



UPAC

UNITED PROJECTS CO.
FOR AVIATION SERVICES | K.S.C.P

**ANNUAL REPORT
2018**





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Company Profile

United Projects for Aviation Services Co. (UPAC), is a leading full-service commercial real estate development and facilities management company, operating in Kuwait since 2000. UPAC is publicly traded on Boursa Kuwait, and is one of Agility's infrastructure companies, a global leading logistics provider and the largest logistics company in the Middle East.

The company focuses its efforts on the investment and management of real estate and other large key projects within Kuwait, with a specialization in Build Operate Transfer (BOT) initiatives. UPAC's core services include real estate management, project management and consultancy, as well as maintenance and facilities management services. UPAC's customer base includes a wide range of leading retailers, food and beverage companies, airline companies and financial institutions.

In 2015, UPAC signed an agreement to partner in the development of Abu Dhabi's Reem Mall, a \$1.2 billion mega mall covering 2.9 million square feet, set out to become a major retail, leisure, and entertainment destination once completed. Development of Reem Mall is well underway with construction moving swiftly, following the appointment of the main contractor at the end of 2017.

UPAC's key projects include:

Kuwait International Airport

UPAC manages 10,000 square meters of commercial space at the airport, in addition to the provision of maintenance and facilities management services. The 24/7 operation includes the management of over 200 retail units covering restaurants, telecom operators, banks, car rental companies amongst others. Under its management are two check-in zones with a total of 64 counters, as well as a multi-story parking facility accommodating 1,500 vehicles in the short-term car park and 700 vehicles in the long-term car park.

Terminal 4

UPAC manages the parking lot and related facilities at Terminal 4 (T4), which holds a total capacity of 2,457 parking spaces (657 in the long-term parking and 1,800 in the short-term parking), all of which are shaded and spacious, and a short walk to the satellite building where passengers can easily cross the departure bridge connected directly to the terminal.

The parking lots utilize state-of-the-art parking equipment that UPAC has installed and manages. These include technologies such as license plate recognition technology, and automated entry and exit lanes. In addition, UPAC has installed Auto Pay Stations for swift and convenient customer payment, further facilitating customers' entrance and exit to the T4 terminal.

Sheikh Saad Terminal

UPAC manages over 2,000 square meters of commercial space inside the airport's terminal that includes a variety of restaurants, coffee shops, business center and offices. In addition, the company provides end to end maintenance and facilities management services within the terminal, including the supervision of the car parks and other related facilities.

Discovery Mall

Discovery Mall offers a host of educational, cultural, and entertainment activities that are geared towards children and the youth segment in Kuwait. UPAC manages the commercial retail space within the mall and currently maintains a high utilization rate.

Reem Mall

Reem Mall is an upcoming retail, leisure, dining and entertainment destination in Abu Dhabi, comprised of 450 stores and food and beverage outlets, spread over 2.9 million square feet in the Najmat District of Reem Island. The mall will offer a wide range of education attractions and family-focused entertainment such as Snow Park Abu Dhabi. Scheduled to open in late 2020, Reem Mall embraces the heritage of the UAE and the localized uniqueness of Abu Dhabi, whilst providing a world class experience and a personalized customer journey, supported by the latest assisted technology.





Tarek Al Mousa

Chairman of the Board of Directors

Member of the Board Nomination and Remuneration Committee (BNRC)

As Chairman, Tarek Al Mousa provides leadership to the Board of Directors and acts as a direct liaison between the board and executive management. He also oversees the company's corporate governance program and aims to protect the interests of investors and stakeholders. In addition, Tarek is also the Vice Chairman and CEO of the Metal and Recycling Company (MRC). MRC is a waste management company offering the latest practical and cost effective solutions to manage the complexities of responsible waste management. Tarek also managed several executive positions within Agility, last serving as the Executive Director of Strategic Programs. Tarek holds a bachelor's degree in Mass Media and Sociology from the University of Evansville, Indiana.



Nadia Akil

Vice Chairperson and CEO

Member of the Board Nomination and Remuneration Committee (BNRC)

Nadia Akil is the Vice Chairperson and CEO of UPAC, and is responsible for the overall operations of UPAC. In her leadership role she has revitalized the company's internal structure and functional operations by driving business development initiatives and overseeing shared services, such as finance, human resources, information technology and marketing. She joined UPAC in 2012 after holding various senior positions within Agility's Investments Group and Corporate Development team. She also currently serves as Vice Chairperson of UPAC's subsidiary, Royal Aviation. Nadia holds a master's degree from Columbia University's School of International and Public Affairs with a concentration in finance and business, and a bachelor's degree from Georgetown University in Washington, D.C. Nadia is also a member of the Young Presidents' Organization (YPO) Kuwait Chapter.



Hasan El Houry

Non-Executive Board Member

Chairman of the Board Risk and Audit Committee (BRAC)

Hassan El Houry is currently the Chairman of the Board of Directors of National Real Estate Company (NREC) and Royal Aviation (UPAC subsidiary). He is also the Group CEO of National Aviation Services (NAS), the fastest growing aviation services provider in the Middle East, Africa and South Asia. In 2014, Hassan El Houry was honored by the World Economic Forum in Davos as a Young Global Leader given his experience and contributions in the field of aviation and airport services. Hassan is also a member in the Young Presidents' Organization (YPO) and serves as the director in the Wharton Alumni Club in the Middle East. El Houry holds a Master's of Business Administration (MBA) from the University of Pennsylvania's Wharton School of Business and a bachelor's degree from the American University of Beirut.



Zuhair Al Zamel

Non-Executive and Independent Member

Chairperson of the Board Nomination and Remuneration Committee (BNRC)

Member of the Board Risk and Audit Committee (BRAC)

Zuhair Al Zamel has been a member of UPAC'S Board of Directors since 2008. He held various positions with the Directorate General of Civil Aviation (DGCA) for over 30 years, and most recently as Vice General Director of Civil Aviation for Airport Affairs. He also served as a Consultant for National Aviation Services (NAS) from 2009 until 2015. Zuhair graduated from the University of California, Santa Barbara (UCSB) with a bachelor's degree in Electrical Engineering.



Majed Al Ajeel

Non-Executive Member

Member of the Board Risk and Audit Committee (BRAC)

Majed Al Ajeel is the Chairperson of Burgan Bank and has held this position since 2010. He also serves as the Chairperson of the Kuwait Banking Association. Prior to 2012, held the position of Vice Chairperson and CEO of UPAC. Majed holds both a bachelor's and a master's degree from the Catholic University of America.

Vice Chairperson and CEO Message



Dear Shareholders,

On behalf of the UPAC Board of Directors, I would like to thank our valued shareholders for your continuous support and trust. UPAC's 2018 Annual Report details our financial performance and main accomplishments achieved during the financial year of 2018.

2018 has been another strong year at UPAC, with significant milestones to report on. I am proud that the Company has signed on a major project to its portfolio, through a five-year concession contract with the Incheon International Airport Corporation (IIAC). The new contract, valued at KD 5.352 million, is for the development operation and management of the parking lot and related facilities at Kuwait International Airport's Terminal 4 (T4).

With the addition of T4, UPAC is now operating four major projects in Kuwait, with the three current projects running optimally. We are looking forward to increasing our portfolio both locally and in the region. UPAC currently manages the operations of Kuwait International Airport's main Terminal 1 parking and related facilities, including the airport mall, in addition to the management of real estate and parking facilities at the airport's Sheikh Saad terminal and Discovery Mall in Kuwait City.

I am also pleased to report on the construction and development of our mega-mall project in Abu Dhabi, Reem Mall, which is moving ahead swiftly and set to open in late 2020.

The Company continues to improve its solid financial performance year over year, contributing to an overall consistent and positive track record. In 2018, UPAC recorded a net profit of KD 9.75 million, an increase of 0.79% over 2017. UPAC recorded revenue of KD 13.72 million in 2018 compared to KD 13.99 million in 2017. Our continued stable performance reflects the company's commitment to its shareholders and towards its business.

Board of Directors

During March 2018, UPAC increased its issued and paid-up capital by KD 3,175,000 divided into 31,750,000 ordinary shares, with a total value of KD 20,002,500, including the issuance premium. This additional capital serves to further boost the company's liquidity and support various current and future expansion plans, specifically Abu Dhabi's Reem Mall.

Considering the Company's solid performance through 2018, the Board of Directors is proposing to the Annual General Assembly of the shareholders a cash dividend distribution of 21% of nominal value (21 fils per share) for the fiscal year ending on 31st December 2018, subject to the shareholders' final approval.

Reem Mall

Construction is moving rapidly at Reem Mall and is on track for completion in mid-2020, and opening to the public in Q4 2020. More than sixteen tower cranes have been erected, over 260,000 cubic meters of reinforced concrete has been cast in place, in addition to more than 5,000 workers per day on site to keep the project moving 24 hours a day.

In December, Reem Mall signed on Sharaf DG, the UAE's leading electronics retailer, to be the flagship store for Abu Dhabi and form a core element of the mall's electronics' retail offering. It is one of the latest major retailers to sign up for the \$1.2 billion project, joining the likes of Carrefour Hypermarket, Majid Al Futtaim, Landmark Group, Chalhoub, Dubai Holding Group and Azadea Group to name a few. Leasing is progressing in line with targets, with promising leads for new brands and anchors to come on board.

The 2.9 million sq. ft. destination will bring a wide range of family-focused retail, leisure and entertainment offerings to Abu Dhabi, comprising around 450 stores from local and international brands and over 100 food and beverage options ranging across fine dining, family style, casual dining, cafes, fast food, pâtisserie's and coffee shops, all located throughout the mall.

Reem Mall will be offering a range of edutainment and entertainment activities such as Snow Park Abu Dhabi, the region's largest indoor snow park. Reem Mall will be home to the award-winning VOX Cinemas, including the large format MAX screens, fine dining Theatre by Rhodes and the children focused VOX Kids. For the first time, VOX Cinemas will be fused with Magic Planet creating a unique leisure destination.

Reem Mall embraces the heritage of the UAE and the localized uniqueness of Abu Dhabi, while providing a world-class experience and a personalized customer journey, supported by the latest assisted technology.

This project is being developed by Al Farwaniya Property Developments, a partnership between three Kuwait-based companies: Agility, Agility affiliate United Projects for Aviation Services Company (UPAC), and the National Real Estate Company (NREC). Together, the three companies bring a sound financial base, extensive experience in asset management and commercial real estate development, and a successful track record of mall operations for the mega-mall project.

Corporate Governance

UPAC is committed to uphold the rules of transparency and responsible management in order to protect our shareholders' rights and in compliance with the regulations set by the Capital Markets Authority. Enclosed is the Company's published Corporate Governance Report, outlining the various activities and committees in line with the corporate governance framework.

Corporate Social Responsibility

As part of our Corporate Social Responsibility (CSR) program, we have continued to uphold UPAC's commitment to the community and continue to contribute to these efforts through various initiatives led by the company and its volunteers. UPAC's CSR projects in 2018 included organizing two blood donation campaigns in collaboration with the Kuwait Central Blood Bank, distribution of Machla donation boxes to underprivileged families, organizing Fun Days for children from Kuwait's orphanage in coordination with the Ministry of Social Affairs and Labor, upskilling students through INJAZ Kuwait, and supporting Rohingya refugees through the Kuwait Red Crescent Society, among other initiatives.

I would also like to extend my sincere appreciation to our Shareholders, Board of Directors, and the Capital Markets Authority for their ongoing support throughout the year.



Nadia Akil

Vice Chairperson and CEO

FINANCIAL HIGHLIGHTS





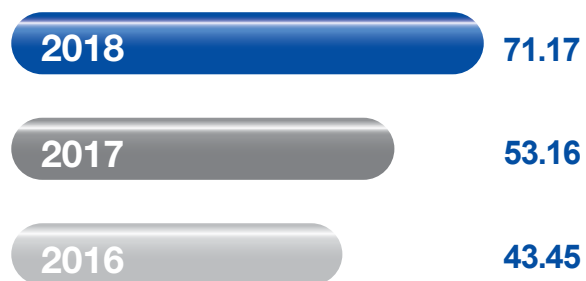
مبنى الرياض 4 الخطوط الجوية الكويتية

FINANCIAL HIGHLIGHTS

Amount in (KD Mln)

	2016	2017	2018
Revenues	13.22	13.99	13.72
EBITDA	9.79	9.87	9.59
Net Profit	8.42	9.68	9.75
EPS (fils)	88.71	98.28	80.30
Total Assets	43.45	53.16	71.17
Shareholder's equity	29.53	38.84	52.33

Total Assets (KD Mln)



Shareholders Equity (KD Mln)



Revenue (KD Mln)

2018	13.72
2017	13.99
2016	13.22

EBITDA (KD Mln)

2018	9.59
2017	9.87
2016	9.79

Net Profit (KD Mln)

2018	9.75
2017	9.68
2016	8.42

EPS (Fils)

2018	80.30
2017	98.28
2016	88.71

CORPORATE SOCIAL RESPONSIBILITY





UPAC is committed to provide an annual corporate social responsibility (CSR) program that reflects the company's direction and social responsibility obligations towards the community. The CSR program is an important part of our commitment to act ethically and sustainably. We continue to develop UPAC's CSR framework, focusing mainly on environmental and educational programs, as well as supporting local and international charitable initiatives.

In 2018, our employees participated in various fundraising drives, donated time and money, and sponsored initiatives across to protect the environment and support families and communities, both locally and internationally.

UPAC Distributes “Machla” Donation Boxes to 787 Underprivileged Families

UPAC in cooperation with Agility successfully completed its Machla distribution across Kuwait, which ran ahead of the Holy month of Ramadan; reaching 787 families with the help of the Kuwaiti non-profitable organization.

The Machla basket, as referred to in the local language, consists of basic food supplies that are provided as a gift to cover a month's supply of necessary food items to families in need. Over the course of three days, 14 UPAC and Agility volunteers helped to distribute boxes in underprivileged communities. The basket organizers accompanied the volunteers during the distribution process, identifying the households that are most in need.



UPAC Hosts Job Shadow Workshops for INJAZ

For the second consecutive year, UPAC supported INJAZ Kuwait through various workshops, where it helped in mentoring nearly 40 high school students. A total of seven UPAC employees participated in INJAZ's “Job Shadow” workshop in February and May where they mentored 20 high school students from the American Creativity Academy in Kuwait – Girls Campus and another 20 from the American Academy for Girls.

Volunteering representatives from various departments at UPAC had the opportunity to share their respective work experiences, department responsibilities and gave a presentation about the company structure and about the company's operations.

In addition, the students were then taken on a tour of Kuwait International Airport's Control Room, conveyor belts and plant room to gain a greater understanding of UPAC's line of business and its airport operations.

This workshop allowed students to better define their own career-paths, and academic direction, as they continue their studies after graduation.



Women Mentor Forum (WMF) - Leading the Private Sector Forum

UPAC sponsored and participated in the Women Mentor Forum in May 2018 to discuss the role of women in leadership in the private sector. Guest speaker, Dr. Cindy Drakeman, CEO of DoubleXEconomy, addressed the issue of women and the economy from a global perspective.

UPAC CEO, Nadia Akil took part in the second panel discussion on gender equality, diversity and inclusion in the private sector. During her discussion, Akil talked about the various challenges women face in the private sector in Kuwait as well as the inevitable cultural and social barriers that need to be overcome to ensure lasting gender equality.

UPAC has been committed to the principle of gender diversity and continues to support the inclusion of women in its recruitment plans, training programs and overall retention of talent, while actively promoting a healthy work-life balance. As a community member, UPAC believes it has a responsibility to participate in the development of society; gender diversity is a fundamental component of this overall development. Through engagement in female empowerment platforms, education and continued awareness, UPAC aims to contribute to empowering women today to be the leaders of tomorrow.

WMF is a Kuwait-based project with a vision to support the economy by increasing the numbers of women executives and women entrepreneurs in the local work force. WMF aims to help empower many more young women and give them the rights tools, skills and knowledge to succeed in the private sector.

UPAC support KRCS's Humanitarian Aid for Rohingya Campaign

UPAC joined forces with the Kuwait Red Crescent Society (KRCS) to support Rohingya refugees in their campaign "Humanitarian Aid for Rohingya".

The campaign aimed to raise funds to support the Rohingya refugees in need of humanitarian and financial support in order to secure basic necessities such as food, water and healthcare. Employees were invited and encouraged to participate in the campaign. UPAC and Agility matched the donations raised by UPAC employees.



UPAC Organizes Two Blood Donation Drives In Collaboration with the Kuwait Central Bank

For the fourth consecutive year, and in continuation of the “Donate Blood to Save Lives” campaign, UPAC organized two blood donation drives in partnership with Kuwait Central Blood Bank. The blood donation drives were held on 30 June and 5 July 2018 at Discovery Mall and at UPAC’s office respectively. UPAC’s blood donation drives showcases the company’s commitment towards the local community where it makes an impact on lives of the community where it operates.

23 UPAC employees as well as Discovery Mall visitors donated blood in support of Kuwait Central Blood Bank’s campaign. Donated blood will be used to augment emergency blood requirements at government hospitals in Kuwait.



UPAC Organizes Entertainment Days for Special Needs Children

UPAC organized three unique entertainment days from 15th – 17th February 2018 for special needs children at Discovery Mall in partnership with Alnowair Nursery for Special Needs Children, a nursery accredited by the Higher Council of the Disabled in Kuwait.

Activities were designed to enhance the spirit of participation and cooperation among children through several workshops, competitions and painting to develop some skills like sensational attention and innovation. The workshop included tips for parents on how to reduce time spent by children on smart devices gradually.



UPAC Organizes Fun Days for Kuwait’s Orphanage

UPAC organized two Fun Days for Kuwait’s Orphanage at Discovery Mall. The first event took place on 16th February 2018 to take part of the National Day celebration activities in Kuwait. The second event took place on 16 July 2018. Both events were carried out in coordination with the Ministry of Social Affairs and Labor, who currently manage various orphanages across Kuwait.

The events catered to 31 children between the ages of 4 – 12 all of whom were given the opportunity to enjoy several activities across the mall’s entertainment outlets, including Tarkeeb, Play, Cozmo Kids, Paint Ball, trampoline and Young Chef.

Accompanying the children were 11 UPAC volunteers who spent the day alongside the children and guided them throughout the various fun activities.

UPAC places great importance on social responsibility and its overall role in increasing social awareness and participating in the wider community.





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Kuwait
Government

CORPORATE GOVERNANCE REPORT



مبنى الشيخ سعد
للطيران العام

Sheikh Saad
General Aviation Terminal



INTRODUCTION

United Projects for Aviation Services Company KSCP (“UPAC”) is committed to implementing the rules of governance in accordance with the laws and regulations of the regulatory bodies, in particular Book 15 (Corporate Governance) of the Executive Regulations of Law No. 7 of the year 2010 regarding the establishment of the Capital Markets Authority (CMA) and regulating securities activities and their amendments. The implementation of the Corporate Governance Framework is a fundamental part of ensuring the overall success of the Company.

The Company believes that practices managed within the framework of governance are the basis for achieving the Company's main objectives, creating sustainable value, enhancing the role of internal control, and activating integrity and transparency in the workplace. In doing so, (“UPAC”) ensures that the governance framework meets the relevant regulatory requirements set by the CMA, and thus maintains trust amongst its shareholders and stakeholders alike. In the performance of its functions, the Board of Directors supports a number of different committees: The Risk Committee, the Audit Committee, the Remuneration and Nominations Committee, as well as the role of Executive Management.

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PILLAR 1: CONSTRUCT A BALANCED BOARD COMPOSITION

1.1 OVERVIEW OF THE BOARD OF DIRECTORS

United Projects for Aviation Services Company's KSCP ("UPAC" or "Company") Board of Directors is comprised of five members, all of whom have been elected in line with the applicable provisions of the Company's Memorandum of Association and the Articles of Association of the Company, as well as in conformity to the Companies law No. 01 of the year 2016 and its Executive Regulations. All members hold the relevant educational qualifications and professional experiences to carry out their responsibilities dutifully and professionally, in addition to being well versed with the relevant corporate laws and regulations. The formation of the relevant Board Committees ensures that the composition of each Committee accurately reflects the experience and educational qualifications of each member in accordance with the allocated tasks and responsibilities of each Committee.

Sl.	Name	Capacity	Board Member Classification	Date Elected
1	Tarek Al-Mousa	Chairman	Non-Executive Member	April 2018
2	Nadia Akil	Vice Chairperson	Executive Member	April 2018
3	Zuhair Al-Zamel	Board Member	Independent Member	April 2018
4	Majed Al-Ajeel	Board Member	Non-Executive Member	April 2018
5	Hassan El-Houry	Board Member	Non-Executive Member	April 2018

The Secretary of the Board of Directors has been reappointed by Board resolution No. 03/18 dated 30 April 2018 in order to carry out the roles and responsibilities assigned to him.

Educational Qualifications and Experience of the Board of Directors

Sl.	Name	Educational Qualifications	Experience
1	TAREK AL-MOUSA Chairman of the Board of Directors	Bachelor's degree in Mass Media and Sociology from the University of Evansville, Indiana.	As Chairman, Tarek Al Mousa provides leadership to the Board of Directors and acts as a direct liaison between the board and executive management. He also oversees the Company's corporate governance program and aims to protect the interests of investors and stakeholders. In addition, Tarek is also the Vice Chairperson and CEO of the Metal and Recycling Company (MRC). MRC is a waste management Company offering the latest practical and cost-effective solutions to manage the complexities of responsible waste management. Tarek also managed several executive positions within Agility, last serving as the Executive Director of Strategic Programs.

2	NADIA AKIL Vice Chairperson of the Board of Directors	Master's degree from New York's Columbia University School of International and Public Affairs, with a concentration in Business and Finance. Bachelor's degree in International Affairs from Georgetown University in Washington D.C.	Nadia Akil is the Vice Chairperson and CEO of UPAC. Since being appointed to this position in 2012, she has been responsible for the overall operations of UPAC in Kuwait, including three BOT contracts that encompass over 24,000 sqm of commercial and retail space in prominent locations across the country. In her leadership role she has revitalized the Company's internal structure and functional operations by driving business development initiatives and overseeing shared services, such as finance, human resources, information technology and marketing. Previously, Akil held positions of increasing responsibility at Agility. Most recently she served as a Director on Agility's Executive Projects Team. In this role she concentrated on identifying growth areas, business development opportunities and operational efficiencies. Earlier, she managed mergers and acquisitions within Agility's Investments Group. Prior to Agility, Akil was in the Global Wealth Management Group at Citigroup in London, where she managed over 20 private client portfolios and developed product strategy.
3	ZUHAIR AL-ZAMEL Independent Member	Bachelor's degree in Electrical Engineering from the University of California at Santa Barbara (UCSB) 1974.	Zuhair Al Zamel has been a member of UPAC'S Board of Directors since 2008. Al Zamel held various positions with the Directorate General of Civil Aviation (DGCA) for over 30 years, and most recently as Vice General Director of Civil Aviation for Airport Affairs. He also served as a Consultant for National Aviation Services (NAS) from 2009 until 2015.
4	MAJED AL-AJEEL Non-Executive Member	Master's degree in planning and a bachelor's degree in architecture from the Catholic University of America.	Majed Al Ajeel is the Chairman of Burgan Bank and has held this position since 2010. He also serves as the Chairperson of the Kuwait Banking Association, and previously held leading positions such as Vice Chairperson and CEO of UPAC, and a member of the Board of Directors of various other companies.
5	HASSAN EL-HOURY Non-Executive Member	Masters of Business Administration (MBA) from the University of Pennsylvania's Wharton School of Business and a bachelor's degree from the American University of Beirut.	Hassan El Houry is currently the Chairman of the Board of Directors of National Real Estate Company (NREC) and Royal Aviation (UPAC subsidiary). He is also the Group CEO of National Aviation Services (NAS), the fastest growing aviation services provider in the Middle East, Africa and South Asia. In 2014, Hassan was honored by the World Economic Forum in Davos as a Young Global Leader given his experience and contributions in the field of aviation and airport services. Hassan is also a member in the Young Presidents' Organization (YPO) and serves as the director of the Wharton Alumni Club in the Middle East.

1.2 OVERVIEW OF THE MEETINGS OF THE BOARD OF DIRECTORS

The Board of Directors held a total of seven meetings during the course of 2018. All meetings are called for by way of a formal invitation in advance, in order to allow adequate time for members' to attend. Each time a meeting is called for, a formal agenda is shared with members along with all necessary supporting documents prior to the meeting to allow members sufficient time to review. Board meetings are held when a quorum is met, with at least three members present, otherwise the meeting may be adjourned until a legal quorum is met. The Board Secretary ensures that minutes are recorded and formally signed off by members once they are in agreement. Board meetings are always conducted in line with the Company's Memorandum and Articles of Association as well as in conformity to the Companies law No. 01 of the year 2016 and its Executive Regulations.

Board of Directors' Meetings during the year 2018

Name & Capacity	Meeting No. 01/18 held on 06 February 2018	Meeting No. 02/18 held on 22 February 2018	Meeting No. 03/18 held on 30 April 2018	Meeting No. 04/18 held on 13 May 2018	Meeting No. 05/18 held on 02 August 2018	Meeting No. 06/18 held on 12 September 2018	Meeting No. 07/18 held on 05 November 2018	Number of the attended meetings
Tarek Al-Mousa Chairman of the Board of Directors	√	√	√	√	√	√	√	7/7
Nadia Akil Vice Chairperson and CEO	√	√	√	√	√	√	√	7/7
Zuhair Al-Zamel Board Member (Independent)	√	√	√	√	√	√	√	7/7
Majed Al-Ajeel Board Member	√	√	√	√	√	√	√	7/7
Hassan El-Houry Board Member	√	√	√	√	√	√	√	7/7

√ Attendance

1.3 OVERVIEW OF THE METHODOLOGY USED TO REGISTER, MAINTAIN AND COORDINATE BOARD OF DIRECTORS' MINUTES OF MEETINGS

Minutes of meetings are organized and recorded within a Company register with applicable serial numbers to mark those meetings during the year. Each meeting records specified relevant details such as the date of the meeting, start and end times, discussion items, deliberations and voting processes on the proposed agenda items. The Board Secretary is responsible for maintaining and updating the Company register in accordance with all relevant Board documentation. The tasks and responsibilities of the Board Secretary are ultimately approved by the Board of Directors

PILLAR 2: ESTABLISHING CLEAR ROLES AND RESPONSIBILITIES**2.1 OVERVIEW OF THE COMPANY'S METHODOLOGY IN IDENTIFYING DUTIES AND RESPONSIBILITIES OF THE MEMBERS OF THE BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT**

In line with the provisions of the Corporate Governance Regulations (including Book 15 of the CMA Executive Regulations- Corporate Governance), the Company has set out in detail the roles and responsibilities governing the conduct of members of the Board of Directors and Executive Management. In addition to this, the Board of Directors has implemented formal documentation to clearly set out in detail those powers granted to Executive Management, and ultimately delegated by the Board of Directors. Below is a list of some of the specific roles and responsibilities allocated to members of the Board of Directors and Executive Management:

Roles and Responsibilities - Board of Directors:

- Approve strategic objectives and material plans and policies of the Company.
- Approve annual estimated budgets and interim and annual financial statements.
- Monitor the basic capital expenditures of the Company, ownership and disposal of assets.
- Follow up the performance of the Company through the meetings of the Board of Directors and follow up with the results of the committees.
- Set performance goals and monitoring implementation and overall performance in the Company.
- Verify the Company's compliance with policies and procedures to guarantee its respect of applicable internal bylaws and regulations.
- Ensure accuracy and soundness of data and information for disclosure in line with applicable disclosure and transparency policies and regulations.
- Establish effective channels of communication that allow the shareholders of the Company to have regular and periodic access to the Company's financial reports and periodic disclosures.

- Develop and supervise a Corporate Governance system and monitor its effectiveness.
- Follow-up performance of each member of the Board of Directors and Executive Management according to Key Performance Indicators (KPIs).
- Formation of the Board Committees amongst the existing Board members and in accordance with the Board Charter: setting out the Committee's clear roles and responsibilities and the methodology of supervision by the Board of Directors.
- Ensuring that the policies and regulations adopted by the Company are transparent and clear, allowing for decision making and achieving good governance principles, and separation of powers and powers between the board of directors and executive management.
- Control and supervise the performance of Executive Management and verify the implementation of approved policies and regulations.
- Develop policies and internal regulations to oversee the Company's overall processes and practices.
- Ensure periodic and effective internal control systems are in place at the Company and its subsidiaries.

Roles and Responsibilities - Chairman of the Board of Directors:

- Verify the Board's efficient and timely discussion of all key matters.
- Encourage all members to fully and efficiently participate in meetings.
- Represent the Company before third parties pursuant to Articles of Association of the Company.
- Ensure actual communication with shareholders and inform the Board of their opinions.
- Encourage constructive relationships and active participation between the Board of Directors and Executive Management.
- Create a structure which encourages constructive criticism of conflicting views.

Roles and Responsibilities – Executive Management:

- Execute the Company's strategic plans, related policies and internal regulations and verify its adequacy and efficiency.
- Implement all internal policies, procedures and regulations of the Company as approved by the Board of Directors.
- Prepare periodical (financial and non-financial) reports concerning the progress achieved within the Company's business.
- Develop an integrated accounting system and ensure that the preparation of financial statements is carried out pursuant to international accounting standards approved by the relevant authority.
- Manage day-to-day operations and manage the Company's resources.
- Actively participate in building and developing an ethical culture inside the Company.
- Develop internal control and risk management systems and verify their adequacy and efficiency.

2.2 BOARD OF DIRECTORS' ACHIEVEMENTS DURING THE YEAR

UPAC continued its efforts to enhance its market position through maintaining stable operational performance at the highest standards for its overall business sectors. This has, along with the effective leadership from the Board of Directors and Executive Management, led to continued strong financial performance and steady profitability during 2018.

The Company achieved the following objectives during 2018, summarized as follows:

- Enhancement of the Company's current operational capabilities and services within its existing projects in order to reach maximum occupancy and utilization rates.
- Signing of a five year Concession Contract regarding the Development, Operations and Maintenance of the Parking Lot at Terminal 4 at Kuwait International Airport (T4).
- Closure of the financing requirements for the development and construction of the Reem Mall project in Abu Dhabi (Reem Mall).
- Continuation of the construction progress of Reem Mall project as per the construction schedule.
- Completion of UPAC's capital increase in March 2018 with the subscription of 100% of issued shares, reflecting shareholders' confidence in the Company's performance.

2.3 OVERVIEW OF THE BOARD OF DIRECTORS' REQUIREMENTS TO FORM SPECIALIZED INDEPENDENT COMMITTEES

Pursuant to the provisions and rules of Book 15 of the CMA Executive Regulations ("Corporate Governance"), the Board of Directors have formed the relevant Committees in order to support and enable Board members to perform their roles and responsibilities in a more effective and informed manner.

A) Board Risk and Audit Committee (BRAC)

Members of the Board Risk and Audit Committee:

Name	Capacity	Board Member Classification
Hassan El- Houry	Chairman of the Board Risk and Audit Committee (BRAC)	Non-Executive Member
Zuhair Al-Zamel	Member of the Board Risk and Audit Committee (BRAC)	Independent Member
Majed Al-Ajeel	Member of the Board Risk and Audit Committee (BRAC)	Non-Executive Member

A consolidated Risk and Audit Committee (BRAC) has been established with the approval of the Capital Market Authority (CMA) issued on February 28, 2016. The BRAC performs tasks and responsibilities covering various aspects of risk management and internal audit controls of the Company. The BRAC was formed by way of a resolution of the Board of Directors dated June 28, 2016 for a period of three years, which was renewed immediately after the election of the Company's Board of Directors on April 2018. The BRAC carries out its tasks and responsibilities as per the Committee Charter, which defines the framework and objectives assigned to the Committee. Furthermore the BRAC Secretary has been reappointed to carry out the assigned roles.

Meetings of the Board Risk and Audit Committee (BRAC) during 2018

Name & Capacity	Meeting No. 01/18 held on 22 February 2018	Meeting No. 02/18 held on 13 May 2018	Meeting No. 03/18 held on 02 August 2018	Meeting No. 04/18 held on 05 November 2018	Number of the attended meetings
Hassan El- Houry Chairman of the Board Risk and Audit Committee (BRAC)	√	√	√	√	4/4
Zuhair Al-Zamel Member of the Board Risk and Audit Committee (BRAC)	√	√	√	√	4/4
Majed Al-Ajeel Member of the Board Risk and Audit Committee (BRAC)	√	√	√	√	4/4

√ Attendance

The BRAC held four meetings during the course of 2018, where all meetings are called for in advance by a formal invitation extended by the Committee Chairman, accompanied by the agenda and all documents and information needed to discuss the items on the meeting agenda, enabling members to carry out relevant discussions in order to make the necessary recommendations to the Board of Directors. The BRAC Secretary ensures that minutes are recorded and formally signed off by members once they are in agreement.

Roles and Responsibilities – Board Risk and Audit Committee (BRAC):

- Review annual and interim financial statements and provide recommendations to the Board of Directors prior to their final approval. This is to ensure fairness and transparency of financial statements and reports.
- Recommend to the Board of Directors the appointment and reappointment of the Company's financial auditors, determine their fees and ensure their independence.
- Monitor the work of the Company's financial auditors and confirm their services to the Company are confined to providing audit services only.
- Review the financial auditors' reports and follow up on any observations.
- Ensure proper accounting procedures are applied.
- Evaluate the efficiency of the Company's internal control systems and the preparation of the Audit Committee Report.
- Supervise the Company's internal audit department, in order to ensure its effectiveness in performing the operations and tasks assigned to it by the Board of Directors.
- Recommend to the Board of Directors the appointment and reappointment of the Company's internal auditors.
- Review and approve the internal audit plans proposed by the internal auditor and provide comments thereon.
- Review and approve the Internal Audit Report schedule as proposed by the Internal Auditor and provide technical supervision in reviewing results of the Internal Audit Report.
- Review the outcomes of regulatory bodies' reports and ensure that necessary measures were taken in this regard.
- Ensure that the Company complies with relevant laws, policies, regulations and instructions.
- Prepare and review risk management strategies, policies and procedures and provide recommendations to the Board of Directors prior to its final approval and verify the implementation of such strategies and policies in line with the nature and volume of the Company activities.
- Ensure availability of adequate resources and risk management systems.
- Evaluate systems and mechanisms for identifying, measuring and monitoring various types of risks that the Company may face.
- Assist the Board of Directors in identifying and evaluating the Company's acceptable risk-level, and ensure that the Company operates within that level following approval by the Board of Directors.
- Verify independence of the risk management employees from activities that result in subjecting the Company to certain risks.
- Ensure that risk management employees obtain a full understanding of the risks surrounding the Company and ensure transparency in the awareness of potential risks.
- Raise periodical reports to the Board of Directors concerning the nature of risks facing the Company.

Overview of the Achievements of the Board Risk and Audit Committee (BRAC):

- Reviewed annual and interim financial statements prior to submission to the Board of Directors and provided recommendations.
- Reviewed the auditor's observations on the Company's financial statements.
- Ensure proper accounting procedures are applied.
- Recommend to the Board of Directors the reappointment of the Company's internal auditors and approval of the audit plan.
- Ensure that internal audit reports are issued periodically in accordance with the approved audit plan.
- Regular meetings with the Company's internal auditor at all BRAC meetings.
- Study and analyze internal audit reports and follow up the actions taken towards the observations contained in those reports.
- Ensure the effective performance of the internal auditor of the Company and assess its performance.
- Ensure the Company's compliance with relevant laws and regulations.
- Follow up on the decisions issued by the regulatory bodies and any further amendments that may be made to the laws and regulations in force.
- Ensure that all regulatory requirements are met.
- Ensure the adequacy of internal controls applied in the Company.

- Reviewed the independent Internal Controls Report (ICR) and follow up on the observations raised in that report.
- Recommend to the Board of Directors the reappointment of the Company's financial auditor and ensure their independence and fulfillment of all conditions and requirements.
- Meet periodically with the Company's financial auditor to discuss and review the interim and annual financial statements.
- Recommend to the Board of Directors the reappointment of an independent risk management unit and ensuring its independence and compliance with all requirements.
- Recommended the adoption of effective risk management systems and procedures.
- Study and analyze risk reports, presenting risks and expressing opinions and recommending them to the Board of Directors.

B) Board Nomination and Remuneration Committee (BNRC)

Members of the Board Nomination and Remuneration Committee

Name	Capacity	Board Member Classification
Zuhair Al-Zamel	Chairman of the Board Nomination and Remuneration Committee (BNRC)	Independent Member
Tarek Al-Mousa	Member of the Board Nomination and Remuneration Committee (BNRC)	Non-Executive Member
Nadia Akil	Member of the Board Nomination and Remuneration Committee (BNRC)	Executive Member

The Board Nomination and Remuneration Committee (BNRC) was formed pursuant to a Board Resolution dated 10 November 2016 for a period of three years, which was renewed immediately after the election of the Company's Board of Directors on April 2018. Members of the BNRC carry out the responsibilities of the Committee assigned to them as per the Committee Charter, which defines the framework and tasks assigned to it. Furthermore, the BNRC Secretary has been reappointed to carry out the assigned roles.

Meetings of the BNRC during 2018

Name & Capacity	Meeting No. 01/18 held on 22 February 2018	Meeting No. 02/18 held on 13 May 2018	Number of the attended meetings
Zuhair Al-Zamel Chairman of the Board Nomination and Remuneration Committee (BNRC)	√	√	2/2
Tarek Al-Mousa Member of the Board Nomination and Remuneration Committee (BNRC)	√	√	2/2
Nadia Akil Member of the Board Nomination and Remuneration Committee (BNRC)	√	√	2/2

√ Attendance

The BNRC held two meetings during the course of 2018, where all meetings are called for in advance by a formal invitation extended by the Committee Chairman, accompanied by the agenda and all documents and information needed to discuss the items on the meeting agenda, enabling members to carry out relevant discussions in order to make the necessary recommendations to the Board of Directors. The BNRC Secretary ensures that minutes are recorded and formally signed off by members once they are in agreement.

Responsibilities of the BNRC:

- Recommend the nomination or re-nomination of Board Members and members of Executive Management.
- Develop a clear remuneration policy for Board Members and Executive Management, with an annual review of the required skill necessary for Board membership and executive positions as required.
- Develop clear job descriptions for Executive Members, Non-Executive Members and the Independent Member.
- Ensure the existing Independent Members' autonomy on the Board of Directors and his capacity to serve as an Independent Member.
- Prepare a detailed Annual Report outlining the benefits for Board Members and members of Executive Management.

Overview of the Achievements of the Board Nominations and Remunerations Committee (BNRC):

- Prepare an annual report of the remuneration granted to members of the Board of Directors and Executive Management for the financial year ending 31 December 2018.
- Recommend the Board of Directors' Remuneration for the financial year ending 31 December 2018. .
- Review of the existing skills and competencies required for the members of the Board of Directors and Executive Management to ensure the Company's proper management.
- Review of the existing Independent Members' autonomy on the Board of Directors and their capacity to serve as an Independent Member, based on the criteria and definition of an Independent Board Member as covered within the provisions of Book 15 - Corporate Governance - of the Executive Regulations of Law No. 7 for year 2010 and their amendments.

2.4 OVERVIEW OF THE METHODOLOGY WHICH PROVIDES MEMBERS OF THE BOARD OF DIRECTORS WITH ACCURATE AND TIMELY INFORMATION AND DATA

The Company is committed to ensure complete accessibility and availability of information to the Board. To further validate this purpose, the Board of Directors has jointly approved a policy to clearly outline the roles and responsibilities of the Board Secretary. Such tasks include the scheduling of meetings, circulation of agenda items, maintaining and updating the Company register with all relevant documentation, and the accurate and timely provision of information prior to scheduled meetings. In addition, the Board Secretary also ensures that minutes are recorded during the course of the meetings and formally signed off by members once they are in agreement.

PILLAR 3: SELECTION OF QUALIFIED CANDIDATES FOR THE BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT**3.1 OVERVIEW OF THE APPLICATION OF REQUIREMENTS FOR THE FORMATION OF THE BOARD NOMINATION AND REMUNERATION COMMITTEE (BNRC)**

The Board of Directors has formed a Board Nomination and Remuneration Committee (BNRC). The BNRC ensures that it satisfies all the requirements that need to be met by its committee members. Further, all relevant BNRC information has been detailed within Rule II of this report - Board Nomination and Remuneration Committee (BNRC) - as mentioned in the above section 2.3.

3.2 REPORT ON THE BOARD OF DIRECTORS' AND EXECUTIVE MANAGEMENT REMUNERATION

In compliance with the highest standards of transparency and in line with the best practices adopted under the Corporate Governance Framework, the Company has committed to provide a detailed annual report outlining the total remuneration packages granted to members of the Board of Directors and Executive Management. Such remuneration is outlined as follows:

Board of Directors' Remuneration:

Board Members' remuneration is ultimately recommended by the BNRC and presented for final approval to the Company's Annual General Assembly (AGM). Total remunerations shall not exceed 10% of the net profits of the Company following any relevant deductions as set out in the Company's Articles of Association. In 2018, the total remuneration recommended to be awarded to the Board of Directors amounted to a sum of KD 25,000 (twenty five thousand Kuwaiti Dinars).

Executive Management Remuneration:

Remuneration granted to Executive Management includes two main components – fixed and variable remuneration. Fixed benefits are related to those benefits assigned to Executive Management per their associated roles and responsibilities, whereas variable benefits are those awarded for the successful performance and achievement of specific objectives. Both Human Resources and members of the BNRC are involved in setting the above benefits and reviewing them annually. The below table sets out the total fixed and variable benefits extended to Executive Management in 2018:

Classification	Number of employees	Fixed remuneration (KD thousand)	Variable remuneration (KD thousand)	Total (KD thousand)
Members of Executive Management	5	216	123	339

PILLAR 4: ENSURE THE INTEGRITY OF FINANCIAL REPORTING**4.1 WRITTEN UNDERTAKINGS OF THE BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT AS TO THE SOUNDNESS AND INTEGRITY OF FINANCIAL REPORTING**

Executive Management is mindful of its responsibilities to the Board of Directors with regards to the significance of accounting policies and to the preparation of fair and sound financial statements. The Executive Management has prepared and presented a written undertaking to the Board of Directors confirming that financial statements have been prepared with integrity and that all financial aspects of the Company are in line with approved international accounting standards. The Board of Directors aims to ensure the integrity of its financial reporting to shareholders – thus presenting its Annual Report at the end of the fiscal year. The financial statements and reports issued by the Company are prepared as follows:

- Annual Financial Statements.
- Interim Financial Statements.
- Annual and interim financial disclosure forms.
- Annual and periodical reports related to the Company's activity and the results of its operations.

4.2 OVERVIEW OF THE BOARD AUDIT COMMITTEE

The Board of Directors has formed an Audit Committee which ensures that it satisfies all the requirements that need to be met by its committee members. Further, all relevant Audit Committee information has been detailed within Pillar 2 of this report – Board Risk and Audit Committee (BRAC) – as mentioned in the above section 2.3.

4.3 OVERVIEW OF THE RECOMMENDATIONS OF THE BOARD AUDIT COMMITTEE AND RESOLUTIONS OF THE BOARD OF DIRECTORS

Although the Board Audit Committee is ultimately formed and approved by the Board of Directors, members of the Audit Committee carry out their tasks and responsibilities as per the Audit Committee Charter and provide a recommendation to the Board of Directors for final approval. Given that Committee members have been chosen specifically to meet the requirements set out under the Audit Committee Charter, all recommendations provided to the Board of Directors are typically considered to be sound and effective. During the course of 2018, the Committee did not report any contradictions or inconsistencies between Committee recommendations presented to the Board and the resolutions of the Board of Directors passed through the year.

4.4 SAFEGUARDING THE INDEPENDENCE AND IMPARTIALITY OF THE EXTERNAL AUDITOR

Based on feedback and recommendations provided by members of the Audit Committee through their nomination of the external auditor and the review of their performance, the Company hereby ensures the full independence and impartiality of its external auditors. Furthermore, the Company confirms that the external auditors have been engaged only for the provision of such services required to be performed under the external audit profession.

PILLAR 5: APPLYING SOUND SYSTEMS OF RISK MANAGEMENT AND INTERNAL AUDIT

5.1 ESTABLISH AN INDEPENDENT UNIT FOR RISK MANAGEMENT

The Risk Management Function is one of the most important objectives and a main component for the Board of Directors. Enabling a process whereby risks can be identified and categorized at different risk levels is a key contributing factor to the overall success of the Company. The continuous development and effective application of Risk Management measures is vital to ensure effective and stable continuity within the Company's activities. Given the relevance of the overall Risk Management Function, the Board of Directors have therefore approved and endorsed an independent unit for the Risk Management Function. The Risk Management Function is responsible for reviewing the risk management strategies and assessing the Company's overall risk management policies and procedures. The function seeks to assist the Board in defining certain risks that may face the Company as well as in assessing acceptable risk levels. This Risk Management Function ultimately reports to the Board Risk Committee, which in turn provides their final recommendations to the Board of Directors.

5.2 OVERVIEW OF THE BOARD RISK MANAGEMENT COMMITTEE

The Board of Directors has formed a Risk Committee which ensures that it satisfies all the requirements that need to be met by its committee members. Further, all relevant Risk Committee information has been detailed within Pillar 2 of this report – Board Risk and Audit Committee (BRAC) – as mentioned in the above section 2.3.

5.3 OVERVIEW OF THE INTERNAL AUDIT SYSTEMS AND CONTROLS

The Board is fully responsible for the implementation of the Company's Internal Audit Systems and Controls. Internal policies have been developed in order to ensure set standards and internal control processes are followed and adopted by the Company to enhance the soundness, accuracy and efficiency of its operations. The Internal Audit Function is responsible for reviewing and monitoring a set of policies and regulations and for preparing the necessary reports for submission to the Internal Audit Committee. The Internal Audit Committee will in turn review the reports for final submission to the Board of Directors for approval. The main internal controls that have been implemented in the Company to date are as follows:

- Delegation of authorities – limitation and allocation of certain powers and responsibilities.
- Separation of certain tasks and the prevention of potential conflicts of interest.
- Dual inspection and controls for further verifications.
- Dual signatures for further verifications.
- Establishment of approved policies and procedures for the Company.
- Implementation of modern automated technological systems for the enhancement of internal controls within the Company (E-forms - Transfora).

In addition, and as per Corporate Governance Requirements, a fully certified and independent auditor (Deloitte and Touche) was reappointed to carry out the evaluation and review of the Company's Internal Control Systems and for the preparation of the Internal Control Report (ICR), which is to be submitted to the CMA within 90 days of the end of the fiscal year. Pursuant to Article 6-9 of Book 15 - Corporate Governance - of the Executive Regulations of Law No. 7 of the year 2010 regarding the establishment of the Capital Markets Authority and regulating securities activities and their amendments, the Company will appoint a different auditor every three (3) years in order to conduct the review and evaluation of the Internal Audit Function.

5.4 OVERVIEW OF THE INDEPENDENT UNIT FOR INTERNAL AUDIT AND CONTROLS

On 22 June 2016, UPAC obtained the approval from the CMA in order to outsource the Internal Audit Function to its Parent Company. The Parent currently enjoys a fully established, independent and integrated system of Internal Audit and Controls, tasked with carrying out audits in accordance with plans set and approved by the Board of Directors. The Internal Audit Department is responsible for setting the internal audit schedule, conducting the actual internal audit, and providing final reports and recommendations to the Board Audit Committee for recommendation to the Board of Directors for final approval.

PILLAR 6: PROMOTE CODE OF CONDUCT AND ETHICAL STANDARDS

6.1 OVERVIEW OF THE CODE OF CONDUCT AND BUSINESS ETHICS

The Company has developed a Code of Conduct that has been ratified and approved by the Board of Directors. The Code is intended to serve as a guiding principle for Members of the Board and Executive Management with regards to proper and ethical business conduct. The Code of Conduct covers the professional standards and ethical values applicable to clients, suppliers and stakeholders alike, both inside or outside the Company. It also serves to enhance and uphold the qualities of integrity, impartiality and discretion. Board members are thus expected to exercise good judgment, to ensure the interests, safety and welfare of customers, employees and other stakeholders are met and to maintain a cooperative, efficient, and positive work environment. The Code also establishes a certain set standards in dealing with issues related to insider trading, dealings with related parties, conflicts of interest and whistle blowing procedures. Furthermore, all Board Members, Executive Management and employees are expected to abide by the Code of Conduct and apply the highest of ethical standards during the performance of their duties and responsibilities.

6.2 OVERVIEW OF THE POLICIES USED TO MITIGATE CONFLICTS OF INTEREST

The Board of Directors adopted a Conflict of Interest Policy aimed at ensuring that appropriate procedures are applied to identify and deal effectively with cases of conflicts of interest. It also ensures that the Board of Directors deals with conflicts of interest that exist and that all decisions are taken in the best interests of the Company. This policy is an integral part of the Company's full commitment to integrity and fairness in dealing with stakeholders. The policy also highlights the concept of conflict of interest, the basis of dealing with them, how to manage conflicts of interest through established examples, parties whose interests might conflict with the Company, and the roles of the Board of Directors, Executive Management and internal audit in this respect. The policy also reviewed procedures for dealing with conflicts of interest and disclosure mechanisms.

PILLAR 7: ENSURE TIMELY AND HIGH QUALITY DISCLOSURES

7.1 OVERVIEW OF ACCURATE AND TRANSPARENT DISCLOSURES

Accurate disclosures form the basic foundation for tracking the Company's activities and for evaluating performance, whether this is carried out by current shareholders, potential investors or the general public. Given the importance of information accuracy and transparency, the Board of Directors has developed a Disclosure Policy outlining standard rules and procedures to be applied when disclosing pertinent information. The Disclosure Policy has been developed in compliance with the provisions of the Corporate Governance laws as well as in conformity to Book 10 – Disclosure and Transparency - of the Executive Regulations of Law No. 7 of the year 2010 regarding the establishment of the Capital Markets Authority and regulating securities activities and their amendments. Such policy shall be reviewed regularly in line with the best practices and latest CMA disclosure rules.

7.2 OVERVIEW OF DISCLOSURE RECORDS FOR MEMBERS OF THE BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

The Company maintains a detailed disclosure register which includes and monitors all disclosure records for Board Members and Executive Management. Such records are easily accessible on the Company's website by all shareholders without any additional fees or considerations. The Company regularly reviews and updates the disclosure data and records in order to accurately reflect the Company's position.

7.3 SUMMARY OF REQUIREMENTS FOR THE FORMATION OF AN INVESTOR RELATIONS UNIT

The Company established a separate Investor Relations Unit in charge of establishing and monitoring disclosures. This Unit is responsible for the overall provision of necessary data, information and reports for the benefit of current shareholders as well as potential investors. The Investor Relations Unit enjoys a certain level of independence and this allows it to perform its duties and provide accurate and timely information through well-established disclosure systems including the corporate website.

7.4 DEVELOPMENT OF A SOLID INFORMATION TECHNOLOGY FRAMEWORK TO SUPPORT THE DISCLOSURE PROCESS

The Company has developed solid IT systems in order to support its disclosure process, as well as to enhance further communication with its shareholders, investors and stakeholders. The corporate website has been developed in line with Corporate Governance regulations and has thus dedicated a specific tab covering 'Investor Relations.' This section covers all previous and current disclosures and provides a breadth of information and other pertinent data to enable potential investors and shareholders to exercise their rights, and accurately evaluate the Company's performance.

PILLAR 8: PROTECTION OF SHAREHOLDERS' RIGHTS

8.1 SUMMARY OF THE REQUIREMENTS FOR THE PROTECTION OF SHAREHOLDERS' RIGHTS AND TO ENSURING FAIRNESS AND EQUALITY AMONGST ALL SHAREHOLDERS

The Company's Articles of Association include various regulations and internal policies and procedures necessary for the protection of shareholders rights, and to ensure their fair and equal treatment. Furthermore, these Articles take into consideration all shareholders' rights without any partiality and without causing damage to the overall interests of the Company, thus falling in line with applicable laws and regulatory instructions.

8.2 SUMMARY OF THE FORMATION OF A SPECIAL REGISTER TO BE MAINTAINED WITH THE CLEARING AGENCY AND IN LINE WITH THE REQUIREMENTS FOR CONTINUOUS UPDATES TO SHAREHOLDERS' INFORMATION

For the accurate and continuous follow up of shareholders' data, the Company formed a special register "The Shareholders' Register" to be maintained and updated with the specified clearing agency – the Kuwait Clearing Company (KCC). This register includes names of shareholders as well as details of the number of shares they hold. The KCC also maintains any amendments to the existing data and records in its register. Data incorporated in the shareholders' register is treated with the greatest degree of protection and confidentiality in line with applicable laws and regulations.

8.3 OVERVIEW OF SHAREHOLDERS' INCENTIVES TO PARTICIPATE AND VOTE IN THE COMPANY'S GENERAL ASSEMBLIES

Participation in the Annual General Meeting (AGM) is one of the basic rights for all shareholders and thus shareholders are encouraged to attend and actively participate in these annual meetings. In order to ensure the full extent of shareholder participation, certain measures are taken by the Company when calling for its AGM including extending formal notices calling for its date, time and location, as well as sharing agenda items for discussion, as per applicable laws and regulations.

PILLAR 9: RECOGNIZE THE ROLES OF STAKEHOLDERS

9.1 OVERVIEW OF THE SYSTEMS AND POLICIES USED TO ENSURE THE PROTECTION AND RECOGNITION OF STAKEHOLDERS' RIGHTS

The Company has developed policies to govern the roles of stakeholders. Such policies include the adoption of certain procedures implemented to ensure the protection and recognition of stakeholders' rights. These include fair and equal treatment without prejudice in line with applicable laws, and pursuant to the relevant executive regulations and regulatory controls.

9.2 OVERVIEW OF THE STAKEHOLDERS' INCENTIVES TO PARTICIPATE IN TRACKING THE VARIOUS ACTIVITIES OF THE COMPANY

Stakeholders are encouraged to stay updated and participate in monitoring the different activities of the Company through Company news, applicable disclosures, or through the facilitation of the Board of Directors of the Company.

PILLAR 10: ENCOURAGE AND ENHANCE PERFORMANCE IMPROVEMENT

10.1 IMPLEMENT POLICIES THAT ALLOW BOARD MEMBERS AND EXECUTIVE MEMBERS TO OBTAIN CONTINUOUS TRAINING PROGRAMS

One of the key elements of Corporate Governance includes implementing policies to ensure that Members of the Board and Executive Management obtain access to continuous training programs and are up to date with the latest business developments. A qualified and functioning Board is one of the key components of a successful business, and for this reason the Company has developed certain procedures to allow Board Members and Executive Management to attend relevant training programs in order to further enhance and strengthen their experience, administrative and organizational skills. The following are some of the courses attended by Board Members and Executive Management during the course of 2018:

- Government Procurement.
- Privacy and Data Protection.
- Economic Uncertainty and Crisis Management.

10.2 OVERVIEW OF THE EVALUATION OF BOARD MEMBERS AND EXECUTIVE MANAGEMENT AGAINST A SET OF AGREED PERFORMANCE INDICATORS

In order to continually monitor and ensure applicability, the Company has worked on developing certain mechanisms for the evaluation of the performance of the Members of the Board of Directors, Committees and Executive Management. Performance evaluations are carried out regularly against a set of agreed key performance indicators related to the Company's strategic objectives. Such indicators reflect performance of Members of the Board and Executive Management, and seek to identify areas of strengths and deficiencies to tailor future training needs accordingly.

10.3 OVERVIEW ON THE BOARD OF DIRECTORS' EFFORT TOWARDS "VALUE CREATION" FOR EMPLOYEES WITHIN THE COMPANY THROUGH FULFILLMENT OF STRATEGIC OBJECTIVES AND PERFORMANCE IMPROVEMENT

Board Members' performance should promote value creation principles among their employees. The Company has worked to adopt certain modern technology systems for the evaluation of employees' performance under the 'Management by Objectives' system. Such evaluation is performed in the beginning of the year, setting clear targets and objectives for each employee based on his / her job requirements, with progress monitored throughout the year. Furthermore, the Company has implemented integrated reporting systems at all departmental levels in order to share relevant and updated Company information with the Members of the Board and Executive Management, thereby supporting and encouraging accurate decision making.

PILLAR 11: IMPORTANCE OF CORPORATE SOCIAL RESPONSIBILITY

11.1 OVERVIEW OF DEVELOPMENT OF A POLICY ENSURING A BALANCE BETWEEN THE OBJECTIVES OF THE COMPANY AND OF SOCIETY

Corporate Social Responsibility (CSR) forms an important part of the Company's commitment to act ethically and to contribute to the achievement of sustainable development. An internal policy based on the importance of CSR has thus been developed with the aim to highlight social responsibility, and create a balance between the objectives of the Company and those of society.

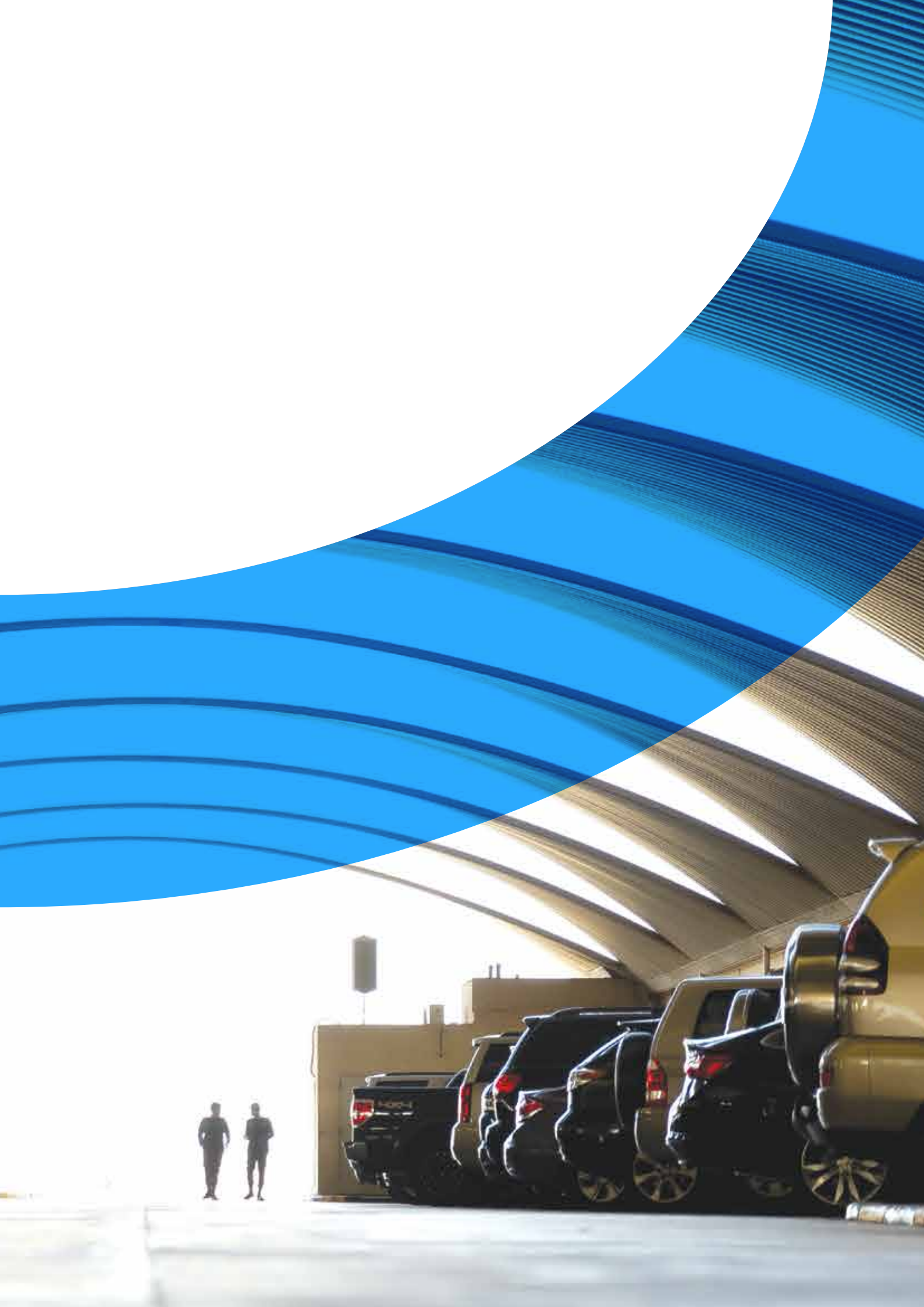
11.2 OVERVIEW OF THE MECHANISMS USED TO HIGHLIGHT THE COMPANY'S EFFORTS WITHIN CORPORATE SOCIAL RESPONSIBILITY

Various policies and mechanisms have been adopted during the year to highlight the efforts of the Company within the CSR framework. UPAC is keen to support social responsibility measures in accordance with its strategic objectives and responsibilities, be it through environmental support, charitable events or other acts supporting the local community. For further information about the different social responsibility initiatives sponsored by the Company, please visit our website at www.upac.com.kw



A photograph of a gas station canopy with several cars parked underneath. The canopy has a corrugated metal roof. The cars are parked in a line, and the scene is brightly lit, suggesting a sunny day. A large, semi-transparent blue graphic with a wavy pattern is overlaid on the right side of the image, partially covering the text.

INDEPENDENT AUDITOR'S REPORT





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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNITED PROJECTS COMPANY FOR AVIATION SERVICES K.S.C.P.

Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

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)*, 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.

Emphasis of Matter

We draw attention to Note 6 to the consolidated financial statements, which describes the uncertainty relating to the management's ability to renew a Build- Operate-Transfer ("BOT") contract that may have an impact on a portion of the Group's operations in the future relating to this BOT contract. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

a) Classification and valuation of a financing arrangement

The Group has started financing a related party since 2014 for constructing and developing a mega commercial mall in UAE ("Project") through a complex financing arrangement. As the terms of the agreement are critical for assessing the ongoing classification of this arrangement and the valuation of amounts due from the related party, the management evaluates these terms on each reporting period. In prior year, the financing arrangement was carried at amortised cost. However, due to adoption of IFRS 9, the financing arrangement of the Project is required to be classified as financial assets carried at fair value through profit or loss ("FVPL"). The management assessed the fair value of the Project at the reporting date using the discounted cash flow method that requires the use of various unobservable inputs. Given the significance of the Project and the complexity and estimation uncertainty involved in the valuation of the financing arrangement, we have identified the classification and valuation of the financing arrangement as a key audit matter.



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNITED PROJECTS COMPANY FOR AVIATION SERVICES K.S.C.P. (continued)

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

Key Audit Matters (continued)

a) Classification and valuation of a financing arrangement (continued)

As part of our audit procedures, among others, we have evaluated the terms of various agreements entered by the Group in relation to this Project to assess the appropriateness of the accounting treatment, classification and disclosure of all aspects of the financing arrangements to date. We have tested a sample of the material contributions made during the year to finance the Project by tracing them to supporting evidence and comparing it with the contractual terms of the agreements. For the valuation of the Project, we involved our internal valuation specialists to assist us in evaluating the appropriateness of the methodology used and challenging of the assumptions and judgements applied by management.

We evaluated the adequacy of the Group's disclosures concerning the loan to a related party in Note 13 to the consolidated financial statements, including disclosures of key assumptions, judgements and sensitivities.

Other information included in the Group's 2018 Annual Report

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

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 the IFRS, 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.



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNITED PROJECTS COMPANY FOR AVIATION SERVICES K.S.C.P. (continued)

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

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 scepticism 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 the 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.



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNITED PROJECTS COMPANY FOR AVIATION SERVICES K.S.C.P. (continued)

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

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

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

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, as amended, and its executive regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No.1 of 2016, as amended, and its executive regulations, as amended, nor of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2018 that might have had a material effect on the business of the Parent Company or on its financial position.

BADER A. AL-ABDULJADER

LICENCE NO. 207-A

EY

AL-AIBAN, AL-OSAIMI & PARTNERS

10 February 2019

Kuwait

CONSOLIDATED FINANCIAL STATEMENTS

UNITED PROJECTS COMPANY FOR AVIATION SERVICES

K.S.C.P. AND SUBSIDIARIES





United Projects Company for Aviation Services K.S.C.P and Subsidiaries
CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2018

	<i>Notes</i>	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
Revenues		13,716,188	13,992,623
Operating costs		(1,197,377)	(1,231,814)
GROSS PROFIT		12,518,811	12,760,809
General and administrative expenses		(2,101,933)	(1,824,877)
Salaries and employee benefits		(1,198,110)	(1,141,153)
Share of results of an associate	7	(9,555)	-
Revaluation gain on loan to a related party		269,322	-
Other income		110,550	79,806
Profit before interest, taxation, depreciation and amortisation (“EBITDA”)		9,589,085	9,874,585
Depreciation		(77,793)	(71,868)
Amortisation	6	(1,881,508)	(1,871,547)
Profit before interest and taxation (“EBIT”)		7,629,784	7,931,170
Interest income		3,405,336	2,200,991
Finance cost		(775,224)	-
Profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences (“KFAS”), National Labour Support Tax (“NLST”), Zakat and Board of Directors’ Remuneration		10,259,896	10,132,161
Contribution to KFAS		(101,512)	(82,782)
NLST		(264,884)	(257,476)
Zakat		(116,469)	(91,501)
Board of Directors’ remuneration	16	(25,000)	(25,000)
PROFIT FOR THE YEAR		9,752,031	9,675,402
Attributable to:			
Equity holders of the Parent Company		9,710,806	9,644,470
Non-controlling interests	4	41,225	30,932
		9,752,031	9,675,402
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	5	80.30 fils	98.28 fils

The attached notes 1 to 20 form part of these consolidated financial statements.

United Projects Company for Aviation Services K.S.C.P and Subsidiaries
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
Profit for the year	9,752,031	9,675,402
Other comprehensive income (loss):		
<i>Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:</i>		
Foreign currency translation adjustment	5,208	(333,914)
Share of other comprehensive loss of associate	(36,609)	-
Other comprehensive loss for the year	(31,401)	(333,914)
Total comprehensive income for the year	9,720,630	9,341,488
Attributable to:		
Equity holders of the Parent Company	9,679,405	9,310,556
Non-controlling interests	41,225	30,932
Total comprehensive income for the year	9,720,630	9,341,488

The attached notes 1 to 20 form part of these consolidated financial statements.

United Projects Company for Aviation Services K.S.C.P and Subsidiaries
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Notes	2018 KD	2017 KD
ASSETS			
Non-current assets			
Property and equipment		216,407	283,580
Intangible assets	6	8,513,402	10,224,312
Investment in an associate	7	6,539,345	-
Financial assets available for sale	7	-	1,449,198
Loan to a related party	13	42,054,013	30,022,447
		<u>57,323,167</u>	<u>41,979,537</u>
Current assets			
Accounts receivable and other assets	8	3,635,790	3,499,184
Cash and cash equivalents	9	10,211,760	7,679,086
		<u>13,847,550</u>	<u>11,178,270</u>
TOTAL ASSETS		<u><u>71,170,717</u></u>	<u><u>53,157,807</u></u>
EQUITY AND LIABILITIES			
Equity			
Share capital	10 (a)	13,175,000	10,000,000
Share premium	10 (a)	27,327,500	10,500,000
Statutory reserve	10 (b)	6,021,868	5,000,000
Treasury shares	11	(1,544,594)	(1,544,594)
Other reserve		(297,587)	(260,978)
Foreign currency translation reserve		5,208	(333,914)
Retained earnings		7,644,805	15,480,385
		<u>52,332,200</u>	<u>38,840,899</u>
Equity attributable to equity holders of the Parent Company		<u>52,332,200</u>	<u>38,840,899</u>
Non-controlling interests	4	2,129,295	2,123,770
Total equity		<u>54,461,495</u>	<u>40,964,669</u>
Non-current liabilities			
Accounts payable and other liabilities	12	3,532,872	4,774,891
Employees' end of service benefits		459,844	399,990
		<u>3,992,716</u>	<u>5,174,881</u>
Current liabilities			
Loans and borrowings	14	4,400,000	-
Accounts payable and other liabilities	12	8,316,506	7,018,257
		<u>12,716,506</u>	<u>7,018,257</u>
Total liabilities		<u>16,709,222</u>	<u>12,193,138</u>
TOTAL EQUITY AND LIABILITIES		<u><u>71,170,717</u></u>	<u><u>53,157,807</u></u>



Tarek Ibrahim Mohammad Al Mousa
Chairman

Nadia Abdullah Mohammad Akil
CEO & Vice Chairperson

The attached notes 1 to 20 form part of these consolidated financial statements.

United Projects Company for Aviation Services K.S.C.P and Subsidiaries
CONSOLIDATED STATEMENT OF CASH FLOWS
For The Year Ended 31 December 2018

	Notes	2018 KD	2017 KD
OPERATING ACTIVITIES			
Profit for the year before KFAS, NLST, Zakat and Board of Directors' Remuneration		10,259,896	10,132,161
Adjustments for:			
Depreciation and amortisation		1,959,301	1,943,415
Provision for employees' end of service benefits		80,303	123,332
Share of results of an associate		9,555	-
Interest income		(3,405,336)	(2,200,991)
Provision for expected credit loss/ impairment losses	8	405,950	94,993
Revaluation gain on loan to a related party		(269,322)	-
Finance cost		775,224	-
		<u>9,815,571</u>	<u>10,092,910</u>
Working capital changes:			
Accounts receivable and other assets		(1,454,632)	(1,260,033)
Accounts payable and other liabilities		(917,406)	181,838
		<u>7,443,533</u>	<u>9,014,715</u>
Cash flows from operations		7,443,533	9,014,715
Employees' end of service benefits paid		(20,449)	(27,903)
		<u>7,423,084</u>	<u>8,986,812</u>
INVESTING ACTIVITIES			
Purchase of property and equipment		(10,620)	(74,611)
Additions to intangible assets	6	(170,598)	(24,065)
Proceeds from maturity of financial assets available for sale		-	1,300,000
Loan to a related party		(13,726,552)	(7,913,845)
Interest income received		282,322	97,761
		<u>(13,625,448)</u>	<u>(6,614,760)</u>
FINANCING ACTIVITIES			
Proceeds from rights issue		20,002,500	-
Proceeds from loans and borrowings		5,900,000	-
Repayments of loans and borrowings		(1,500,000)	-
Dividend paid	16	(15,358,009)	-
Finance cost paid		(309,453)	-
		<u>8,735,038</u>	<u>-</u>
Cash flows from financing activities		8,735,038	-
		<u>2,532,674</u>	<u>2,372,052</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		2,532,674	2,372,052
Cash and cash equivalents as at 1 January		7,679,086	5,307,034
		<u>10,211,760</u>	<u>7,679,086</u>
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	9	10,211,760	7,679,086

The attached notes 1 to 20 form part of these consolidated financial statements.

United Projects Company for Aviation Services K.S.C.P and Subsidiaries
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

Attributable to equity holders of the Parent Company

	Share Capital KD	Share premium KD	Statutory reserve KD	Treasury shares KD	Other reserve KD	Foreign currency translation reserve KD	Retained earnings KD	Sub-total KD	Non-controlling interests KD	Total KD
As at 1 January 2018	10,000,000	10,500,000	5,000,000	(1,544,594)	(260,978)	(333,914)	15,480,385	38,840,899	2,123,770	40,964,669
Transition adjustment on adoption of IFRS 9 at 1 January 2018 (Note 2.2)	-	-	-	-	-	333,914	(1,166,509)	(832,595)	(35,700)	(868,295)
As at 1 January 2018 (restated)	10,000,000	10,500,000	5,000,000	(1,544,594)	(260,978)	-	14,313,876	38,008,304	2,088,070	40,096,374
Profit for the year	-	-	-	-	-	-	9,710,806	9,710,806	41,225	9,752,031
Other comprehensive income for the year	-	-	-	-	(36,609)	5,208	-	(31,401)	-	(31,401)
Total comprehensive income for the year	-	-	-	-	(36,609)	5,208	9,710,806	9,679,405	41,225	9,720,630
Dividend paid (Note 16)	-	-	-	-	-	-	(15,358,009)	(15,358,009)	-	(15,358,009)
Issuance of share capital (Note 10 (a))	3,175,000	16,827,500	-	-	-	-	-	20,002,500	-	20,002,500
Transfer to statutory reserve	-	-	1,021,868	-	-	-	(1,021,868)	-	-	-
As at 31 December 2018	13,175,000	27,327,500	6,021,868	(1,544,594)	(297,587)	5,208	7,644,805	52,332,200	2,129,295	54,461,495
As at 1 January 2017	8,250,000	10,500,000	4,125,000	(1,544,594)	(260,978)	-	8,460,915	29,530,343	2,460,240	31,990,583
Profit for the year	-	-	-	-	-	-	9,644,470	9,644,470	30,932	9,675,402
Other comprehensive loss for the year	-	-	-	-	-	(333,914)	-	(333,914)	-	(333,914)
Total comprehensive (loss) income for the year	-	-	-	-	-	(333,914)	9,644,470	9,310,556	30,932	9,341,488
Issue of bonus shares	1,750,000	-	-	-	-	-	(1,750,000)	-	-	-
Transfer to statutory reserve	-	-	875,000	-	-	-	(875,000)	-	-	-
Liquidation of a subsidiary	-	-	-	-	-	-	-	-	(367,402)	(367,402)
As at 31 December 2017	10,000,000	10,500,000	5,000,000	(1,544,594)	(260,978)	(333,914)	15,480,385	38,840,899	2,123,770	40,964,669

The attached notes 1 to 20 form part of these consolidated financial statements.

United Projects Company for Aviation Services K.S.C.P. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at and for the year ended 31 December 2018

1 ACTIVITIES AND CORPORATE INFORMATION

The consolidated financial statements of the Parent Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2018 were authorised for issue by the board of directors on 10 February 2019. The shareholders of the Parent Company have the power to amend these consolidated financial statements at the annual general assembly meeting (AGM).

United Projects Company for Aviation Services K.S.C.P. (the “Parent Company”) was established as a closed Kuwaiti shareholding company on 4 December 2000. The Parent Company’s registered address is Kuwait International Airport, P.O. Box 27068 Safat 13131, State of Kuwait. The main objectives of the Parent Company are:

- Providing airplane ground and cleaning services and supply of water and other airplane supplies;
- Leasing out airplanes;
- Tourism, travel and cargo shipment services;
- Managing projects;
- Investing surplus funds in investment portfolios managed by specialised institutions;
- The right to participate with other firms, which operate in the same field or those, which would assist in achieving its objectives in Kuwait or abroad, and to purchase those firms or participate in their equity.
- Management and development of real estate activities including real estate consultancy services;
- General trading of construction materials, equipment and real estate;
- To own, lease and rent out land and real estate properties;
- Sharing in executing the infrastructure for the housing, trading and industrial projects and manage real estate facilities under BOT regulations.

The Parent Company is listed on the Kuwait Stock Exchange and is a subsidiary of Agility Public Warehousing Company K.S.C.P (the “Ultimate Parent Company”), which is also listed on the Kuwait Stock Exchange.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES

2.1 BASIS OF PREPARATION

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

The consolidated financial statements have been prepared on a historical cost basis, except for loan to a related party that have been measured at fair value.

The consolidated financial statements are presented in Kuwaiti Dinars (“KD”), which is also the functional of the Parent Company.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous financial year, except for the adoption of following new and amended standards effective as of 1 January 2018.

IFRS 9 - Financial Instruments

The Group has adopted IFRS 9 *Financial Instruments* effective from 1 January 2018. IFRS 9 sets out the requirements for recognizing and measuring financial assets and financial liabilities, impairment of financial assets and hedge accounting. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

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

United Projects Company for Aviation Services K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRS 9 - Financial Instruments (continued)

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

Classification and measurement of financial assets and financial liabilities:

IFRS 9 contains three principal classification categories for financial assets:

- Measured at amortised cost,
- Fair Value through Other Comprehensive Income (FVOCI) and
- Fair Value through Profit and Loss (FVTPL).

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminated the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification. The Group's accounting policies for classification and measurement of financial assets under IFRS 9 is explained in note 2.4.

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

Impairment of financial assets:

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost and debt investments at FVOCI, but not to investments in equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. The Group's accounting policies for impairment of financial assets under IFRS 9 is explained in note 2.4.

Hedge accounting:

The Group did not have any impact resulting from the new guidance relating to hedge accounting included in IFRS 9, as the Group is not dealing in any derivative instruments.

IFRS 9 transition disclosures

The total impact on the Group's equity as at 1 January 2018 is as follows:

	<i>Retained earnings KD</i>	<i>Non-controlling interest KD</i>	<i>Foreign currency translation reserve KD</i>
Closing balance under IAS 39 (31 December 2017)	15,480,385	2,123,770	(333,914)
<i>Impact on reclassification and re-measurements:</i>			
Debt securities - debt from loan to a related party to FVPL	(290,133)	-	333,914
<i>Impact on recognition of ECL on financial assets:</i>			
ECL under IFRS 9 for financial assets – accounts receivables at amortised cost	(876,376)	(35,700)	-
Opening balance under IFRS 9 on date of initial application at			
1 January 2018	14,313,876	2,088,070	-

United Projects Company for Aviation Services K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRS 9 transition disclosures (continued)

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 KD	Transition adjustments KD	New carrying amount under IFRS 9 KD
Cash and bank balances	Loans and receivables	Amortised cost Equity instru- ments at FVOCI	7,679,086	-	7,679,086
Financial assets available for sale – equity securities	Financial assets available for sale		1,449,198	-	1,449,198
Accounts receivable and other assets	Loans and receivables	Amortised cost	3,499,184	(912,076)	2,587,108
Loan to a related party	Amortised cost	FVTPL	30,022,447	43,781	30,066,228
Total financial assets			42,649,915	(868,295)	41,781,620

The application of these policies resulted in the reclassifications set out in the table above. On adoption of IFRS 9, loan to a related party was reclassified out of the loans and receivables category to FVPL since the contractual cash flows of these securities are not solely payments of principal and interest on the principal outstanding.

There have been no changes to the classification or measurement of financial liabilities as a result of the application of IFRS 9.

Expected credit losses (ECL)

The adoption of the ECL requirements of IFRS 9 resulted in increases in impairment allowances of the Group's debt financial assets. The increase in allowance resulted in adjustment to equity amounting to KD 912,076 and an additional charge in the current consolidated statement of income amounting to 405,950 (Note 8).

IFRS 15 – Revenue from Contracts with Customers

The Group adopted IFRS 15 *Revenue from Contracts with Customers* on its effective date of 1 January 2018. IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised 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. In addition, guidance on interest and dividend income have been moved from IAS 18 to IFRS 9 without significant changes to the requirements.

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 relevant disclosures.

IFRS 15 did not have a significant impact on the Group's accounting policies as revenue streams mainly comprise of rental income, service income and interest income.

United Projects Company for Aviation Services K.S.C.P and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 16 – Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

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

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Group has assessed the impact of IFRS 16 which is not expected to be material and plans to adopt the new standard on the required effective date.

2.4 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at the reporting date. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

United Projects Company for Aviation Services K.S.C.P and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Profit or loss and each component of OCI are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

The consolidated financial statements of the Group include:

Name of the company	Country of incorporation	Principal activity	% equity interest	
			2018	2017
Royal Aviation Company K.S.C. (Closed) ("RAC")	Kuwait	Management and services	66.57	66.57
UPAC United Real Estate Company K.S.C.C. ("UREC") ¹	Kuwait	Real estate and property development	96.00	-
Al Arfaj Real Estate Company K.S.C. (Closed) ("Arfaj") ¹	Kuwait	Real estate and property development	96.00	96.00
Held indirectly through Arfaj				
Arfaj Limited ¹	United Arab Emirates	Real estate and property development	100.00	100.00

¹The remaining shares are held by other related parties on behalf of the Parent Company and therefore the effective holding of the Group in these subsidiary is 100%.

Revenue recognition

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts.

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

Rental income

Rental income from operating leases, less the Group's initial direct costs of entering into the leases is recognised on a straight-line basis over lease term, except for contingent rental income which is recognised when it arises.

Amounts received from tenants to terminate leases or to compensate for dilapidations are recognised in the consolidated statement of income when they arise.

Services income

Revenue from aviation services such as aircraft ground handling and real estate activities such as security, cleaning and maintenance works are recognised when the related services are rendered.

Interest income

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

United Projects Company for Aviation Services K.S.C.P and Subsidiaries**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)****Leases**

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if 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 (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the consolidated statement of income on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

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

The Parent Company calculates the contribution to KFAS at 1% in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that the income from associates and subsidiaries, Board of Directors' remuneration, transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

National Labour Support Tax (NLST)

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

Zakat

Contribution to Zakat is calculated at 1% of the profit of the Parent Company in accordance with the Ministry of Finance resolution No. 58/2007.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. The estimated useful lives of intangible assets are as follows:

- | | |
|--|----------|
| • Commercial complex of Kuwait International Airport | 20 years |
| • Discovery Mall* | 10 years |
| • Sheikh Saa'd Terminal | 16 years |

*Fully amortised as at 31 December 2018

Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that an intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end.

United Projects Company for Aviation Services K.S.C.P and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income.

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

Investment in associates

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

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate are accounted for using the equity method.

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

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

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

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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

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

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year.

United Projects Company for Aviation Services K.S.C.P and Subsidiaries**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)****Impairment of non-financial assets (continued)**

Impairment losses of continuing operations are recognised in the consolidated statement of income in those expense categories consistent with the function of the impaired asset, except for assets previously revalued where the revaluation taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

Where an impairment loss subsequently reverses, the carrying amount of the asset (CGU) 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 recognised for the asset (CGU) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of income.

Financial assets**Initial recognition and measurement**

Policy applicable from 1 January 2018

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

Business model assessment

The Group determines its business model at the level that best reflects how it manages group of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument by instrument basis but at a higher level of aggregated portfolios and is based on a number of observable factors. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

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

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

The Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset.

'Interest' is defined as consideration for time value of money and for the credit risk associated with the principal and for other basic lending risks and costs as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cashflows that are unrelated to a basic lending arrangement do not give rise to contractual cashflows that are solely payment of principal and interest. In such cases, the financial asset is measured at fair value through profit or loss.

United Projects Company for Aviation Services K.S.C.P and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Initial recognition and measurement (continued)

Policy applicable from 1 January 2018 (continued)

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

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of, cash in hand, bank balances, short-term deposits with an original maturity of three months or less. Cash, bank balances and deposits are carried at amortised cost using effective interest rate.

Account receivables and other assets

Receivables are carried at undiscounted original invoiced amount less any expected credit losses.

Financial assets carried at fair value through profit or loss (FVTPL)

Financial assets in this category are those assets, which have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management designates an instrument as FVTPL that otherwise meet the requirements to be measured at amortised cost or at FVOCI only if it eliminates, or significantly reduces, an accounting mismatch that would otherwise arise. Financial assets with contractual cash flows not representing solely payment of principal and interest are mandatorily required to be measured at FVTPL.

Financial assets at FVTPL are subsequently measured at fair value. Changes in fair value are recognised in the consolidated statement of income. Interest income is recognised using the effective interest method. Dividend income from equity investments measured at FVTPL is recognised in the consolidated statement of income when the right to the payment has been established.

Loan to related party is classified as financial assets carried at FVTPL since the contractual cash flows of these securities are not solely payments of principal and interest on the principal outstanding.

Policy applicable before 1 January 2018

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments or financial assets available for sale, or as derivatives designated as hedging instrument in an effective hedge as appropriate. All financial assets are recognised initially at fair value plus directly attributable transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets available for sale

Financial assets available for sale include equity and debt securities. Equity investments classified as available for sale are those are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are that those are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, financial assets available for sale are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income until the investment is derecognised, at which time the cumulative gain or loss is recognised in the consolidated statement of comprehensive income or determined to be impaired, at which time the cumulative loss is reclassified to the consolidated statement of comprehensive income. Financial assets available for sale whose fair value cannot be reliably measured are carried at cost less impairment losses, if any. Interest earned whilst holding financial assets available for sale is reported as interest income using the effective interest rate method.

United Projects Company for Aviation Services K.S.C.P and Subsidiaries**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial assets (continued)****Subsequent measurement (continued)***Policy applicable before 1 January 2018 (continued)**Loans and receivables*

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

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position and consolidated statement of cash flows comprise cash in hand and at banks, cash held by portfolio manager and time deposits with an original maturity of up to three months.

Derecognition of financial assets

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

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

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

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

Financial liabilities**Initial recognition and measurement**

The accounting for financial liabilities remain largely the same as it was under IAS 39. Financial liabilities are recognised initially at fair value and, in case of loans, borrowings and payables, net of directly attributable transactions costs.

The Group's financial liabilities include loans and borrowings and accounts payable and other liabilities.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method (EIR).

Accounts payable and other liabilities

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

Derecognition

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

United Projects Company for Aviation Services K.S.C.P and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Policy applicable before 1 January 2018 (continued)

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Impairment of financial assets

Policy applicable from 1 January 2018

The adoption of IFRS 9 has 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.

The Group recognizes expected credit losses (ECL) on financial assets that are measured at amortized cost in accordance with IFRS 9. The expected credit loss of a financial instrument is measured in a way that reflects an unbiased and probability-weighted amount determined by evaluating range of possible outcomes; the time value of money; and past events, current conditions and forecast of future economic conditions. The ECL model applies to all financial instruments except investments in equity instruments. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

IFRS 9 introduces three-stage approach to measuring ECL under the general approach. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses ('ECL') are recognized. The Group considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of "investment grade" to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognized. When determining whether the credit risk on a financial instrument has increased significantly, management considers reasonable and supportable information available, in order to compare the risk of a default occurring at the reporting date with the risk of a default occurring at initial recognition of the financial instrument. When the Group is not able to measure expected credit losses on an individual instrument basis due to cost and effort constraints, it determines significant increases in credit risk on a collective basis, and for this purpose groups financial instruments on the basis of shared credit risk characteristics.

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date based on factors that include financial difficulty of the customer or a default or past due event. For these assets, lifetime ECL are recognized as the difference between the financial asset's gross carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The Group measures loss allowances at an amount equal to 100% of net exposure i.e. after deduction from the amount of exposure, the value of any collateral.

Any adjustments to the carrying amount of the financial asset arising from expected credit losses is recognized in profit or loss as an impairment gain or loss and the loss allowance for ECL is presented as a deduction from the gross carrying amount of the financial assets at amortised cost.

Life time ECL is ECL that result from all possible default events over the expected life of a financial instrument. The 12 month ECL is the portion of life time expected credit loss that result from default events that are possible within the 12 months after the reporting date.

ECL are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD). The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the financial instruments and potential changes to the current amounts allowed under the contract including amortisation.

The EAD of a financial asset is its gross carrying amount. The LGD represents expected loss conditional on default, its expected value when realised and the time value of money.

United Projects Company for Aviation Services K.S.C.P and Subsidiaries**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)*****Impairment of financial assets (continued)***

The Group recognizes ECL for counter fee receivable and other receivables using the general approach described above. The Group applies the simplified approach to recognise lifetime expected credit losses for its rent receivables that are financial assets as permitted by IFRS 9. Accordingly, rent receivable from lessees that are financial assets which are not credit impaired are categorised under stage 2 and lifetime ECL is recognised.

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for AC.

Event of default

The Group considers an event of default has occurred when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, in full (without taking into account any collateral held by the Group). Irrespective of this criteria, the Group considers that a default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Policy applicable before 1 January 2018

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrowers or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from OCI and recognised in the statement of profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in OCI.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Fair value measurement

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

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

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

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

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

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

United Projects Company for Aviation Services K.S.C.P and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be incurred to settle the obligation. When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of income net of any reimbursement.

Contingencies

Contingent liabilities are not recognised on the consolidated statement of financial position. They are disclosed in the consolidated financial statement unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised on the consolidated statement of financial position, but disclosed in the consolidated financial statement when an inflow of economic benefits is probable.

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Any realised losses are recognised in treasury share reserve or share premium reserve to the extent of the credit balance in that account. Any excess losses are charged to retained earnings then to the reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividends are distributed 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.

Employees' end of service benefits

The Group provides end of service benefits to all its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

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

Foreign currencies

The Group's consolidated financial statements are presented in KD, which is also the Parent Company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

United Projects Company for Aviation Services K.S.C.P and Subsidiaries**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICES (continued)**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)****Foreign currencies (continued)***Transactions and balances*

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into KD at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified in profit or loss.

Segment information

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

3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Significant judgments

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

Classification of financial assets*Effective from 1 January 2018 (IFRS 9)*

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

Effective before 1 January 2018 (IAS 39)

Management has to decide on acquisition of financial assets whether it should be classified as available-for-sale, investments at fair value through profit or loss or as loans and receivables. In making the judgment, the Group considers the primary purpose for which it is acquired and how it intends to manage and report performance.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also described in the individual notes of the related financial statement line items below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared.

United Projects Company for Aviation Services K.S.C.P and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of associates

The Group is required to assess, at each reporting date, whether there are indications of impairment. If such indications exist, the management estimates the recoverable amount of the associate in order to determine the extent of the impairment loss (if any). The identification of impairment indicators and determination of the recoverable amounts require management to make significant judgements, estimates and assumptions.

Impairment of receivables

Effective before 1 January 2018 (IAS 39)

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

Effective from 1 January 2018 (IFRS 9)

For receivables, the Group applies a simplified approach in calculating ECL.

The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Actual results may differ from these estimates.

Useful lives intangible assets

Management of the Group assigns useful lives to intangible assets based on the intended use of assets and the economic lives of those assets. Subsequent changes in circumstances such as prospective utilisation of the assets concerned could result in the actual useful lives differing from initial estimates.

Fair value measurement of financial assets

When the fair values of financial assets recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the Discounted Cash Flow ("DCF") model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of unobservable inputs to reflect market conditions. Changes in assumptions about these factors could affect the reported fair value of financial assets. See Note 20 for further disclosures.

Impairment of intangible assets

A decline in the value of intangible assets could have a significant effect on the amounts recognised in the financial statements. Management assesses the impairment of intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Factors that are considered important which could trigger an impairment review include the following:

- Significant decline in the market value which would be expected from the passage of time or normal use
- Significant changes in the technology and regulatory environments
- Evidence from internal reporting which indicates that the economic performance of the asset is, or will be, worse than expected.

United Projects Company for Aviation Services K.S.C.P and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at and for the year ended 31 December 2018
4 GROUP INFORMATION

Financial information of subsidiaries that have material non-controlling interests is provided below:

Proportion of equity interest held by non-controlling interests:

<i>Name of the company</i>	<i>Country of incorporation</i>	<i>Principal activity</i>	<i>Ownership %</i>	
			2018	2017
Royal Aviation Company K.S.C. (Closed) ("RAC")	Kuwait	Management and services	33.43	33.43

The summarised financial information of the subsidiary is provided below. This information is based on amounts before inter-company eliminations.

	<i>RAC</i> 2018 <i>KD</i>	<i>RAC</i> 2017 <i>KD</i>
Summarized statement of income statement for the year ended 31 December:		
Revenues	2,197,719	2,178,501
Operating costs	(792,887)	(818,060)
Net operating expenses	(506,774)	(455,711)
Other income	47,228	9,265
	<hr/>	<hr/>
EBITDA	945,286	913,995
Depreciation and amortization	(821,968)	(821,466)
	<hr/>	<hr/>
Profit for the year	123,318	92,529
	<hr/>	<hr/>
Profit allocated to non-controlling interests	41,225	30,932
	<hr/>	<hr/>

Summarised statement of financial position as at 31 December:

	<i>RAC</i> 2018 <i>KD</i>	<i>RAC</i> 2017 <i>KD</i>
Non-current assets	5,603,694	5,128,694
Current assets	1,337,876	1,906,112
Non-current liabilities	(47,750)	(44,745)
Current liabilities	(524,577)	(637,175)
	<hr/>	<hr/>
Total equity	6,369,243	6,352,886
	<hr/>	<hr/>
Accumulated balances of non-controlling interests:	2,129,295	2,123,770
	<hr/>	<hr/>

United Projects Company for Aviation Services K.S.C.P and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at and for the year ended 31 December 2018

Summarised statement of financial position as at 31 December:

	<i>RAC</i> <i>2018</i> <i>KD</i>	<i>RAC</i> <i>2017</i> <i>KD</i>
Operating cash flows	750,000	455,123
Investing cash flows	(1,296,968)	(7,764)
Net (decrease) increase in bank balances and cash	(546,968)	447,359

5 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the profit for the year attributable to the equity holders of the Parent Company by the weighted average number of shares outstanding during the year (excluding treasury shares).

The information necessary to calculate basic earnings per share based on the weighted average number of shares outstanding, less treasury shares, during the year is as follows:

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
Profit for the year attributable to equity holders of the Parent Company	9,710,806	9,644,470
	Shares	Shares
Weighted average number of paid up shares	125,754,549	102,956,056
Weighted average number of treasury shares	(4,824,307)	(4,824,307)
Weighted average number of shares, less treasury shares, outstanding during the year	120,930,242	98,131,749
Basic and diluted earnings per share	80.30 fils	98.28 fils

Earnings per share for 2017 has been adjusted to reflect the rights issue during the year (Note 10 a).

6 INTANGIBLE ASSETS

Intangible assets represent cost incurred on the construction of the Discovery Mall, Sheikh Saa'd Terminal, car park and commercial complex of Kuwait International Airport in accordance with Built-Own-Transfer (BOT) agreement with the government of Kuwait and have useful life and amortised as disclosed in Note 2.

	<i>2018</i> <i>KD</i>	<i>2017</i> <i>KD</i>
Cost:		
As at 1 January	41,606,553	41,582,488
Additions	170,598	24,065
As at 31 December	41,777,151	41,606,553
Amortisation:		
As at 1 January	31,382,241	29,510,694
Charge for the year	1,881,508	1,871,547
As at 31 December	33,263,749	31,382,241
Net carrying amount:		
As at 31 December	8,513,402	10,224,312

United Projects Company for Aviation Services K.S.C.P and Subsidiaries**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****As at and for the year ended 31 December 2018****6 INTANGIBLE ASSETS (continued)**

Included in intangible assets is a fully amortised intangible asset (31 December 2018: KD Nil and 31 December 2017: KD Nil) that represents Built-Own-Transfer (BOT) project for the construction of Discovery Mall (the "Mall"). This Mall was built on a leasehold land from the Touristic Enterprise Company ("TEC") for an initial period of 10 years which was then extended by seven months to 28 January 2014. Since there were various delays in receiving the leasehold land from TEC, which resulted in an adverse effect on the investment term, the Parent Company requested to renew the contract for an additional period and has subsequently filed a compensation claim. However, TEC has filed a lawsuit requesting the Parent Company to withdraw from the Mall and deliver the Mall back. The First Instance court ruled in favor of TEC acknowledging the initial expiration of the contract. The Parent Company appealed the judgement which was subsequently transferred to a committee of experts to assess the overall damages and compensation. The Parent Company also submitted recourse before the Cassation Court, which ruled that the execution judgement should be suspended. The Parent Company is therefore still handling the management and operation of the Mall on the basis of the Cassation Court judgement and cannot assess when these proceedings will come to closure until a final ruling is made. Accordingly, revenue from the Mall has been recognised by the Parent Company in the consolidated statement of income because it is, in all cases, an exclusive right for which the Parent Company is entitled to, regardless of the outcome of the lawsuits filed by both parties.

Included in intangible assets is an amount of KD 4,230,853 (2017: KD 5,008,904) that represents the carrying value of Built-Own-Transfer (BOT) project for the construction of Sheikh Saa'd Terminal (the "terminal"). This was built on a leasehold land from the government of the State of Kuwait for 20 years which will expire on 2024. Since September 2013, The Civil Aviation Authority permitted Flydubai, one of the carriers to operate from the terminal. As a result of this, the management is confident that the carrying amount of the terminal is fully recoverable and no impairment is considered necessary.

Included in intangible assets is an amount of KD 4,282,549 (2017: KD 5,215,408) that represents the carrying value of Built-Own-Transfer (BOT) project for the construction of the car park and commercial complex of Kuwait International Airport. This was built on a leasehold land from the government of the State of Kuwait for 20 years which will expire on 2023. The management is confident that the carrying amount of the intangible asset is fully recoverable and no impairment is considered necessary.

7 INVESTMENT IN AN ASSOCIATE

<i>Name</i>	<i>Country of incorporation</i>	<i>% equity interest</i>		<i>Principal activity</i>
		<i>2018</i>	<i>2017</i>	
Naples Topco Limited	UAE	9.47	2.1	Real estate

During the current year, the Group subscribed for equity interest in Naples through transferring portion of loan to a related party (Note 13) amounting to AED 62M equivalent to KD 5.1M resulting in ownership of 9.47% (2017: 2.1%) to equity. The Group has determined that it exercises significant influence over associate through virtue of board representation, which has changed during the year.

United Projects Company for Aviation Services K.S.C.P and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at and for the year ended 31 December 2018
7 INVESTMENT IN AN ASSOCIATE (continued)

Summarised financial information of the associate is as follows:

	<i>2018</i> <i>KD</i>
Assets and liabilities:	
Non-current assets	175,873,116
Current assets	523,403
Non-current liabilities	(97,657,951)
Current liabilities	(9,685,301)
	<hr/>
Equity	69,053,267
	<hr/>
Proportion of the Company's ownership	9.47%
	<hr/>
Company's share in Equity	6,539,345
	<hr/> <hr/>
Loss for the year	(910,000)
	<hr/> <hr/>
Company's share in the loss for the year*	(9,555)
	<hr/> <hr/>
Other comprehensive loss for the year	(3,486,571)
	<hr/> <hr/>
Company' share in other comprehensive income	(36,609)
	<hr/> <hr/>

* Share of results were accounted on a pro rata basis from date the Group achieved significance influence.

The movement in the carrying amount of the investment in an associate during the year is as follows:

	<i>2018</i> <i>KD</i>
Transfer from financial asset available for sale	1,449,198
Contribution during the year	5,131,103
Share of results	(9,555)
Share of other comprehensive income	(36,609)
Foreign currency translation adjustment	5,208
	<hr/>
As at 31 December	6,539,345
	<hr/> <hr/>

United Projects Company for Aviation Services K.S.C.P and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

8 ACCOUNTS RECEIVABLE AND OTHER ASSETS

	2018 KD	2017 KD
Rent receivables	1,542,931	1,208,743
Counter fee receivable	2,422,000	1,720,000
Other receivables	600,424	501,233
Prepayments	826,633	517,504
	<u>5,391,988</u>	<u>3,947,480</u>
Provision against impairment of receivables	<u>(1,756,198)</u>	<u>(448,296)</u>
	<u><u>3,635,790</u></u>	<u><u>3,499,184</u></u>

Movements in the allowance for provision against impairment of receivables is as follows:

	2018 KD	2017 KD
As at 1 January	448,296	370,788
Transition adjustment to IFRS 9 (note 2.2)	912,076	-
Charge for the year	405,950	100,927
Reversal during the year	-	(5,934)
Amounts written off	<u>(10,124)</u>	<u>(17,485)</u>
At end of the year	<u><u>1,756,198</u></u>	<u><u>448,296</u></u>

As at 31 December, the ageing of unimpaired accounts receivable and other assets is as follows:

	Total KD	Neither past due nor impaired KD	Past due but not impaired			
			1 – 30 days KD	31 – 60 days KD	61 – 90 days KD	Over 90 days KD
2018	<u><u>2,809,157</u></u>	<u><u>8,771</u></u>	<u><u>426,904</u></u>	<u><u>228,717</u></u>	<u><u>161,658</u></u>	<u><u>1,983,107</u></u>
2017	<u><u>2,981,680</u></u>	<u><u>-</u></u>	<u><u>224,860</u></u>	<u><u>213,414</u></u>	<u><u>146,884</u></u>	<u><u>2,396,522</u></u>

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

United Projects Company for Aviation Services K.S.C.P and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

9 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the consolidated statement of cash flows and consolidated statement of financial position consist of the following:

	2018 KD	2017 KD
Cash and bank balances	3,168,641	1,888,680
Short term deposits	7,043,119	5,790,406
	<hr/>	<hr/>
Cash and cash equivalents	10,211,760	7,679,086
	<hr/> <hr/>	<hr/> <hr/>

Short term deposits are denominated in KD and carry an effective interest rate range between 1.75% to 2.25% (2017: 1.25% to 1.5%) per annum with maturity less than three months from reporting date.

10 SHARE CAPITAL AND RESERVES

a) Share capital and share premium

The authorised share capital of the Parent Company is KD 38,250,000 comprises of 382,500,000 shares of 100 fils each. The increase in the authorised share capital was approved by the Extraordinary General Assembly meeting of the shareholders held on 29 September 2016. Issued and paid up share capital of the Parent Company as at 31 December 2018 is KD 13,175,000 (2017: KD 10,000,000) comprises of 131,750,000 shares (31 December 2017: 100,000,000 shares) of 100 fils each.

During the period, the Parent Company made a rights issue to its shareholders at KD 0.630 per share made up of KD 0.100 share capital and KD 0.530 share premium. A total of 31,750,000 shares were issued resulting in an increase in share capital by KD 3,175,000 and an increase in the share premium account by KD 16,827,500.

The share premium is not available for distribution.

At the Board of Directors meeting held on 12 September 2018, the directors recommended an increase in issued share capital by a rights issue to its shareholders at KD 0.550 per share made up of KD 0.100 share capital and KD 0.450 share premium. The proposed issuance, shall result in increase of issued and paid up capital to 164,500,000 shares and an increase of share capital to KD 16,450,000.

b) Statutory reserve

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

United Projects Company for Aviation Services K.S.C.P and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

11 TREASURY SHARES

	2018	2017
Number of treasury shares	<u>4,824,307</u>	<u>4,824,307</u>
Percentage of issued shares (%)	<u>4 %</u>	<u>5 %</u>
Market value (KD)	<u>3,063,435</u>	<u>2,822,220</u>
Cost (KD)	<u>1,544,594</u>	<u>1,544,594</u>

Reserves equivalent to the cost of the treasury shares held are not available for distribution.

12 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2018 KD	2017 KD
Accounts payable	1,382,294	1,242,004
Accrued expenses	1,192,353	699,040
Rent received in advance*	7,021,016	7,360,149
Provision for staff leave	120,524	116,130
Tenant deposits	2,107,528	2,174,302
Other payables	<u>25,662</u>	<u>201,523</u>
	<u>11,849,377</u>	<u>11,793,148</u>
	2018 KD	2017 KD
Classified as:		
Non-current liability	3,532,872	4,774,891
Current liability	<u>8,316,505</u>	<u>7,018,257</u>
	<u>11,849,377</u>	<u>11,793,148</u>

* This amount includes a non-current portion for rent received in advance beyond 12 months of the reporting period amounting to KD 3,532,872 (2017: KD 4,774,891) which represents rent received in advance by the Group from tenants in accordance with a rental agreements.

The accounts payable and other liabilities balances above are non-interest bearing and are settled throughout the financial year except for rent received in advance as mentioned above.

United Projects Company for Aviation Services K.S.C.P and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

13 RELATED PARTY DISCLOSURES

These represent transactions with related parties, i.e. major shareholders, associate, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

Transactions and balances and with related parties are as follows:

	<i>Other related parties KD</i>	2018 KD	<i>2017 KD</i>
Consolidated statement of income :			
Revenues	72,730	72,730	19,427
Operating costs	(262,700)	(262,700)	(270,545)
General and administrative expenses	(19,773)	(19,773)	(28,553)
Other income	-	-	42,792
Interest income	3,123,014	3,123,014	2,103,230

	<i>Ultimate parent company</i>	<i>Other related parties KD</i>	2018 KD	<i>2017 KD</i>
Consolidated statement of financial position				
Amounts due from a related party (included in accounts receivable and other assets)	-	-	-	43,878
Amounts due to related parties (included in accounts payable and other liabilities)	(326,264)	(64,666)	(390,930)	(309,697)
Investment in an associate (Note 7)	-	6,539,345	6,539,345	-
Loan to a related party*	-	42,054,013	42,054,013	30,022,447
Financial assets available for sale (Note 7)	--	-	-	1,449,198

Amounts due from/to related parties are interest free and are receivable/payable on demand. Other related parties include entities under common control.

* Loan to a related party represents amounts advanced by a subsidiary of the Group towards the construction and development of a commercial mall in UAE ("Project"). This amount bears compounded annual interest rates as per the loan agreement and can be converted to equity in the Project on completion of construction subject to the Project achieving certain operational targets. The Group has contributed KD 6,539,345 (2017: KD 1,449,198) in the equity of the Project out of the Group's capital commitment. After adopting IFRS 9 on January 2018, loan to a related party have been reclassified as FVPL (Note 2.2).

United Projects Company for Aviation Services K.S.C.P and Subsidiaries**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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13 RELATED PARTY DISCLOSURES (continued)

Movement in loan to a related party during the year is as follows:

	2018 KD	2017 KD
As at 1 January	30,022,447	20,339,286
Transition adjustment to IFRS 9 (Note 2.2)	43,781	-
Additional contribution	8,595,449	7,913,845
Interest accrued	3,123,014	2,103,230
Change in fair value ¹	(24,378)	-
Foreign currency translation adjustments	293,700	(333,914)
	42,054,013	30,022,447

¹The fair value of loan to a related party is determined based on residual land value report prepared by management using discounted cash flow for the Project. The valuation models applied are consistent with the principles in IFRS 13 and fair value is determined using various unobservable inputs and hence classified as level 3.

Compensation of key management personnel

The remuneration of key management personnel during the year was as follows:

	2018 KD	2017 KD
Short-term benefits	204,387	227,968
Employees' end of service benefits	21,267	62,846
	225,654	290,814

14 LOANS AND BORROWINGS

	2018 KD	2017 KD
Gross amount	4,400,000	-

During the year ended 31 December 2017, the Parent Company signed a syndicated loan agreement consisting of two facilities with a local bank for an amount of KD 50,100,000 to finance the construction, development of a commercial mall in UAE, the Project (Note 13), and for working capital requirements of the Parent Company. As at 31 December 2018, an amount of KD 5,900,000 has been withdrawn and KD 1,500,000 of which is repaid. This loan facility bears an average finance cost of 6% (31 December 2017: 0%) per annum and is repayable on 31 July 2019.

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15 COMMITMENTS AND CONTINGENCIES

BOT commitments – Group as a lessor

The Shaikh Saad Terminal, Discovery Mall, T4 car park, car park and commercial complex of Kuwait International Airport (Note 6) are constructed on a leased land for which an annual lease payment of KD 1,675,035 (2017: KD 872,678) has been made. The lease payments for the future periods are as follows:

	2018 KD	2017 KD
Within one year	1,675,035	872,678
After one year but no later than five years	7,368,950	3,202,712
Later than 5 years	-	335,678
	9,043,985	4,411,068

On 25 November 2018, the Parent Company signed a five years BOT contract with a total contract value of KD 5,352,000 with the Incheon International Airport Corporation (IIAC), the operator of Kuwait Airport Terminal 4 ("T4"), and under the auspices of the Directorate General of Civil Aviation (DGCA), to develop, operate and maintain the parking and related facilities at the new Kuwait Airways dedicated Terminal 4 (T4). The Group's operations at T4 are due to start by February 2019.

Contingencies

As at 31 December 2018, the Group had contingent liabilities, amounting to KD 37,344,054 (2017: KD 307,290), in respect of bank guarantees arising in the ordinary course of business.

16 DIVIDENDS AND BOARD OF DIRECTORS' REMUNERATION

At the Annual General Assembly of the shareholders of the Parent Company held on 24 April 2018, the shareholders approved the distribution of cash dividends of 121 fils per share (2016: KD Nil) amounting to KD 15,358,009 for the year ended 31 December 2017 (2016: Nil) for shareholders registered on the appropriate regulatory approval date on 15 May 2018 which has been paid on 23 May 2018.

At the Board of Directors meeting held on 10 February 2019, the directors recommended distribution of cash dividend of 21 fils (2017: 121 fils) per share for the year ended 31 December 2018 and Board of Directors' remuneration of KD 25,000 (2017: KD 25,000). The proposed dividend, if approved at the AGM by the shareholders, shall be payable to the shareholders after obtaining the necessary regulatory approvals.

Board of Directors' remuneration is within the amount permissible under local regulations and is subject to approval by the annual general assembly of the shareholders of the Parent Company.

17 SEGMENTAL INFORMATION

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, taxation is managed on a Group basis and is not allocated to operating segments.

For management purposes, the Group is organised in two operating segments: I) Investments: consists of investing in Reem mall and surplus funds in investment portfolios. II) Service operations: consists of managing projects and providing airplane ground and cleaning services and other service facilities.

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17 SEGMENTAL INFORMATION (continued)

	<i>Investments</i>		<i>Services operations</i>		<i>Total</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
Segment revenues	3,665,104	2,200,991	13,826,738	14,072,677	17,491,842	16,273,668
Segment profit	2,889,880	2,200,991	7,370,016	7,931,170	10,259,896	10,132,161
Unallocated Expenses					(507,865)	(456,759)
Profit for the year					9,752,031	9,675,402
Depreciation and Amortisation	-	-	1,959,301	1,943,415	1,959,301	1,943,415
Assets	56,151,929	37,468,051	15,018,788	15,689,756	71,170,717	53,157,807
Liabilities	-	-	16,709,222	12,193,138	16,709,222	12,193,138
Other disclosures:						
Capital expenditure	-	-	170,598	24,065	170,598	24,065

Capital expenditure represents additions to intangible assets.

18 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities, comprise accounts payable and other liabilities and bank borrowings. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include accounts receivable and other assets and cash and cash equivalents that derive directly from its operations. The Group also holds investments in loan to a related party.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Parent Company's Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

18.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of foreign currency risk and interest rate risk.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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18 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

18.1 Market risk (continued)

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group incurs foreign currency risk on transactions denominated in a currency other than the KD.

The Group currently does not use financial derivatives to manage its exposure to currency risk. The Group manages its foreign currency risk based on the limits determined by management and a continuous assessment of the Group's open positions, current and expected exchange rate movements. The Group ensures that its net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the KD.

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to investments in foreign currencies for loan to related party.

Foreign currency sensitivity

The following tables demonstrate the effect of a reasonably possible change in the aforementioned exchange rates, with all other variables held constant. The impact on the Group's profit due to changes in the fair value of monetary assets and liabilities is as follows:

Currency	Change in exchange rate	Effect on profit or loss (relates to monetary financial assets)	
		2018	2017
		KD	KD
AED	+5 %	2,102,701	-

There is no sensitivity effect on OCI as the Group has no assets classified as fair value through OCI or designated hedging instruments. An equivalent decrease in each of the aforementioned currencies against the KD would have resulted in an equivalent but opposite impact.

Interest rate risk

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

The Group's policy is to manage its interest cost by availing competitive credit facilities from local financial institutions and constantly monitoring interest rate fluctuations.

Interest rate sensitivity

A reasonably possible change of 100 basis points in interest rates at the reporting date would have resulted in a decrease in profit for the year by KD 39,257 (2017: KD 26,315). This analysis assumes that all other variables, remain constant.

18.2 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily rental income receivables), including cash at banks and other financial instruments.

The Group's policy is to closely monitor the creditworthiness of the counterparties. In relation to rental income receivable, management assesses the tenants according to Group's criteria prior to entering into lease arrangements. The credit risk on bank balances and term deposits is limited because the counterparties are reputable financial institutions with appropriate credit-ratings assigned by international credit-rating agencies.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at and for the year ended 31 December 2018
18 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)
18.2 Credit risk (continued)

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets as follows:

	2018 KD	2017 KD
Cash and cash equivalents	10,211,760	7,679,086
Accounts receivable and other assets*	2,191,148	2,504,903
Loan to a related party	42,054,013	30,022,447
	54,456,921	40,206,436

*Accounts receivable and other assets exclude prepayments, advance to suppliers.

As at 31 December 2018, the Group had 1 customer (2017: 1 customer) that owed the Group KD 2,422,000 before provision (2017: KD 1,720,000 before provision) and accounted for approximately 67% (2017: 49%) of accounts receivable and other assets.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the Group's historical observed default rates. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate.

The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

The Group does not hold collateral as security against accounts receivable. Refundable deposits are considered integral part of rent receivables and considered in the calculation of impairment. At 31 December 2018, 20% (2017: 18%) of the Groups rent receivable are covered by refundable deposits. These credit enhancements obtained by the Group resulted in a decrease in the ECL as at 31 December). ECL on rent receivable is calculated using simplified approach whereas for counter fees and other receivable ECL is calculated using general approach as life time ECL.

The following table shows about the credit risk exposure on the Group's rent receivable assets using a provision matrix:

	<i>Total</i> <i>KD</i>	<i>Past due but not impaired</i>			
		<i>1-30 days</i> <i>KD</i>	<i>31-60 days</i> <i>KD</i>	<i>61-90 days</i> <i>KD</i>	<i>Over 90 days</i> <i>KD</i>
Expected credit loss rate		15 %	15 %	15 %	57 %
As at 31 December 2018	721,058	34,670	18,092	6,601	661,695

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18 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)
18.2 Credit risk (continued)

An analysis of changes in the gross carrying amount and the corresponding expected credit losses in relation to counter fees and other receivables are as follows:

2018	Stage 1 KD	Stage 2 KD	Stage 3 KD	Total KD
Gross carrying amount as at 31 December 2018	-	-	3,022,424	3,022,424
	=====	=====	=====	=====
2018	KD Stage 1	KD Stage 2	KD Stage 3	KD Total
ECL allowance as at 1 January 2018	-	-	775,400	775,400
Charge for the year	-	-	259,740	259,740
	-----	-----	-----	-----
As at 31 December 2018	-	-	1,035,140	1,035,140
	=====	=====	=====	=====

18.3 Liquidity risk

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of banking facilities. Group's debt will mature in less than one year at 31 December 2018 based on the carrying value of borrowings reflected in the consolidated financial statements. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. The Group has access to a sufficient variety of sources of funding.

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18 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)
18.3 Liquidity risk (continued)

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

2018	<i>On demand KD</i>	<i>Within 3 months KD</i>	<i>3 – 12 months KD</i>	<i>Total KD</i>
Accounts payable and other liabilities*	390,930	1,463,998	2,973,434	4,828,362
Loans and borrowings	-	-	4,400,000	4,400,000
	390,930	1,463,998	7,373,434	9,228,362
2017	<i>On demand KD</i>	<i>Within 3 months KD</i>	<i>3 – 12 months KD</i>	<i>Total KD</i>
Accounts payable and other liabilities*	309,697	1,106,526	3,016,776	4,432,999

*Account payables and other liabilities exclude rent received in advance.

19 CAPITAL MANAGEMENT

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

The Group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust dividend payment to shareholders, transact with treasury shares, issue new shares, or sell assets to reduce debt. Capital comprises equity attributable to the Parent Company, excluding statutory reserve and measured at KD 46,310,332 as at 31 December 2018 (2017: KD 33,840,899).

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20 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of accounts receivables and other assets, cash and cash equivalents and loan to a related party. Financial liabilities consist of loans and borrowings, accounts payables and other liabilities excluding rent received in advance. The management assesses that the carrying amount of financial instruments is a reasonable approximation of fair value.

Loan to a related party is classified as Level 3 upon the implementation of IFRS 9 (Note 2.2).

The following table shows a reconciliation of the opening and closing amount of level 3 financial assets which are recorded at fair value.

31 December 2018	As at 1 January KD	IFRS 9 transition adjustment KD	Total gains recognised in profit or loss KD	Net (sales) and purchases KD	At 31 December KD
Loan to a related party	30,022,447	43,781	269,321	11,718,464	42,054,013

Description of significant unobservable inputs to valuation:

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at 31 December are as shown below:

Significant unobservable valuation inputs	Inputs	Change	Sensitivity of the input to fair value KD
Exit yield	7%	+0.5 %	(3,394,459)
		-0.5 %	3,854,577
Discount rate	10%	+0.5 %	(3,344,924)
		-0.5 %	3,428,424