus to retained earnings.

When revalued assets are sold, the amounts included in revaluation surplus are transferred to retained earnings.

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in consolidated statement of profit or loss for the period.

Capital work in progress is carried at cost, less any recognized impairment losses. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified in the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Land is not depreciated. Depreciation is computed on a straight-line basis over the estimated useful lives of other property, plant and equipment as follows:

	Years
Offshore/marine machinery and heavy equipment	7 – 12
Buildings, camps and communication equipment	2 – 10
Tools, spares and equipment	1 – 5
Office and site furniture, fixtures and other equipment	4 - 5
Transportation and motor vehicles	3 - 4

The depreciation of drilling equipment is calculated based on number of production hours.

The useful lives and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

h) <u>Impairment of non–financial assets</u>

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

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

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

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

i) Provision for end of service indemnity

Provision is made for amounts payable to employees under the Kuwaiti Labor Law in the private sector and employees' contracts. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination at the end of the reporting period, and approximates the present value of the final obligation.

j) Dividend distribution to shareholders of the Parent Company

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

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

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

k) Provisions

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. Provisions are not recognized for future operating losses.

l) Share capital

Ordinary shares are classified as equity.

m) Treasury shares

Treasury shares consist of the Parent Company's own shares that have been issued, subsequently reacquired by the Group and not yet reissued or canceled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are credited to a separate account in shareholders' equity (treasury shares reserve) which is not distributable.

Any realized losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings, reserves, and then share premium. Gains realized subsequently on the sale of treasury shares are first used to offset any recorded losses in the order of share premium, reserves, retained earnings and the treasury shares reserve account. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

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

n) Revenue recognition

IFRS 15 defines revenue as "income arising in the course of an entity's ordinary activities" and establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be 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 five steps in the model are as follows:

- Step 1: Identify the contract with the customer – A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.
- Step 2: Identify the performance obligations in the contract – A performance obligation is a promise in a contract with the customer to transfer goods or services to the customer.
- Step 3: Determine the transaction price – The transaction price is the amount of consideration to which the Group expects to be entitled in exchange of transferring promised good or services to a customer, excluding amounts collected on behalf of third parties.
- Step 4: Allocate the transaction price to the performance obligations in the contracts – For a contract that has more than one performance obligation, the Group will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

Before adopting IFRS 15, the Group recognized revenue at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities net of discount, returns and volume rebates. The Group recognized revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved.

Under IFRS 15, revenue is recognized either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers. The Group transfers control of a good or service over time (rather than at a point in time) when any of the following criteria are met:

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

Control is transferred at a point in time if none of the criteria for a good or service to be transferred over time are met. The Group considers the following factors in determining whether control of an asset has been transferred:
- The Group has a present right to payment for the asset.
- The Customer has legal title to the asset.
- The Group has transferred physical possession of the asset.
- The Customer has the significant risks and rewards of ownership of the asset.
- The Customer has accepted the asset.

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

Revenue for the Group arises from the following activities:

(i) Drilling contract revenue
Drilling contract revenue is recognized when the service is rendered and over time based on the ratio between the number of hours of drilling services provided.

(ii) Rendering of services
Revenue from service contracts is recognized when the service is rendered.

(iii) Other income and expenses
Other income and expenses are recognized on an accrual basis.

Transition
On applying the requirements of IFRS 15, the Group has determined that no significant impact arises on its consolidated financial statements.

o) Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in consolidated statement of profit or loss in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

p) Foreign currencies
Foreign currency transactions are translated into Kuwaiti Dinars at rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currency as at the end of reporting periods are retranslated into Kuwaiti Dinars at rates of exchange prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in consolidated statement of profit or loss for the period. Translation differences on non-monetary items such as equity investments which are classified as financial assets at fair value through profit or loss are reported as part of the fair value gain or loss. Translation differences on non-monetary items such as equity investments classified as financial assets at FVOCI are included in "cumulative changes in fair value" in other comprehensive income.

q) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. All other leases are classified as finance leases.

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

Finance lease

(a) The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

(b) The Group as lessee

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to consolidated statement of profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs.

Operating lease

(a) The Group as lessor

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

(b) The Group as lessee

Rentals payable under operating leases are charged to the consolidated statement of profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

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

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

s) Zakat

Zakat is calculated at 1% on the profit of the Parent Company before contribution to KFAS, Zakat, NLST and Board of Directors' remuneration and after deducting its share of profit from Kuwaiti shareholding associates and un-consolidated subsidiaries, its share of Zakat paid by Kuwaiti shareholding subsidiaries and cash dividends received from Kuwaiti shareholding companies in accordance with Law No. 46 for year 2006 and Ministerial Resolution No. 58 for year 2007 and their executive regulations. No Zakat has been provided since there was no eligible profit on which Zakat could be calculated.

t) Contingencies

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

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

u) Critical accounting estimates and judgments

The Group makes judgments, estimates and assumptions concerning the future. The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from the estimates.

Judgments

In the process of applying the Group's accounting policies which are described in note 2, management has made the following judgments that have the most significant effect on the amounts recognized in the consolidated financial statements.

(i) Revenue recognition

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

(ii) Provision for doubtful debts and inventories

The determination of the recoverability of the amount due from customers and the marketability of the inventory and the factors determining the impairment of the receivable and inventory involve significant judgment.

(iii) Classification of financial assets

On acquisition of a financial asset, the Group decides whether it should be classified as at "amortized cost", "FVTPL" or "FVOCI". IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the Group's business model for managing the assets of the instrument's contractual cash flow characteristics. The Group follows the guidance of IFRS 9 on classifying its financial assets and is explained in Note (2(d)).

(iv) Classification of land

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

a) Properties under development

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

b) Work in progress

When the intention of the Group is to develop a land in order to rent or to occupy it in the future, both the land and the construction costs are classified as work in progress.

c) Properties held for trading

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

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

Estimates and assumptions
The key assumptions concerning the future and other key sources of estimating uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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

(ii) Provision for doubtful debts and inventories
The extent of provision for doubtful debts and inventories involves estimation process. Provision for doubtful debts is based on a forward looking ECL approach as explained in Note (2(d)). Bad debts are written off when identified. The carrying cost of inventories is written down to their net realizable value when the inventories are damaged or become wholly or partly obsolete or their selling prices have declined. The benchmarks for determining the amount of provision or write-down include ageing analysis, technical assessment and subsequent events. The provisions and write-down of accounts receivable and inventories are subject to management approval.

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

3. Transition impact of adopting IFRS 9

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied as described below:

a) Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at January 1, 2018. Accordingly, the information presented for the year ended December 31, 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for the year ended December 31, 2018.

b) The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

Impact of adopting IFRS 9

The impact of this change in accounting policy as at January 1, 2018 has been to decrease retained earnings by KD 1,405,474, decrease non-controlling interests by KD 1,370,095 and to decrease the fair value reserve by KD 1,125,340 as follows:

	Fair value reserve (KD)	Retained earnings (KD)	Non-controlling Interests (KD)
Closing balance under IAS 39 (December 31, 2017)	(493,728)	10,510,322	48,630,920
Impact on reclassification and re-measurements:			
Equity instruments from available-for-sale to FVTPL	(1,125,340)	20,545	-
Impact on recognition of Expected Credit Losses:			
Expected credit losses under IFRS 9 for debt instruments at amortized cost (Note 6 (b))	-	(1,426,019)	(1,370,095)
Opening balance under IFRS 9 on date of initial application of January 1, 2018 (Restated)	**(1,619,068)**	**9,104,848**	**47,260,825**

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

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

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	**New carrying amount under IFRS 9**
Financial assets				
Cash and cash equivalent	Loans and receivables	Amortised cost	10,126,093	**10,126,093**
Time deposits	Loans and receivables	Amortised cost	2,012,859	**2,012,859**
Equity Instruments – FVTPL	Financial assets at FVTPL	Financial assets at FVTPL	588,036	**588,036**
Accounts receivable and other debit balances	Loans and receivables	Amortised cost	35,247,316	**32,451,202**
Equity instruments – AFS (Note 9)	Financial assets available for sale	Financial assets at FVTPL	53,627	**53,627**
Equity instruments – AFS (Note 9)	Financial assets available for sale	Financial assets at FVOCI	2,481,998	**1,377,203**
Total financial assets			50,509,929	**46,609,020**
Financial liabilities				
Due to banks	Amortised cost	Amortised cost	337,730	**337,730**
Term loans	Amortised cost	Amortised cost	210,726,549	**210,726,549**
Murabaha payable	Amortised cost	Amortised cost	5,689,000	**5,689,000**
Accounts payable and other credit balances	Amortised cost	Amortised cost	36,695,403	**36,695,403**
Total financial liabilities			253,448,682	**253,448,682**

Reconciliation of carrying amounts under IAS 39 to carrying amounts under IFRS 9 at the adoption of IFRS 9

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on January 1, 2018.

	IAS 39 carrying amount as at December 31, 2017	Reclassifications	Re-measurement	IFRS 9 carrying amount as at January 1, 2018
Accounts receivable and other debit balances				
Opening balance	35,247,316	-	-	-
Impairment allowance (Note 6)	-	-	(2,796,114)	-
Closing balance	35,247,316	-	(2,796,114)	32,451,202
Financial assets at FVTPL				
Opening balance	588,036	-	-	-
From financial assets available-for-sale	-	53,627	-	-
Closing balance	588,036	53,627	-	641,663
Financial assets available for sale				
Opening balance	2,535,625	-	-	-
To financial assets at FVTPL	-	(53,627)	-	-
To financial assets at FVOCI	-	(2,481,998)	-	-
Closing balance	2,535,625	(2,535,625)	-	-
Financial assets at FVOCI				
Opening balance	-	-	-	-
From financial assets available-for-sale	-	2,481,998	(1,104,795)	-
Closing balance	-	2,481,998	(1,104,795)	1,377,203

4. Cash and cash equivalents

	2018	2017
Cash on hand and at banks	5,588,931	10,126,093
Short-term bank deposit	1,801,558	-
	7,390,489	10,126,093

The effective interest rate on the short-term bank deposit is 2.3% per annum as at December 31, 2018 and has an average contractual maturity of 7 days.

5. Time deposits

The effective interest rate on time deposits is 2.625% (2017: ranging from 1.25% to 1.625%) per annum. These deposits have an average contractual maturity of 92 days (2017: 92 days).

6. Accounts receivable and other debit balances

	2018	2017
Trade receivables (a)	27,897,014	25,255,163
Provision for doubtful debts (b)	(3,196,114)	(200,000)
	24,700,900	25,055,163
Advance payment to suppliers (c)	6,716,591	5,533,197
Receivables – service rendered not invoiced	3,790,897	3,205,442
Dry-docking	205,866	514,686
Prepaid expenses	208,600	315,324
Other debit balances	564,484	623,504
	36,187,338	35,247,316

a) Trade receivables
Trade receivables are non-interest bearing and are generally due within 90 days.

The ageing analysis of the trade receivables as of the date of the consolidated statement of financial position is as follows:

	Less than 90 days	90 – 180 days	181 – 360 days	361 – 720 days	More than 720 days	Total
2018	**15,971,289**	**6,285,629**	**606,866**	**2,227,756**	**2,805,474**	**27,897,014**
2017	18,300,574	1,769,241	765,684	1,733,760	2,685,904	25,255,163

As at December 31, 2018, trade receivables amounting to KD 3,196,114 (2017: KD 200,000) were credit impaired and fully provided for. The Group expects to recover a portion of these receivables.

b) Provision for doubtful debts
Disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses are set forth in Note (27-b). The comparative for impairment provisions refers to the IAS 39 measurement basis which applied the incurred loss model, where as the current year applies IFRS 9 which is an expected loss model.

The movement in provision for doubtful debts during the year is as follows:

	2018	2017
Balance at the beginning of the year under IAS 39	**200,000**	200,000
Effect of applying IFRS 9 – Expected credit losses on the opening retained earnings (Note 3)	**2,796,114**	-
Restated balance as at January 1, 2018	**2,996,114**	200,000
Charge for the year	**200,000**	-
Balance at the end of the year	**3,196,114**	200,000

c) Represents advance payments to suppliers for purchasing property, plant and equipment and new derrick barge "Jawharah III".

7. Inventories

	2018	2017
Spare parts	**4,497,425**	5,103,370
Provision for slow-moving inventories (a)	**(302,501)**	(251,188)
	4,194,924	4,852,182

(a) The movement in the provision for slow-moving inventories is as follows:

	2018	2017
Balance at the beginning of the year	**251,188**	200,054
Provision charge for the year	**51,313**	51,134
Balance at the end of the year	**302,501**	251,188

8. Financial assets at fair value through other comprehensive income ("FVOCI")

	2018	2017
Quoted securities	**848,830**	-
Unquoted securities	**482,448**	-
	1,331,278	-

Financial assets at FVOCI comprise equity securities which are not held for trading, and for which the Group has made an irrevocable election at initial recognition to recognise changes in fair value through other comprehensive rather than profit or loss as these are strategic investments and the Group considered this to be more relevant. At January 1, 2018, as a result of adoption of IFRS 9, the Group elected to reclassify financial assets amounting to KD 2,481,998 from financial assets available for sale to financial assets at FVOCI (Note 9).

Financial assets FVOCI are denominated in the following currencies:

Currency	**2018**	2017
Kuwaiti Dinar	**1,263,620**	-
US Dollar	**67,658**	-
	1,331,278	-

9. Financial assets available for sale

	2018	2017
Quoted securities	-	796,158
Unquoted securities	-	1,653,993
Funds	-	85,474
	-	2,535,625

At January 1, 2018, as a result of adoption of IFRS 9, the Group elected the following reclassifications:
- Reclassification of financial assets with a carrying value of KD 53,627 to financial assets at FVTPL.
- Reclassification of financial assets with a carrying value of KD 2,481,998 to financial assets at FVOCI (Note 8).

10. Investment property

The movement during the year was as follows:

	Building
Cost:	
At December 31, 2017	-
Transferred from property, plant and equipment (a)	2,228,221
At December 31, 2018	**2,228,221**
Accumulated depreciation:	
At December 31, 2017	-
Charge for the year	37,144
At December 31, 2018	**37,144**
Net book value:	
At December 31, 2018	**2,191,077**
At December 31, 2017	-

a) During the year ended December 31, 2018, the Group had reclassified a building with a carrying value amounting to KD 2,228,221 from "property, plant and equipment" (capital work in progress) (Note 11) to investment property.

The building is constructed on a plot of land leased from the Public Authority of Industry - State of Kuwait and located East of Al-Ahmadi area expiring on October 28, 2020 and is renewable.

The fair value of investment property as at December 31, 2018 is KD 4,970,000 and had been arrived at based on a valuation carried out by an independent valuer. In estimating the fair value of the investment property, the income capitalization approach has been used, considering the nature and usage of the investment property. The fair value measurement of investment property has been categorized as level 3 fair value based on inputs to the valuation technique used.

CONTRACTING AND MARINE SERVICES COMPANY - K.S.C. (CLOSED) AND SUBSIDIARIES
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11. Property, plant and equipment

	Right of utilization of leasehold land	Offshore/ marine machinery, drilling and heavy equipment	Buildings, camps and communication equipment	Tools, spares and equipment	Office and site furniture, fixtures and other equipment	Transportation and motor vehicles	Capital work in progress	Total
Cost:								
At December 31, 2017	191,900	462,720,704	26,007,694	1,803,854	5,794,831	8,443,300	18,895,059	523,857,342
Additions	-	8,317,084	123,881	15,201	216,189	32,450	6,015,008	14,719,813
Transferred from capital work in progress	-	15,284,546	589,741	-	87,288	335,123	(16,296,698)	-
Transferred to Investment property (Note 10)	-	-	-	-	-	-	(2,228,221)	(2,228,221)
Revaluation for the year (v)	2,361,459	-	-	-	-	-	-	2,361,459
At December 31, 2018	**2,553,359**	**486,322,334**	**26,721,316**	**1,819,055**	**6,098,308**	**8,810,873**	**6,385,148**	**538,710,393**
Accumulated amortization / depreciation:								
At December 31, 2017	178,359	158,236,246	13,580,824	1,639,934	4,146,070	4,220,118	-	182,001,551
Charge for the year	118,750	28,522,262	1,890,241	62,832	391,605	1,249,137	-	32,234,827
At December 31, 2018	**297,109**	**186,758,508**	**15,471,065**	**1,702,766**	**4,537,675**	**5,469,255**	-	**214,236,378**
Net book value:								
At December 31, 2018	**2,256,250**	**299,563,826**	**11,250,251**	**116,289**	**1,560,633**	**3,341,618**	**6,385,148**	**324,474,015**
At December 31, 2017	13,541	304,484,458	12,426,870	163,920	1,648,761	4,223,182	18,895,059	341,855,791

Depreciation and amortization charge for the year is allocated as follows:

	2018	2017
Operating costs	**31,993,343**	25,147,095
Consolidated statement of profit or loss	**241,484**	128,228
	32,234,827	25,275,323

(i) Property, plant and equipment with a carrying value of KD 44,453,143 (2017: KD 45,205,382) are pledged against term loans obtained by a subsidiary (Note 12).
(ii) The Group has right of utilization of land leased from the Public Authority of Industry - State of Kuwait and located East of Al-Ahmdi Area expiring on November 7, 2021 and is renewable. The right of utilization are pledged against bank facilities obtained from a local bank (Note 12).
(iii) Capital work in progress represents cargo and drilling equipment in process of installation.
(iv) During the year ended December 31, 2018, the Group capitalized finance charges on bank borrowings relating to property, plant and equipment amounting to KD 130,219 (2017: KD 2,400,407).

(v) During the year, the Group had elected to change the accounting policy for right of utilization of leasehold land from cost method to revaluation method. The Group applied the revaluation policy as at January 1, 2018, which the Group's had revalued the right of utilization of leasehold land and are stated at fair value. The difference between the carrying value and fair value amounting to KD 2,361,459 was accounted as revaluation surplus in other comprehensive income for the year ended December 31, 2018. The fair value of right of utilization of leasehold land as at December 31, 2018 has been arrived at based on valuation carried out by external independent licensed valuer. The fair value measurement of right of utilization of leasehold land has been categorized as level 3 fair value based on inputs to the valuation technique used.

12. Term loans

	2018		2017	
	Current	**Non-Current**	Current	Non-current
Revolving loan from a local bank carrying an interest rate of 1.125% (2017: 1.25%) per annum over the Central Bank of Kuwait discount rate.	**7,257,500**	-	6,510,000	-
Loan from a local bank denominated in USD and carrying an interest rate of 3% (2017: 3%) per annum over LIBOR.	**546,840**	**1,141,088**	544,050	1,679,316
Loans from local banks carrying an interest rate ranging from 0.75% to 1.625% (2017: 1% to 1.625%) per annum over the Central Bank of Kuwait discount rate.	**29,240,549**	**169,841,746**	37,506,486	164,486,697
	37,044,889	**170,982,834**	44,560,536	166,166,013

Certain term loans are secured against pledge of property, plant and equipment (Note 11).

13. Murabaha payable

Murabaha payable represents financing granted by a local Islamic bank carrying an annual cost rate of 1% (2017: 1%) over the Central Bank of Kuwait discount rate and are renewable every six months.

The financing is secured against promissory notes in favour of the bank.

14. Accounts payable and other credit balances

	2018	2017
Trade payables	**27,767,285**	28,648,953
Accrued expenses	**3,045,114**	4,959,466
Provision for staff leave	**3,886,228**	2,899,452
Accrued dividends payable	**80,577**	48,481
NLST payable	-	37,051
Board of Directors' remuneration payable	-	102,000
	34,779,204	36,695,403

15. Provision for end of service indemnity

	2018	2017
Balance at the beginning of the year	**5,164,099**	4,409,711
Charge for the year	**1,092,625**	1,180,843
Paid during the year	**(547,540)**	(424,385)
Provision no longer required	**(9,077)**	(2,070)
Balance at the end of the year	**5,700,107**	5,164,099

16. Share capital

Authorized, issued and paid up capital consists of 229,166,200 shares of 100 fils each and all shares are paid in cash (2017: 229,166,200 shares).

17. Treasury shares

	2018	2017
Number of shares	**504,148**	504,148
Percentage of issued shares	**0.22%**	0.22%
Cost (KD)	**110,308**	110,308

The Parent Company's management has allotted an amount equal to treasury shares balance from the retained earnings as of the financial reporting date. Such amount will not be available for distribution during the treasury shares holding period. Treasury shares are not pledged.

18. Statutory reserve

As required by Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year attributable to shareholders of the Parent Company before contribution to KFAS, NLST, Zakat and Board of Directors' remuneration is transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve exceeds 50% of the capital. This reserve is not available for distribution except for in certain cases stipulated by law and the Parent Company's Articles of Association.

19. Voluntary reserve

As required by the Parent Company's Articles of Association, 10% of profit for the year attributable to shareholders of the Parent Company before contribution to KFAS, NLST, Zakat and Board of Directors' remuneration is transferred to voluntary reserve. Such annual transfers may be discontinued by a resolution of the Shareholders' Annual General Assembly upon recommendation by the Board of Directors. The Parent Company stopped transfers to voluntary reserve in prior years.

20. Principal subsidiary with major non-controlling interest ("NCI") which is material to the Group

Name of subsidiary	Country of incorporation	Ownership interest held by the Group %		Ownership interest held by the NCI %		Principal activities
		2018	2017	**2018**	2017	
Kuwait Drilling Company (K.S.C.C)	Kuwait	**51%**	51%	**49%**	49%	Drilling operations

Total non-controlling interest as of December 31, 2018 amount to KD 47,536,777 (2017: KD 48,630,920).

Summarized financial information for the above subsidiary having non-controlling interest that are material to the Group is disclosed below:

Summarized consolidated statement of financial position

	2018	2017
Current assets	43,359,840	46,602,398
Current liabilities	(74,054,054)	(90,035,253)
Net current liabilities	(30,694,214)	(43,432,855)
Non-current assets	319,540,356	334,685,790
Non-current liabilities	(191,832,312)	(192,006,161)
Net non-current assets	127,708,044	142,679,629
Net assets	97,013,830	99,246,774
Net assets attributable for the Group	49,477,053	50,615,854
Net assets attributable for non-controlling interests	47,536,777	48,630,920

Summarized consolidated statement of profit or loss and other comprehensive income

	2018	2017
Revenue	120,898,655	100,572,006
Expenses and other charges	(119,396,946)	(95,552,770)
Net profit for the year	1,501,709	5,019,236
Other comprehensive income	2,361,459	-
Total comprehensive income	3,863,168	5,019,236
Attributable for the Group	1,970,216	2,559,810
Attributable for non-controlling interests	1,892,952	2,459,426

21. Basic and diluted earnings per share attributable to shareholders of the Parent Company

There are no potential dilutive ordinary shares. Basic and diluted earnings per share is computed by dividing the profit for the year attributable to shareholders of the Parent Company by the weighted average number of shares outstanding during the year:

	2018	2017
Profit for the year attributable to shareholders of the Parent Company	969,177	2,269,170
	Shares	Shares
Number of issued and fully paid-up shares	229,166,200	229,166,200
Less: weighted average number of treasury shares	(504,148)	(504,148)
Weighted average number of outstanding shares	228,662,052	228,662,052
	Fils	Fils
Basic and diluted earnings per share attributable to shareholders of the Parent Company	4.24	9.92

22. Operating revenue

Set out below is the disaggregation of the Group's major revenues.

	2018		
	Kuwait	**Neutral-zone**	**Total**
Type of services:			
Marine & oil contracting services	**120,878,149**	**7,285,045**	**128,163,194**
Timing of revenue recognition:			
Services transferred over time	**120,878,149**	**7,285,045**	**128,163,194**

	2017		
	Kuwait	Neutral-zone	Total
Type of services:			
Marine & oil contracting services	100,530,684	7,290,422	107,821,106
Timing of revenue recognition:			
Services transferred over time	100,530,684	7,290,422	107,821,106

23. Staff costs

Staff costs have been allocated as follows:

	2018	2017
Operating costs	**22,698,119**	20,141,724
General and administrative expenses	**3,012,425**	2,756,427
	25,710,544	22,898,151

24. General assembly and proposed dividends and Board of Directors' remuneration

The Board of Directors' meeting held on March 31, 2019 proposed the following:

- To distribute cash dividends of 5 fils per share amounting to KD 1,143,310 for the year ended December 31, 2018.
- Not to distribute Board of Directors' remuneration for the year ended December 31, 2018.

These proposals are subject to the approval of the Shareholders' Annual General Assembly.

The Shareholders' Annual General Assembly held on April 25, 2018 approved the consolidated financial statements for the year ended December 31, 2017 and the Board of Directors' proposal to distribute cash dividends of 10 fils per share amounting to KD 2,286,620 and Board of Directors' remuneration amounting to KD 102,000 for the year ended December 31, 2017.

25. Related party disclosures

The Group has entered into various transactions with related parties, i.e. Shareholders, Board of Directors, key management personnel and other related parties. Prices and terms of payment are to be approved by the Group's management. Significant related party balances and transactions are as follows:

	Other related parties	2018	2017
(i) Balances included in the consolidated statement of financial position:			
Accounts receivable and other debit balances	29,528,339	**29,528,339**	23,159,041
Advances from customers	25,709,562	**25,709,562**	39,064,360
(ii) Transactions included in the consolidated statement of profit or loss:			
Operating revenue	112,446,752	**112,446,752**	92,113,654
(iii) Key management compensation:			
Salaries and other short-term benefits		**882,036**	1,092,575
Terminal benefits		**63,131**	72,889
Board of Directors' remuneration		**-**	102,000
Committees remuneration		**30,000**	-
		975,167	1,267,464

26. Contingent liabilities and capital commitments

	2018	2017
Contingent liabilities:		
Letters of guarantee	**115,313,584**	119,987,204
Letters of credit	**3,783,589**	981,000
	119,097,173	120,968,204
Capital commitments:		
Property, plant and equipment	**3,783,589**	981,000

27. Financial risk management

In the normal course of business, the Group uses primary financial instruments such as cash and cash equivalents, time deposits, financial assets at FVTPL, receivables, financial assets at FVOCI, due to banks, term loans, Murabaha payable and payables and as a result, it is exposed to the risks indicated below. The Group currently does not use derivative financial instruments to manage its exposure to these risks.

a) Interest rate risk

Financial instruments are subject to the risk of changes in value due to changes in the level of interest. The effective interest rates and the periods in which interest-bearing financial assets and liabilities are repriced or mature are indicated in the respective notes.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit through the impact on floating rate borrowings.

Year	Increase / (Decrease) in interest rate	Balance on December 31 KD	Effect on consolidated statement of profit or loss KD
2018			
Due to banks	**± 0.5%**	**375,623**	**± (1,878)**
Term loans	**± 0.5%**	**208,027,723**	**± (1,040,139)**
2017			
Due to banks	± 0.5%	337,730	± (1,689)
Term loans	± 0.5%	210,726,549	± (1,053,633)

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 cash and cash equivalents, time deposits and receivables. Receivables are presented net of allowance for doubtful debts. Credit risk with respect to receivables is limited due to the large number of customers and their dispersion across different industries.

Trade receivables

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

The expected loss rates are based on the payment profile for sales over the past 36 months or ageing profile of customers over the past 1 to 3 years before December 31, 2018 and January 1, 2018 respectively as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. However, given the short period exposed to credit risk, the impact of these macroeconomic factors has not been considered significant within the reporting period.

Trade receivables are written off (i.e. derecognized) when there is no reasonable expectation of recovery. Failure to make payments within 720 days from the invoice date and failure to engage with the Group on alternative payment arrangement amongst other is considered indicators of no reasonable expectation of recovery and therefore is considered as credit impaired.

As at January 1, 2018, as a result of the adoption of IFRS 9, the Group has recorded an additional provision for doubtful debts amounting to KD 2,796,114 (Note 6 (b)). The Group also recorded a provision for doubtful debts for the financial year ended December 31, 2018 amounting to KD 200,000 (Note 6 (b)).

Cash at banks, short-term bank deposit and time deposits

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

The Group's maximum exposure arising from default of the counter-party is limited to the carrying amount of cash at banks, short-term bank deposit, time deposits and receivables.

c) **Foreign currency risk**
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The Group incurs foreign currency risk on transactions that are denominated in a currency other than the Kuwaiti Dinar. The Group may reduce its exposure to fluctuations in foreign exchange rates through the use of derivative financial instruments. The Group ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the Kuwaiti Dinar. At present, the Group doesn't have significant expose to such risk.

d) **Liquidity risk**
Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. To manage this risk, the Group periodically assesses the financial viability of customers and invests in bank deposits or other investments that are readily realizable.

The maturity profile of financial liabilities as at December 31, was as follows:

2018	**1-3 months**	**3-12 months**	**Over one year**	**Total**
Due to banks	-	375,623	-	375,623
Term loans	-	37,044,889	170,982,834	208,027,723
Murabaha payable	-	5,874,000	-	5,874,000
Accounts payable and other credit balances	14,436,028	20,343,176	-	34,779,204
Total	14,436,028	63,637,688	170,982,834	249,056,550
2017				
Due to banks	-	337,730	-	337,730
Term loans	-	44,560,536	166,166,013	210,726,549
Murabaha payable	-	5,689,000	-	5,689,000
Accounts payable and other credit balances	15,494,234	21,201,169	-	36,695,403
Total	15,494,234	71,788,435	166,166,013	253,448,682

e) **Equity price risk**
Equity price risk is the risk that fair values of equity instruments decrease as the result of changes in level of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment in equity securities classified as financial assets at FVTPL and financial assets at FVOCI. To manage such risks, the Group diversifies its investments in different sectors within its investment portfolio. The following table demonstrates the sensitivity to a reasonably possible change in equity indices as a result of change in the fair value of these equity instruments, to which the Group had significant exposure at December 31:

	2018			2017		
Market indices	**Change in equity price %**	**Effect on other comprehensive income**	**Effect on consolidated statement of profit or loss**	Change in equity price %	Effect on other comprehensive income	Effect on consolidated statement of profit or loss
Boursa Kuwait	**± 5%**	**± 42,442**	**± 3,767**	± 5%	± 39,808	± 518

28. Fair value measurement

The Group measures its financial assets such as financial assets at FVTPL and financial assets at FVOCI at fair value at each reporting date.

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

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

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

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at December 31:

2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at FVTPL	**75,345**	**38,566**	**247,086**	**360,997**
Financial assets at FVOCI	**848,830**	**-**	**427,448**	**1,276,278**
Total	**924,175**	**38,566**	**674,534**	**1,637,275**

2017	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	10,359	-	577,677	588,036
Financial assets available for sale	796,158	121,877	514,028	1,432,063
Total	806,517	121,877	1,091,705	2,020,099

At December 31, the fair value of financial instruments approximates their carrying amounts. The management of the Group has assessed that fair value of the financial instruments approximates their carrying amounts largely due to the short-term maturities of these instruments.

During the year there were no transfers between Level 1, Level 2 and Level 3.

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

29. Capital risk management

The Group's objectives when managing capital resources are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital resources structure to reduce the cost of capital.

In order to maintain or adjust the capital resources structure, the Group may adjust the amount of dividends paid to shareholders, return paid up capital to shareholders, issue new shares, sell assets to reduce debt, repay loans or obtain additional loans.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalent. Total capital is calculated as total 'equity' as shown in the consolidated statement of financial position plus net debt.

For the purpose of capital risk management, the total capital resources consist of the following components:

	2018	2017
Due to banks	**375,623**	337,730
Term loans	**208,027,723**	210,726,549
Murabaha payable	**5,874,000**	5,689,000
Less: cash and cash equivalents	**(7,390,489)**	(10,126,093)
Net debt	**206,886,857**	206,627,186
Total equity	**94,886,818**	98,546,141
Total capital resources	**301,773,675**	305,173,327
Gearing ratio	**68.56%**	67.71%

30. Working capital

The Group's current liabilities exceeded its current assets by KD 39,800,734 (2017: KD 51,639,536). The consolidated financial statements have been prepared assuming the Group will continue as a going concern, which assumes that the Group will be able to realize its assets and discharge its liabilities in the normal course of business. The Group's ability to continue as a going concern depends on its ability to improve profitability and enhance its future cash flows.

During the year ended December 31, 2018, the bank facilities increased by the amount of KD 41,549,782 and also the Group paid KD 44,248,608 out of its outstanding bank facilities.

In the opinion of the Group's management, the financial institutions will continue to provide and renew credit facilities due to the Group's asset quality and realized profits each financial year in addition to the Group's ability to distribute annual cash dividends to the shareholders.