THE ENERGY HOUSE HOLDING COMPANY K.S.C. (CLOSED) AND SUBSIDIARIES

Consolidated Financial Statements and Independent Auditors' report for the year ended 31 December 2013

THE ENERGY HOUSE HOLDING COMPANY K.S.C. (CLOSED)
AND SUBSIDIARIES

Index

KPMG

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Independent auditors' report

To the Shareholders of
The Energy House Holding Company K.S.C. (Closed)
Kuwait

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The Energy House Holding Company K.S.C. (Closed) (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statements of profit or loss, comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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 2013, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2012 were audited by other auditors who expressed an unqualified audit opinion on 30 January 2013 on those consolidated financial statements.

Report on Other Legal and Regulatory Requirements

We further report that we have obtained the information and explanations that we required for the purpose of our audit and that the consolidated financial statements include the information required by the Companies Law No. 25 of 2012, as amended, and the Company's Articles and Memorandum of Association. In our opinion, proper books of account have been kept by the Company, an inventory count was carried out in accordance with recognised procedures and the accounting information given in the Board of Directors' report agrees with the books of account. We have not become aware of any contravention, during the year ended 31 December 2013, of the Companies Law No. 25 of 2012, as amended or of the Company's Articles and Memorandum of Association, that might have had a material effect on the Group's activities or on its consolidated financial position.

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BOUBYAN Auditing Office

Kuwait: 4 February 2014

THE ENERGY HOUSE HOLDING COMPANY K.S.C. (CLOSED)
AND SUBSIDIARIES

Consolidated statement of financial position
As at 31 December 2013

	Notes	31 December 2013 KD	31 December 2012 KD
ASSETS			
Non-current assets			
Property and equipment	*4*	**9,229,509**	6,415,904
Intangible assets and goodwill	*5*	**751,551**	848,382
Investment property	*6*	**6,860,446**	7,676,967
Investment in associates	*7*	**3,718,951**	3,660,103
Financial assets available for sale	*8*	**35,444,249**	35,534,351
Financial assets at fair value through profit or loss	*9*	**6,043,473**	5,048,469
Other non-current assets		**-**	1,316,899
		62,048,179	60,501,075
Current assets			
Inventories		**1,685,321**	1,011,925
Accounts receivable and other assets	*10*	**7,904,730**	11,580,186
Bank balances, cash and term deposits	*11*	**6,247,033**	9,766,931
		15,837,084	22,359,042
Total assets		**77,885,263**	82,860,117
EQUITY			
Share capital	*12*	**75,000,000**	75,000,000
Share premium	*12*	**193,550**	193,550
Statutory reserve	*12*	**472,723**	472,723
Voluntary reserve	*12*	**314,957**	314,957
Other reserves	*12*	**(488,728)**	(232,633)
Foreign currency translation reserve		**(1,526,838)**	598,961
Fair value reserve		**28,115**	25,701
Accumulated losses		**(11,408,337)**	(14,371,425)
Equity attributable to shareholders of the Company		**62,585,442**	62,001,834
Non-controlling interests	*13*	**4,879,584**	4,154,652
Total equity		**67,465,026**	66,156,486
LIABILITIES			
Non-current liabilities			
Finance lease liabilities		**18,742**	296,060
Provision for staff indemnity		**503,105**	372,098
		521,847	668,158
Current liabilities			
Accounts payable and other liabilities	*14*	**8,151,594**	11,974,024
Finance lease liabilities		**220,805**	272,493
Bank overdraft		**-**	1,159,653
Murabaha payables	*15*	**1,525,991**	2,629,303
		9,898,390	16,035,473
Total liabilities		**10,420,237**	16,703,631
Total equity and liabilities		**77,885,263**	82,860,117

Saad Ali Al Shuwaib
Chairman

Khaled A. Al-Sumaiti
Vice Chairman

The accompanying notes set out on pages 8 to 49 form an integral part of these consolidated financial statements.

Consolidated statement of profit or loss
For the year ended 31 December 2013

	Notes	2013 KD	2012 KD
Revenue			
Contract revenue		**11,250,701**	4,719,635
Rendering of services		**4,971,203**	3,424,347
Sales of goods		**155,506**	464,328
Equipment rental income		**430,599**	330,063
		16,808,009	8,938,373
Cost of revenue			
Contract costs		**(8,858,542)**	(7,552,228)
Cost of rendering of services		**(3,648,197)**	(3,603,203)
Cost of sales of goods		**(128,926)**	(403,973)
Cost of renting equipment		**(195,907)**	(81,670)
		(12,831,572)	(11,641,074)
Gross profit / (loss)		**3,976,437**	(2,702,701)
Other income		**905,702**	287,619
Unrealised gain on financial assets at fair value through profit or loss	*9*	**988,011**	76,646
Realized loss on sale of financial assets at fair value through profit or loss		**(16,004)**	-
Rental income from investment property	*6*	**351,421**	415,804
Fair valuation gain on investment property	*6*	**945,774**	2,926,068
Staff costs		**(1,717,232)**	(2,248,661)
General and administration expenses		**(1,401,320)**	(1,985,594)
Impairment losses	*17*	**(4,034,760)**	(5,782,222)
Foreign exchange gain / (loss)	*18*	**1,003,955**	(5,679,410)
Amortization of intangible assets	*5*	**(97,797)**	(133,090)
Operating profit / (loss)		**904,187**	(14,825,541)
Finance costs		**(135,886)**	(303,071)
Finance income		**58,781**	163,444
Dividend income		**-**	830,037
Gain on deemed disposal of associate	*7*	**10,822**	-
Share of results from associates	*7*	**184,279**	(124,389)
Monetary gain from hyperinflation	*23*	**840,523**	-
Profit / (loss) for the year before taxation		**1,862,706**	(14,259,520)
Taxation on foreign operations		**(214,677)**	(31,752)
Profit / (loss) for the year before provision for contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), National Labor Support Tax ("NLST"), Zakat and Board of Directors' remuneration		**1,648,029**	(14,291,272)
Provision for contribution to KFAS, NLST and Zakat	*19*	**(11,812)**	-
Profit / (loss) for the year before Board of Directors' remuneration		**1,636,217**	(14,291,272)
Board of Directors' remuneration		**(25,000)**	-
Net profit / (loss) for the year		**1,611,217**	(14,291,272)
Attributable to:			
Shareholders of the Company		**1,135,846**	(9,961,286)
Non-controlling interests		**475,371**	(4,329,986)
		1,611,217	(14,291,272)
Basic and diluted earnings / (loss) per share attributable to shareholders of the Company (fils)	*20*	**1.51**	(13.3)

The accompanying notes set out on pages 8 to 49 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
For the year ended at 31 December 2013

	2013 KD	2012 KD
Net profit / (loss) for the year	**1,611,217**	(14,291,272)
Other comprehensive (loss) / income		
Items that are or may be reclassified subsequently to the consolidated statement of profit or loss		
Foreign currency translation reserve of subsidiaries	**(494,339)**	637,148
Share of foreign currency translation reserve of associates	**(365,183)**	50,246
Exchange differences arising on translation of foreign operations	**(2,290,868)**	5,485,991
Change in fair value of financial assets available for sale	**3,756**	40,001
Total items that are or may be reclassified subsequently to the consolidated statement of profit or loss	**(3,146,634)**	6,213,386
Total other comprehensive (loss) / income for the year	**(3,146,634)**	6,213,386
Total comprehensive loss for the year	**(1,535,417)**	(8,077,886)
Attributable to:		
Shareholders of the Company	**(987,539)**	(5,955,047)
Non-controlling interests	**(547,878)**	(2,122,839)
	(1,535,417)	(8,077,886)

The accompanying notes set out on pages 8 to 49 form an integral part of these consolidated financial statements.

THE ENREGY HOUSE HOLDING COMPANY K.S.C. (CLOSED)
AND SUBSIDIARIES
Consolidated statement of cash flows
For the year ended 31 December 2013

	Notes	2013 KD	2012 KD
Cash flows from operating activities			
Net profit / (loss) for the year		**1,611,217**	(14,291,272)
Adjustments for:			
Rental income from investment property	*6*	**(351,421)**	(415,804)
Fair valuation gain on investment property	*6*	**(945,774)**	(2,926,068)
Share of results of associates	*7*	**(184,279)**	124,389
Dividend income		**-**	(830,037)
Gain on disposal of property and equipment		**(434,370)**	(178,143)
Depreciation and amortization	*4 & 5*	**1,288,576**	1,837,370
Impairment losses	*17*	**4,034,760**	7,692,345
Unrealised gain on financial assets at fair value through profit or loss	*9*	**(988,011)**	(76,646)
Realized loss on sale of financial assets at fair value through profit or loss		**16,004**	-
Gains on deemed disposal of associate	*7*	**(10,822)**	-
Foreign exchange (gain) / loss		**(494,339)**	11,300,489
Monetary gain from hyperinflation	*23*	**(840,523)**	-
Taxation		**226,489**	31,752
Finance costs		**135,886**	303,071
Provision for staff indemnity		**111,957**	112,309
		3,175,350	2,683,755
Changes in:			
Inventories		**(139,580)**	551,310
Accounts receivable and other assets		**964,600**	(4,988,189)
Accounts payable and other liabilities		**(4,048,919)**	(1,893,726)
Cash used in operations		**(48,549)**	(3,646,850)
Provision for staff indemnity paid		**(21,018)**	(167,052)
Taxes paid		**-**	(51,093)
Net cash used in operating activities		**(69,567)**	(3,864,995)
Cash flows from investing activities			
Net movement in restricted bank balances and deposits		**169,766**	173,258
Investment in wakala deposits		**(1,050,000)**	-
Withdrawal from wakala deposits		**1,303,900**	4,450,400
Investment in associate		**-**	(126,270)
Acquisition of additional interest in subsidiary (note 13)		**(34,332)**	-
Purchase of investments at fair value through profit or loss	*9*	**(27,997)**	(4,971,823)
Proceeds from sale of investments at fair value through profit or loss		**15,204**	-
Purchase of property and equipment		**(1,919,487)**	(1,596,172)
Proceeds from disposal of property and equipment		**520,373**	289,540
Purchase of intangible assets		**-**	(35,025)
Dividend income received, including dividend from associates		**-**	874,977
Rental income received		**351,421**	415,804
Net cash flow on acquisition of subsidiary		**-**	(29,453)
Net cash used in investing activities		**(671,152)**	(554,764)
Cash flows from financing activities			
Finance costs paid		**(239,198)**	(233,901)
Net movement in murabaha payables		**(1,000,000)**	(160,489)
Net movement finance lease liabilities		**(329,006)**	(516,216)
Net cash used in financing activities		**(1,568,204)**	(910,606)
Effect of foreign currency translation		**372,344**	199,128
Net decrease in cash and cash equivalents		**(1,936,579)**	(5,131,237)
Cash and cash equivalents at beginning of the year		**5,302,305**	10,433,542
Cash and cash equivalents at end of the year	*11*	**3,365,726**	5,302,305

The accompanying notes set out on pages 8 to 49 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
For the year ended 31 December 2013

	Share capital KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	Other reserves KD	Foreign currency translation reserve KD	Fair value reserve KD	Accumulated losses KD	Equity attributable to shareholders of the Company KD	Non-controlling interests KD	Total equity KD
Balance at 1 January 2013	75,000,000	193,550	472,723	314,957	(232,633)	598,961	25,701	(14,371,425)	62,001,834	4,154,652	66,156,486
Net profit for the year	-	-	-	-	-	-	-	**1,135,846**	**1,135,846**	**475,371**	**1,611,217**
Other comprehensive (loss) / income for the year	-	-	-	-	-	**(2,125,799)**	**2,414**	-	**(2,123,385)**	**(1,023,249)**	**(3,146,634)**
Total comprehensive loss for the year	-	-	-	-	-	**(2,125,799)**	**2,414**	**1,135,846**	**(987,539)**	**(547,878)**	**(1,535,417)**
Acquisition of additional interest in subsidiary (note 13)	-	-	-	-	**(256,095)**	-	-	-	**(256,095)**	**256,095**	-
Hyperinflation adjustment (note 23)	-	-	-	-	-	-	-	**1,827,242**	**1,827,242**	**1,016,715**	**2,843,957**
Balance at 31 December 2013	**75,000,000**	**193,550**	**472,723**	**314,957**	**(488,728)**	**(1,526,838)**	**28,115**	**(11,408,337)**	**62,585,442**	**4,879,584**	**67,465,026**
Balance at 1 January 2012	75,000,000	193,550	472,723	314,957	-	(3,421,783)	40,206	(4,410,139)	68,189,514	6,074,311	74,263,825
Net loss for the year	-	-	-	-	-	-	-	(9,961,286)	(9,961,286)	(4,329,986)	(14,291,272)
Other comprehensive income / (loss) for the year	-	-	-	-	-	4,020,744	(14,505)	-	4,006,239	2,207,147	6,213,386
Total comprehensive loss for the year	-	-	-	-	-	4,020,744	(14,505)	(9,961,286)	(5,955,047)	(2,122,839)	(8,077,886)
Acquisition of additional interest in subsidiary	-	-	-	-	(232,633)	-	-	-	(232,633)	203,180	(29,453)
Balance at 31 December 2012	75,000,000	193,550	472,723	314,957	(232,633)	598,961	25,701	(14,371,425)	62,001,834	4,154,652	66,156,486

The accompanying notes set out on pages 8 to 49 form an integral part of these consolidated financial statements.

1. INCORPORATION AND ACTIVITIES

The Energy House Holding Company K.S.C. (Closed) (formerly known as Aref Energy Holding Company K.S.C. (Closed)) ("the Company") is a Kuwaiti shareholding company registered in the State of Kuwait on 1 October 1996 and its shares are listed on the Kuwait Stock Exchange.

The principal activities of the Company are as follows:

- Ownership of shares of Kuwaiti or foreign shareholding companies or companies with limited liability, or establishing, managing, lending and sponsoring such companies;
- Financing and sponsoring entities in which the Company has an ownership interest of not less than 20%;
- Owning industrial rights such as patents, industrial trademarks, sponsoring foreign companies or any other related industrial rights and leasing such as rights for the benefit of the Company inside or outside the State of Kuwait;
- Owning real-estates to promote its activities; and
- Utilizing available financial surplus of the Company by investing them in portfolios managed by specialized companies.

The above activities of the Company and its subsidiaries (together "the Group") are organized in business units as explained in note 21.

The Group carries out its activities as per Islamic Shari'ah.

The Company is a subsidiary of Development Enterprise Holding Company K.S.C. (Closed) ("DEH") ("the Parent Company"), which in turn is a subsidiary of Kuwait Finance House K.S.C. ("the Ultimate Parent Company"), a company listed on the Kuwait Stock Exchange.

The address of the Company's registered office is Arraya Tower 2, Sharq Area, 25th floor, Kuwait City and the postal address is P.O. Box 21909, Safat 13080, State of Kuwait.

An Extraordinary General Assembly of shareholders held on 8 May 2013 approved the change in name of the Company from Aref Energy Holding Company K.S.C. (Closed) to The Energy House Holding Company K.S.C (Closed) and approved the amendment to the Articles of Association. The Ministry of Commerce and Industry has approved the change in name of the Company and such change is applicable with effect from 8 May 2013

These consolidated financial statements were approved for issue by the Board of Directors of the Company on 29 January 2014 and are subject to the approval of the Annual General Assembly of the shareholders.

2. Basis of preparation and significant accounting policies

The principal accounting policies have been applied consistently by the Group and are consistent with those used in the previous year, with the exception of new accounting policies as set out in note 2 (c).

2. Basis of preparation and significant accounting policies (continued)

a) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS")

These consolidated financial statements are presented in Kuwaiti Dinars ("KD"), which is the Company's functional and presentation currency.

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Changes in assumptions may have a significant impact on the consolidated financial statements in the period the assumptions changed. The management believes that the underlying assumptions are appropriate. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

b) Statement of compliance

The consolidated financial statements have been prepared in accordance with the IFRS promulgated by the International Accounting Standards Board ("IASB"), interpretations issued by the International Financial Reporting Committee of the IASB, the requirements of the Companies Law No. 25 of 2012, as amended and the Company's Articles and Memorandum of Association.

On 29 November 2012 through a decree, Companies Law No. 25 of 2012 ("the Law") was issued and later amended by Law No. 97 of 2013 dated 27 March 2013 ("the Decree"). The Law came into effect from the date it was published in Kuwait's Official Gazette. The Executive Regulations have been issued by the Ministry of Commerce and Industry on 29 September 2013 and was published in the Kuwait's Official Gazette on 6 October 2013.According to Article 3 of the resolution, companies have one year from date of publishing the Executive Regulations to comply with the new amended Law. The Company's management is of the view that application of the provisions of the Law has no material impact on the Company's activities or on its consolidated financial position.

c) Revised and newly issued IFRS adopted by the Group

The Group has adopted the following revised and newly issued IFRS effective for annual periods beginning on or after 1 January 2013:

IFRS 10 Consolidated Financial Statements
The new standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements. It introduces a single consolidation model that identifies control as the basis for consolidation for all types of entities, where control is based on whether an investor has power over the investee, exposure/rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the returns. The adoption of this standard has no financial impact on the consolidated financial statements.

2. Basis of preparation and significant accounting policies (continued)

c) Revised and newly issued IFRS adopted by the Group (continued)

IFRS 12 Disclosure of Interests in Other Entities
The new standard combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. It requires extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows.

The Group has included new disclosures in the consolidated financial statements which are required under IFRS 12 in note 13.

IFRS 13 Fair Value Measurement
The new standard defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRS or address how to present changes in fair value. The change had no impact on the measurements of the Group's assets and liabilities.

The Group has included new disclosures in the consolidated financial statements which are required under IFRS 13 in note 26.

IAS 1 Presentation of Financial Statements - Amendments
The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Company's financial position or performance. These amendments became effective for annual periods beginning on or after 1 July 2012. The adoption of this amendment has no financial impact on the consolidated financial statements.

d) Standards and interpretations not yet effective or adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

IAS 32 Offsetting Financial Assets and Financial Liabilities
These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems which apply gross settlement mechanisms that are not simultaneous.

These amendments are effective for annual periods beginning on or after 1 January 2014.

2. Basis of preparation and significant accounting policies (continued)

d) Standards and interpretations not yet effective or adopted (continued)

The management anticipates that the adoption of this standard will have no significant financial impact on the consolidated financial statements of the Group in the period of initial application.

IFRS 9 Financial Instruments (2010), IFRS 9 Financial Instruments (2009)

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additional changes relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalized. However, early application of IFRS is permitted. The adoption of these standards is expected to have an impact on the Group's financial assets, but no impact on the Group's financial liabilities.

e) Basis of consolidation

These consolidated financial statements include the financial statements of the Company and its subsidiaries (note 13).

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries are consistent with the accounting policies adopted by the Group.

Non-controlling interests represent the net assets (excluding goodwill) of consolidated subsidiaries not attributable directly, or indirectly, to the equity holders of the company. Equity and net income attributable to non-controlling interests are shown separately in the consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and consolidated statement of changes in equity.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

2. Basis of preparation and significant accounting policies (continued)

e) Basis of consolidation (continued)

As a result of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.
In accordance with the transitional provisions of IFRS 10 (2011), the Group assessed the control conclusion for its investees at 1 January 2013 and it did not change its control conclusion in respect of the investments in existing subsidiaries.

Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in consolidated statement of profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted or as an available for sale financial asset depending on the level of influence retained.

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The Group controls an entity when it is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those returns through its powers over the entity.

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition dates. The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated statement of profit or loss.

2. Basis of preparation and significant accounting policies (continued)

e) Basis of consolidation (continued)

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in the consolidated statement of profit or loss.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.
If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated statement of profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in the consolidated statement of profit or loss or in the consolidated statement of comprehensive income.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Acquisitions of non-controlling interests

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Investment in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Investment in associates is accounted for using the equity method and is recognised initially at cost. The cost of the investment includes transactions costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income from the date that significant influence commences until the date that significant influence ceases.

2. Basis of preparation and significant accounting policies (continued)

e) Basis of consolidation (continued)

The associates accounting policies align with the accounting policies of the Group. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest, including any long-term investments, is reduced to zero and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

f) Foreign currency

Foreign currency transactions

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate prevailing at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year and the amortised cost in foreign currency translated at the exchange rate prevailing at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in consolidated statement of profit or loss, except for the differences which are recognised in consolidated statement of comprehensive income arising on the retranslation of available-for-sale equity investments (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to the consolidated statement of profit or loss).

Hyperinflationary economy

The financial statements of subsidiary companies whose functional currency is the currency of a hyperinflationary economy are adjusted for inflation in accordance with the procedures described in note 23 prior to their translation to Kuwaiti Dinars. Once restated, all items of the financial statements are converted to Kuwaiti Dinars using the closing exchange rate. Amounts shown for prior years for comparative purposes are not restated at consolidation level as the presentation currency of the Group is not of a hyperinflationary economy. On consolidation, the effect of price changes in the prior periods on the financial statements of the subsidiary has been recognized directly in the consolidated statement of changes in equity.

2. Basis of preparation and significant accounting policies (continued)

f) Foreign currency (continued)

To determine the existence of hyperinflation, the Group assesses the qualitative characteristics of the economic environment of the country, such as the trends in inflation rates over the previous three years.
The financial statements of subsidiaries whose functional currency is the currency of a hyperinflationary economy are adjusted to reflect the changes in purchasing power of the local currency, such that all items in the statement of financial position not expressed in current terms (non-monetary items) are restated by applying a general price index at the reporting date and all income and expenses are restated quarterly by applying appropriate conversion factors as defined in note 23. The difference between initial adjusted amounts is taken to profit or loss.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Kuwaiti Dinars at exchange rates prevailing at the reporting date. Income and expenses of foreign operations are translated to Kuwaiti Dinars at exchange rates prevailing on the dates of the transactions.

Foreign currency differences are recognized in the consolidated statement of comprehensive income and presented in the foreign currency translation reserve in the consolidated statement of changes in equity. However, if the foreign operation is a non-wholly owned subsidiary, then the relevant portion of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the foreign currency translation reserve related to that foreign operation is reclassified to the consolidated statement of profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in a joint venture that includes a foreign operation while retaining joint control, the relevant proportion of the cumulative amount is reclassified to the consolidated statement of profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such item are considered to form part of a net investment in the foreign operation and are recognised in the consolidated statement of comprehensive income, and presented in foreign currency translation reserve in the consolidated statement of changes in equity.

g) Financial instruments

i) Non-derivative financial assets

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

2. Basis of preparation and significant accounting policies (continued)

g) Financial instruments (continued)

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group classifies non-derivative financial assets into the following categories:

- loans and receivables;
- available for sale financial assets; and
- fair value through profit or loss

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise of cash and cash equivalents and trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise of cash balances and term deposits with original maturities of three months or less from the date of placement less bank overdrafts. The term deposits are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments.

Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of other categories of financial assets.

Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses are recognised in the consolidated statement of comprehensive income and presented in the fair value reserve in the consolidated statement of changes in equity. When an investment is derecognised, the gain or loss accumulated in the consolidated statement of changes in equity is reclassified to the consolidated statement of profit or loss.

2. Basis of preparation and significant accounting policies (continued)

g) Financial instruments (continued)

Financial assets at fair value through profit or loss

This category has two sub-categories: investments held for trading and those designated at fair value through statement of profit or loss at inception.

An investment is classified as held for trading if acquired principally for the purpose of selling in the short term or if it forms part of an identified portfolio of investments that are managed together and has a recent actual pattern of short-term profit making or it is a derivative that is not designated and effective as a hedging instrument.

An investment is designated by the management on initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise or; if they are managed and their performance is evaluated and reported internally on a fair value basis in accordance with a documented risk management or investment strategy.

Investments in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months from the end of the reporting period.

ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially at the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise of trade and other payables, term debts and other non-current liabilities.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

2. Basis of preparation and significant accounting policies (continued)

g) Financial instruments (continued)

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less from the financial position date (or in the normal operating cycle of the business, if longer), otherwise, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

h) Inventories

Inventories are stated at the lower of purchase cost and net realisable value using the weighted average method after making allowance for any slow moving and obsolete items. Purchase cost includes the purchase price, import duties, transportation, handling and other direct costs except for borrowing costs. Net realisable value represents the estimated selling price less all estimated selling costs.

i) Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes the purchase price and directly associated costs of bringing the asset to a working condition for its intended use.

Depreciation is calculated based on the following estimated useful lives of the applicable assets on a straight-line basis commencing when the assets are ready for their intended use:

Category	**Useful lives**
Leasehold properties	3 to 20 years
Buildings	12 to 14 years
Furniture, fixtures and office equipment	2 to 7 years
Motor vehicles and equipment	4 to 10 years

2. Basis of preparation and significant accounting policies (continued)

i) Property and equipment (continued)

Property and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

The estimated useful lives, residual values and depreciation methods are reviewed at each reporting date, with the effect of any changes in estimate accounted for on prospective basis.

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repair and maintenance are expensed as incurred.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in the consolidated statement of profit or loss.

j) Leases

Leased assets

Leases in terms of which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised in the Group's statement of financial position. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Lease payments

Payments made under operating leases are recognised in the consolidated statement of profit or loss on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant rate of profit on the remaining balance of the liability.

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:

- the fulfilment of the arrangement is dependent on the use of a specific asset or assets; and
- the arrangement contains a right to use the asset(s).

2. Basis of preparation and significant accounting policies (continued)

j) Leases (continued)

At inception or on reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Group's incremental borrowing rate.

k) Intangible assets

Intangible assets are shown at historical cost. Intangible assets have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight line method to allocate the cost of intangible assets over their estimated useful lives.

Goodwill is not amortised, but is reviewed for impairment at least annually. Any impairment loss is recognised immediately in the consolidated statement of profit or loss and is not subsequently reversed. On disposal of a subsidiary, the attributable amount of Goodwill is included in the determination of the profit or loss on disposal.

l) Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the reporting date that is determined based on the lower of two valuations performed by independent valuers using valuation methods consistent with the nature and usage of the investment property. Gains or losses arising from changes in the fair values of investment property are included in the consolidated statement of profit or loss in the year in which they arise.

Investment properties are derecognized when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefits is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the consolidated statement of profit or loss in the year of derecognition.

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

2. Basis of preparation and significant accounting policies (continued)

m) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

n) Impairment

i) Non-derivative financial assets

A financial asset, not classified as at fair value through profit or loss, is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for a financial asset in available for sale equity, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Financial assets measured at amortised cost

The Group considers evidence of impairment for financial assets measured at amortised cost (loans and receivables) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

2. Basis of preparation and significant accounting policies (continued)

n) Impairment (continued)

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in the consolidated statement of profit or loss and reflected in an allowance account against loans and receivables.

Available for sale financial assets

Impairment losses on available for sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to the consolidated statement of profit or loss. The cumulative loss that is reclassified from the consolidated statement of changes in equity to the consolidated statement of profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in the consolidated statement of profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of finance income. If, in a subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in the consolidated statement of profit or loss. However, any subsequent recovery in the fair value of an impaired available for sale equity security is recognised in the consolidated statement of comprehensive income.

ii) Non financial assets

The carrying amounts of the Group's non-financial assets other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to the present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups at CGUs that are expected to benefit from the synergies of the combination.

2. Basis of preparation and significant accounting policies (continued)

n) Impairment (continued)

Impairment losses are recognised in the consolidated statement of profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

o) Term debt

Term debt is recognised initially at fair value, net of transaction costs incurred. Term debt is subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of profit or loss over the period of the debt using the effective profit method.

p) Provision for staff indemnity

Provision is made for amounts payable to employees under the Kuwaiti Labour Law, employee contracts and applicable labour laws in the countries where the subsidiaries operate. The expected costs of these benefits are accrued over the period of employment. The Group also contributes to the government defined contribution plan for its Kuwaiti employees in accordance with the legal requirements in Kuwait.

In case of arrangements where the payment of end of service benefits is reimbursed by the counterparty, the Group recorded the related amount as other receivable.

q) Revenue recognition

Revenue is recognised to the extent that 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 the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria 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 specific revenue recognition criteria applied to significant elements of revenue is set out below:

Construction contracts

The Group principally operates fixed price contracts, if the outcome of such a contract can be reliably measured, revenue associated with the construction contract is recognised by reference to the stage of completion of the contract activity at reporting date (the percentage of completion method).

2. Basis of preparation and significant accounting policies (continued)

q) Revenue recognition (continued)

The outcome of a construction contract can be estimated reliably when the total contract revenue can be measured reliably, it is probable that economic benefits associated with the contract will flow to the entity, the costs to complete the contract and the stage of completion can be measured reliably and the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates. When the outcome of a construction cannot be estimated reliably (principally during early stages of a contract), contract revenue is recognised only to the extent of costs incurred that are expected to be recoverable. In applying the percentage of completion method, revenue recognised corresponds to the total contract revenue (as defined below) multiplied by the actual completion rate based on the proportion of total contract costs (as defined below) incurred to date and the estimated costs to complete.

Contract revenue corresponds to the initial amount of revenue agreed in the contract and any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and they can be reliably measured.

Contract costs include costs that relate directly to the specific contract and costs that are attributable to contract activity in general and can be allocated to the contract. Costs that relate directly to a specific contract comprise: site labour costs (including site supervision) costs of materials used in construction; depreciation of equipment used on the contract costs of design, and technical assistance that is directly related to the contract.

Sales of goods

Revenue from sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Rendering of services

Revenue from rendering of services is recognised when the outcome of the transaction can be estimated reliably, by reference to the stage of completion of the transaction at the reporting date.

Rental income

Rental income arising from operating leases on investment property is accounted for on a straight line basis over the term of the lease.

Dividend income

Dividend income is recognised when the Group's right to receive payment is established, which is generally when shareholders approve the dividend.

2. Basis of preparation and significant accounting policies (continued)

q) Revenue recognition (continued)

Sales of equipment

Revenue from sales of peripheral and other equipment is recognised when the significant risks and rewards of ownership are transferred to the buyer which is normally when the equipment is delivered and accepted by the customer.

r) Taxation

Certain subsidiaries are subject to taxes on income in various foreign jurisdictions. Income tax expense represents the sum of the tax currently payable and deferred tax.

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

s) Zakat, KFAS and NLST

Zakat, contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) and National Labour Support Tax (NLST) represent levies/taxes imposed on the Company at the flat percentage of net profits attributable to the Company less permitted deductions under the prevalent respective fiscal regulations of the State of Kuwait. There are no significant differences between the tax/levy bases of assets and liabilities and their carrying amount for financial reporting purposes.

Tax/statutory levy	**Rate**
Contribution to KFAS	1.0% of net profit less permitted deductions
NLST	2.5% of net profit less permitted deductions
Zakat	1.0% of net profit less permitted deductions

t) Finance costs

Finance costs representing interest expense on interest-bearing financial liabilities are calculated on an accrual basis and are recognised in the consolidated statement of profit or loss in the period in which they are incurred.

u) Contingencies

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

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

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

Classification of investments

On acquisition of an investment, the Group decides whether it should be classified as "financial assets at fair value through profit or loss" or "available for sale". The Group follows the guidance of IAS 39 on classifying its investments.

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes an investment team that has overall responsibility for overseeing all significant fair value measurements.

The investment team regularly reviews significant unobservable inputs and valuation adjustments. If the third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Group Audit Committee.

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on inputs used in the valuation techniques (note 26).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Impairment of investments

The Group treats available for sale financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is "significant" or "prolonged" requires judgment. In addition, the Group also evaluates among other factors, normal volatility in the share price for quoted investments and the future cash flows and discount factors for unquoted investments.

Finance lease

The Group has entered into a sale and lease back transaction with a related party. The Group has determined, based on evaluation of the terms and conditions of the arrangements and classified the lease as finance lease.

Estimated cost on uncompleted contracts

Revenue from installation contracts is measured by reference to the percentage of costs incurred to the estimated total costs for each contract applied to the estimated contract revenue, and reduced by the proportion of revenue previously recognised. This requires the management to use judgment in the estimation of the total cost expected to complete each contract.

Profit on uncompleted contracts

Profit on uncompleted contracts is only recognised when the contract reaches a point where the ultimate profit can be estimated with reasonable certainty. This requires the company's management to determine the level at which reasonable estimates can be reached.

Key sources of estimation uncertainty

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

Impairment of receivables

The impairment charge reflects estimates of losses arising from the failure or inability of the parties concerned to make the required payments. The charge is based on the ageing of the party accounts, the customer's credit worthiness and the historic write-off experience.

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

Fair value of unquoted equity investments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Impairment of property and equipment and intangible assets

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication or objective evidence of impairment or when annual impairment testing for an asset is required. If any such indication or evidence exists, the asset's recoverable amount is estimated and an impairment loss is recognised in the consolidated statement of profit or loss whenever the carrying amount of an asset exceeds its recoverable amount.

Impairment of non-financial assets and useful lives

The Group's management tests annually whether non-financial assets have suffered impairment in accordance with the accounting policies stated in note 2. The recoverable amount of an asset is determined based on value-in-use method. This method uses estimated cash flow projections over the estimated useful life of the asset discounted using market rates.

The Group's management determines the useful lives and the related depreciation and amortisation charge.

The depreciation and amortisation charge for the year will change significantly if actual life is different from the estimated useful life of the asset.

4. Property and equipment

	Land	Leasehold Properties	Furniture, fixtures and office equipment	Motor vehicles and equipment	Capital work-in progress	Total
	KD	KD	KD	KD	KD	KD
Cost						
Balance at 1 January 2012	1,230,000	1,704,233	213,664	16,106,098	110,549	19,364,544
Transfers	-	-	1,454	-	(1,454)	-
Additions	-	34,752	99,008	1,462,412	-	1,596,172
Disposals	-	(3,274)	(172)	(668,444)	-	(671,890)
Currency translation effects	-	(615,253)	(22,047)	(6,717,178)	(42,297)	(7,396,775)
Balance at 31 December 2012	1,230,000	1,120,458	291,907	10,182,888	66,798	12,892,051
Additions	-	**5,687**	**26,890**	**1,841,078**	**45,832**	**1,919,487**
Disposals	-	-	**(371)**	**(547,904)**	-	**(548,275)**
Currency translation effects	-	**(188,703)**	**(8,274)**	**(2,233,933)**	**(14,972)**	**(2,445,882)**
Balance at 31 December 2013	**1,230,000**	**937,442**	**310,152**	**9,242,129**	**97,658**	**11,817,381**
Accumulated depreciation and impairment						
Balance at 1 January 2012	-	282,710	76,839	9,651,029	-	10,010,578
Charge for the year	-	94,930	53,766	1,555,584	-	1,704,280
Related to disposals	-	(3,210)	(75)	(557,208)	-	(560,493)
Impairment	-	-	-	1,241,887		1,241,887
Currency translation effects	-	(88,816)	(9,006)	(5,822,283)	-	(5,920,105)
Balance at 31 December 2012	-	285,614	121,524	6,069,009	-	6,476,147
Charge for the year	-	**63,891**	**70,497**	**1,012,175**	-	**1,146,563**
Related to disposals	-	-	**(43)**	**(462,229)**	-	**(462,272)**
Currency translation effects	-	**(38,404)**	**(3,982)**	**(1,980,829)**	-	**(2,023,215)**
Balance at 31 December 2013	-	**311,101**	**187,996**	**4,638,126**	-	**5,137,223**
Carrying amounts:						
At 31 December 2012	1,230,000	834,844	170,383	4,113,879	66,798	6,415,904
At 31 December 2013 (before adjustment)	**1,230,000**	**626,341**	**122,156**	**4,604,003**	**97,658**	**6,680,158**
Impact of hyperinflation (note 23)						
Effect on depreciation	-	**(3,945)**	**(409)**	**(39,862)**	-	**(44,216)**
Change in carrying value	-	**505,672**	**17,572**	**2,015,537**	**54,786**	**2,593,567**
Adjusted balance at 31 December 2013	**1,230,000**	**1,128,068**	**139,319**	**6,579,678**	**152,444**	**9,229,509**

4. Property and equipment (continued)

Land above is in Kuwait with a market value as at 31 December 2013 of KD 1,750,000 (2012: KD 1,625,000). Notwithstanding the contractual term of lease, management considers that, based on market experience, the lease is renewable indefinitely, at similar nominal rates of rent, and with no premium payable for renewal of the lease and consequently as is common practice in the State of Kuwait, these leases have been accounted for as freehold land.

The allocation of depreciation expense for the year is as follows:

	2013 KD	2012 KD
Cost of revenue	**1,070,769**	1,540,504
General and administration expenses	**120,010**	163,776
	1,190,779	1,704,280

Depreciation expense above includes effect of hyperinflation of KD 44,216 (2012: KD nil).

5. Intangible assets and goodwill

	Goodwill KD	Other intangible assets KD	Total KD
Cost			
As at January 2012	366,518	1,555,181	1,921,699
Additions	-	35,025	35,025
Currency translation effects	3,863	-	3,863
Balance at 31 December 2012	370,381	1,590,206	1,960,587
Currency translation effects	**966**	-	**966**
Balance at 31 December 2013	**371,347**	**1,590,206**	**1,961,553**
Accumulated amortisation and impairment			
Balance at 1 January 2012	-	979,115	979,115
Charge for the year	-	133,090	133,090
Balance at 31 December 2012	-	1,112,205	1,112,205
Charge for the year	-	**97,797**	**97,797**
Balance at 31 December 2013	-	**1,210,002**	**1,210,002**
Carrying amounts			
At 31 December 2012	370,381	478,001	848,382
At 31 December 2013	**371,347**	**380,204**	**751,551**

Other intangible assets comprise of licence to market a process developed by an associate in the Middle East & North Africa region and certain areas in Asia and have finite useful life upto 2017.

In accordance with the requirements of IFRS, the Group has carried out an impairment test on goodwill relating to subsidiaries. The recoverable amount of the subsidiaries have been determined on the higher of the value in use or fair value less costs to sell. As the recoverable amount was higher than the carrying value, no impairment on goodwill has been recognized.

6. Investment property

	2013 KD	2012 KD
Balance at 1 January	**7,676,967**	7,751,803
Fair valuation gain on investment property	**945,774**	2,926,068
Currency translation effects	**(1,720,700)**	(3,000,904)
Effect of hyperinflation on fair valuation (note 23)	**(41,595)**	-
Balance at 31 December	**6,860,446**	7,676,967

Following amounts are recognized in the consolidated statement of profit or loss in respect of investment properties;

	2013 KD	2012 KD
Rental income	**351,421**	415,804

The hierarchy for determining and disclosing the fair value of investment property by valuation technique is presented in note 26.

7. Investment in associates

Movement of investment in associates is as follows:

	2013 KD	2012 KD
Balance at 1 January	**3,660,103**	4,773,564
Additions	-	126,270
Share of results	**184,279**	(124,389)
Impairment (note 17)	**(1,323,904)**	(498,931)
Dividends received	-	(44,940)
Gain on deemed disposal	**10,822**	-
Currency translation effects	**1,187,651**	(571,471)
Balance at 31 December	**3,718,951**	3,660,103

Investment in associates represents the following:

Name of associates	Country	Percentage of ownership 2013	Percentage of ownership 2012	2013 KD	2012 KD
Synfuels International, INC.	USA	**23.56**	24.78	**1,177,176**	1,608,519
Resources Development Group	Sudan	**50.00**	50.00	-	83,824
Kitara OFIL Limited	Mauritius	**36.36**	36.36	**1,233,660**	1,406,192
Al Dindir Petroleum International Company Limited	Sudan	**50.00**	50.00	**1,308,115**	561,568
				3,718,951	3,660,103

7. Investment in associates (continued)

Summary of the financial information of associates, not adjusted for the percentage held by the Group, is as follows:

	Total assets	Total liabilities	Income	Expenses	(Loss) / profit
	KD	KD	KD	KD	KD
2013					
Synfuels International, INC.	**293,029**	**578,678**	**54,722**	**(787,334)**	**(732,612)**
Resources Development Group	**-**	**-**	**-**	**(95,312)**	**(95,312)**
Kitara OFIL Limited	**3,395,356**	**2,453**	**522,478**	**(5,715)**	**516,763**
Al Dindir Petroleum International Company Limited	**2,838,644**	**222,414**	**1,018,294**	**(34,252)**	**984,042**
2012					
Synfuels International, INC.	626,304	583,400	285,708	(688,082)	(402,374)
Resources Development Group	173,861	6,213	-	(4,702)	(4,702)
Kitara OFIL Limited	3,873,134	5,719	188,936	(644)	188,292
Al Dindir Petroleum International Company Limited	3,686,436	2,563,300	1,622,836	(1,210,718)	412,118

All associates are unquoted companies.

8. Financial assets available for sale

	2013	2012
	KD	KD
Quoted equity securities	**328,649**	418,751
Unquoted equity securities	**35,115,600**	35,115,600
	35,444,249	35,534,351

Unquoted equity securities amounting to KD 35,115,600 (2012: KD 35,115,600) are carried at cost due to the unpredictable nature of their future cash flows and lack of other suitable methods for arriving at a reliable fair value for these financial assets. Based on the currently available information, management believes that there are no indications of impairment in the value of these investments.

As at 31 December 2013 (2012: KD 8,323,700), there are no financial assets available for sale pledged as security against murabaha payables (note 15).

9. Financial assets at fair value through profit or loss

	2013 KD	2012 KD
Investment in an unquoted fund	**6,043,473**	5,048,469

Unrealised gain on the financial asset designated at fair value through profit or loss amounted to KD 988,011 (2012: KD 76,646).

The hierarchy for determining and disclosing the fair values of financial instruments by valuation technique is presented in note 26.

The movement is as follows:

	2013 KD	2012 KD
Balance at 1 January	**5,048,469**	-
Additions	**27,879**	4,971,823
Disposals	**(31,175)**	-
Unrealized gains	**988,011**	76,646
Effect of foreign currency translation	**10,289**	-
Balance at 31 December	**6,043,473**	5,048,469

10. Accounts receivable and other assets

	2013 KD	2012 KD
Trade receivable	**4,771,032**	4,500,217
Retention receivables	**1,892,112**	3,308,227
Advances and prepayments	**715,467**	660,274
Due from related parties (note 16)	**14,781**	1,600,622
Other receivables	**511,338**	1,510,846
	7,904,730	11,580,186

Movement in the allowance for doubtful debts is as follows:

	2013 KD	2012 KD
Balance at beginning of the year	**5,210,517**	2,569,684
Charge for the year	**1,390,202**	2,640,833
Balance at end of the year	**6,600,719**	5,210,517

Retention is stated net of impairment of KD 793,400 (2012: KD 526,005). Amounts due from related parties are stated net of impairment of KD 1,415,115 (2012: KD 1,234,765).

Other receivables are stated net of impairment of KD 1,750,616 (2012: KD 877,707).

10. Accounts receivable and other assets (continued)

	2013 KD	2012 KD
Neither past due nor impaired	**4,476,893**	1,617,099
Past due for 1 to 30 days	**38,306**	1,056,482
Past due for 31 to 90 days	**60,094**	710,893
Past due for more than 90 days	**195,739**	1,040,675
Total	**4,771,032**	4,425,149

Unimpaired trade receivables are expected, on the basis of past experience, to be fully recoverably.

11. Bank balances, cash and term deposits

	2013 KD	2012 KD
Bank balances and cash	**3,397,033**	6,663,031
Wakala deposits	**2,850,000**	3,103,900
Bank balances and cash in the consolidated statement of financial position	**6,247,033**	9,766,931
Bank overdrafts	**-**	(1,159,653)
Restricted bank balances	**(31,307)**	(201,073)
Wakala deposits with original maturity over three months	**(2,850,000)**	(3,103,900)
Cash and cash equivalents in the consolidated statement of cash flows	**3,365,726**	5,302,305

Wakala deposits of KD 1,050,000 (2012: nil) are pledged against murabaha payables (note 15).

Wakala deposits with original maturity of more than 3 months include KD 1,800,000 (2012: KD 1,800,000) that represents margin deposits that are held as security against the letters of guarantee.

Restricted bank balances represent margin deposits that are held as security against letters of guarantee (note 22).

12. Equity

a) Share capital

The authorised, issued and fully paid up share capital as at 31 December 2013 consists of 750,000 thousand shares (2012: 750,000 thousand shares) of 100 fils each contributed in cash.

b) Share premium

The share premium account is not available for distribution.

12. Equity (continued)

c) Statutory reserve

In accordance with the Companies Law No. 25 of 2012 and the Company's Articles of Association, 10% of profit for the year attributable to shareholders of the Company before KFAS, NLST, Zakat and Directors' remuneration is required to be transferred to a statutory reserve until the reserve reaches a minimum of 50% of the paid up share capital.

This reserve is not available for distribution except for the amount in excess of 50% of share capital or payment of a dividend of 5% of paid up share capital in years when retained earnings are not sufficient for the payment of such dividends.

No transfer has been made for the year ended 31 December 2013 (2012: KD nil) as the consolidated profit is not sufficient to recover accumulated losses brought forward from previous years.

d) Voluntary reserve

In accordance with the Company's Articles of Association, 10% of profit for the year attributable to shareholders of the Company before KFAS, NLST, Zakat and Directors' remuneration is required to be transferred to the voluntary reserve until the shareholders decide to discontinue the transfer to the voluntary reserve.

No transfer has been made for the year ended 31 December 2013 (2012: KD nil) as the consolidated profit is not sufficient to recover accumulated losses brought forward from previous years.

e) Other reserves

Other reserves comprises of amounts credited to equity on acquisitions of non-controlling interests which are accounted for as transactions with shareholders in their capacity as owners.

13. Subsidiaries and non-controlling interests

Subsidiaries of the Group are as follows:

Name of subsidiaries	Country of operation	Effective interest 2013	Effective interest 2012
Khalifa Daij Al Dabbous and Brothers Company W.L.L. ("KDDB")	Kuwait	**90.00%**	80.00%
Higleig Petroleum Services and Investment Company Ltd. ("Higleig")	Sudan	**64.25%**	64.25%
AlMeshari Heavy Equipment Trading L.L.C. ("Al-Meshari")	UAE	**51.00%**	51.00%
AREF Energy Global Ltd.	Cayman Island	**100.00%**	100.00%
Nordic Intervention Services LLC ("NIS")	UAE	**100.00%**	100.00%
Nordic Energy FZC ("NES")	UAE	**93.75%**	87.50%
AREF Energy International Ltd ("AEIL")	Cayman Island	**100.00%**	100.00%

The following table summarizes the information relating to each of the Group's subsidiaries that has material non-controlling interests (NCI), before any intra-group eliminations:

31 December 2013	KDDB KD	Higleig KD	Al-Meshari KD	NES KD
Non-current assets	1,704,255	11,980,164	814,928	3,175,473
Current assets	4,040,590	6,347,013	576,442	1,731,147
Non-current liabilities	(194,563)	(114,298)	(42,125)	(4,513,397)
Current liabilities	(2,155,751)	(6,792,838)	(235,759)	(1,803,490)
Net assets	3,394,531	11,420,041	1,113,486	(1,410,267)
Carrying amount of NCI	339,453	4,082,665	545,608	(88,142)
Revenue	8,073,106	5,757,291	599,048	3,529,364
Profit / (loss)	514,423	1,188,044	(4,174)	178,025
Other comprehensive loss	-	(490,583)	-	-
Total comprehensive income / (loss)	514,423	697,461	(4,174)	178,025
Profit / (loss) allocated to NCI	51,442	424,726	(2,045)	1,248
Other comprehensive loss allocated to NCI	-	(1,023,249)	-	-

13. Subsidiaries and non-controlling interests (continued)

31 December 2012	**KDDB** **KD**	**Higleig** **KD**	**Al-Meshari** **KD**	**NES** **KD**
Non-current assets	1,660,818	11,851,331	747,127	2,127,955
Current assets	2,220,959	9,850,390	1,865,678	1,360,588
Non-current liabilities	(88,055)	(346,862)	(48,662)	-
Current liabilities	(2,913,614)	(11,200,190)	(1,449,413)	(5,071,601)
Net assets	880,108	10,154,669	1,114,730	(1,583,058)
Carrying amount of NCI	176,022	3,630,294	546,218	(197,882)
Revenue	2,376,989	4,400,389	809,405	2,056,405
(Loss) / profit	(293,522)	(11,898,904)	3,360	(1,041,387)
Other comprehensive income	-	677,149	-	-
Total comprehensive (loss) / income	(293,522)	(11,221,755)	3,360	(1,041,387)
(Loss) / profit allocated to NCI	(58,704)	(4,007,168)	1,646	(265,760)
Other comprehensive income allocated to NCI	-	2,207,147	-	-

During the year, the Group contributed KD 2 million in Khalifa Daij Al-Dabbous Brothers Company W.L.L. ("KDDB"), a subsidiary, as capital increase which resulted in additional interest of 10% in KDDB and an increase in ownership from 80% to 90%. The legal proceedings and formalities have been completed during the year. As a result of this transaction, the Group recognised a decrease / increase in other reserves and non-controlling interests amounting to KD 111,989 respectively.

During the year, the Group acquired additional 6.25% interest in Nordic Energy FZC ("NES") which resulted in an increase in ownership from 87.5% to 93.75%. The legal proceedings and formalities have been completed during the year. As a result of this transaction, the Group recognised a decrease / increase in other reserves and non-controlling interests amounting to KD 144,106 respectively.

14. Accounts payable and other liabilities

	2013 **KD**	**2012** **KD**
Trade payables	**4,095,158**	6,439,136
Advances received from customers	**1,119,614**	2,491,982
Due to related parties (note 16)	**147,453**	36,417
Accruals	**1,351,265**	1,479,782
Dividend payable	**965,418**	1,244,316
Other payables	**472,686**	282,391
	8,151,594	11,974,024

15. Murabaha payables

	2013 KD	2012 KD
Unsecured murabaha	**16,000**	40,554
Secured murabaha	**1,509,991**	2,588,749
	1,525,991	2,629,303

Murabaha payables include facilities amounting to KD 1,509,991 (2012: KD 2,588,749) obtained from a related party (note 16) and are secured against deposits amounting to KD 1,050,000 by the Company (note 11) and KD 500,000 by the Parent Company (2012: secured against financial assets available for sale amounted to KD 8,323,700).

The maturity profile of murabaha payables is disclosed in liquidity risk (refer note 24).

16. Related party transactions

Related parties represent major shareholders, 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 between the Company and its subsidiaries which are related parties to the Company have been eliminated on consolidation and are not disclosed in this note. Transactions with related parties are as follows:

	As at 31 December	
	2013 KD	2012 KD
a) Balances included in the consolidated statement of financial position		
The Ultimate Parent Company		
Bank balances and cash	**495,888**	2,430,417
Murabaha payables secured against financial assets	**1,509,991**	2,588,749
Entities related to the shareholders		
Accounts receivables and other assets	**14,781**	1,600,622
Accounts payable and other liabilities	**147,453**	36,417

	Year ended 31 December	
	2013 KD	2012 KD
a) Transactions included in the consolidated statement of profit or loss		
The Ultimate Parent Company		
Finance income	**28,420**	50,344
Murabaha finance cost	**65,278**	141,908
Entities related to the shareholders		
Finance income	**-**	21,698
Murabaha finance cost	**-**	117,384

16. Related party transactions (continued)

	Year ended 31 December	
	2013	**2012**
	KD	**KD**
b) Compensation of key management personnel:		
Short term benefits	**523,318**	815,798
Termination benefits	**41,025**	43,696
	564,343	859,494

In addition to the Board of Directors remuneration, Audit Committee and Executive Committee remunerations of KD 6,000 and KD 8,000 respectively have been provided.

During the year, the Group has entered into transactions with related parties on substantially the same terms as those with other parties on an arm's length basis.

17. Impairment losses

	2013	**2012**
	KD	**KD**
Impairment of receivables (note 10)	**2,710,856**	5,279,310
Impairment of investment in associates (note 7)	**1,323,904**	498,931
Impairment of financial assets available for sale	**-**	3,981
	4,034,760	5,782,222

18. Foreign exchange loss

The foreign exchange loss, for the current year, is arising mainly due to the impact of significant devaluation of the functional currency of a subsidiary during the year.

19. Provision for contribution to KFAS, NLST and Zakat

	2013	**2012**
	KD	**KD**
KFAS	**-**	-
NLST	**8,437**	-
Zakat	**3,375**	-
	11,812	-

20. Basic and diluted earnings / (loss) per share

Earnings per share attributable to shareholders of the Company is computed by dividing the profit for the year attributable to shareholders of the Company by the weighted average number of shares outstanding during the year as follows:

	2013	2012
Profit / (loss) for the year attributable to shareholders of the Company (KD)	**1,135,846**	(9,961,286)
Weighted average number of outstanding shares	**750,000,000**	750,000,000
Basic and diluted earnings / (loss) per share attributable to shareholders of the Company (fils)	**1.51**	(13.3)

21. Segment information

For management purposes, the Group is organised into two operating segments based on business units as follows:

Energy : Exploration, drilling, development and production of oil and gas, alternate and renewable sources of energy, licensing and other activities related to the energy sector; and

Others : Investment and other related services.

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

Transfer prices between operating segments are on arm's length basis in a manner similar to transactions with third parties.

	Energy KD	Others KD	Total KD
31 December 2013			
Segment revenues	**16,221,904**	**586,105**	**16,808,009**
Profit	**1,263,971**	**347,246**	**1,611,217**
Depreciation and amortization	**1,143,352**	**145,224**	**1,288,576**
Impairment losses	**4,034,760**	**-**	**4,034,760**
Segment assets	**72,542,169**	**1,624,143**	**74,166,312**
Investment in associates	**3,718,951**	**-**	**3,718,951**
Total assets	**76,261,120**	**1,624,143**	**77,885,263**
Total liabilities	**9,028,867**	**1,391,370**	**10,420,237**
31 December 2012			
Segment revenues	8,153,982	784,391	8,938,373
(Loss) / profit	(17,645,928)	3,354,656	(14,291,272)
Depreciation and amortization	1,753,336	84,034	1,837,370
Impairment losses	7,677,562	14,783	7,692,345
Segment assets	68,330,132	10,642,666	78,972,798
Investment in associates	3,887,319	-	3,887,319
Total assets	72,217,451	10,642,666	82,860,117
Total liabilities	14,539,331	2,164,300	16,703,631

Segment assets under the energy and others segment includes goodwill of KD 15,380 and KD 355,967 respectively (2012: KD 15,340 and KD 355,042).

21. Segmental information (continued)

The Group also earns revenue and has assets mainly in two geographic markets: a) Kuwait and b) Middle East and North Africa (MENA). The following table shows the distribution of the Group's segment revenues and non-current assets by geographic segment:

	Kuwait KD	MENA KD	Outside MENA KD	Total KD
31 December 2013				
Segment revenues	**8,037,756**	**8,770,253**	**-**	**16,808,009**
Non-current assets	**1,732,225**	**14,357,730**	**751,551**	**16,841,506**
31 December 2012				
Segment revenues	2,347,094	6,591,279	-	8,938,373
Non-current assets	1,715,574	12,377,297	848,382	14,941,253

Non-current assets for this purpose consist of property and equipment, investment property and intangible assets.

22. Commitments and contingent liabilities

	2013 KD	2012 KD
a) Capital commitments		
Commitment towards contribution of fund expenses	**217,333**	312,701
Financial assets available for sale	**6,777,000**	6,759,000
Cash calls in an associate	**-**	1,164,568
	6,994,333	8,236,269
b) Contingent liabilities		
Letters of guarantee	**1,603,110**	2,266,938

No material liabilities are anticipated to arise out of contingent liabilities. The letters of guarantee are partly secured by bank balances and deposits (note 11).

23. Hyperinflation adjustment

IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of a measuring unit current at the statement of financial position date and that corresponding figures for previous periods be stated in the same terms to the latest statement of financial position date. This has been applied in Higleig, a subsidiary, and hence the restatement has been calculated by means of conversion factors derived from the Consumer Price Index (CPI) provided by The International Monetary Fund (IMF) and the Central Bank of Sudan (CBS). The conversion factors used to restate the financial statements of the subsidiary are as follows:

	Index	Conversion factor
31 December 2013	314.826	1.198
31 December 2012	262.793	1.444
31 December 2011	181.944	1.189
31 December 2010	153.043	1

The above mentioned restatement is affected as follows:

i. Financial statements prepared in the currency of a hyperinflationary economy are stated after applying the measuring unit current at statement of financial position date and corresponding figures for the previous period are stated on the same basis. Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at the statement of financial position date. Monetary items are money held and items to be recovered or paid in money;

ii. Non-monetary assets and liabilities that are not carried at amounts current at the statement of financial position date and components of shareholders' equity are restated by applying the relevant conversion factors;

iii. Comparative financial statements are restated using general inflation indices in terms of the measuring unit current at the statement of financial position date;

iv. All items in the income statement are restated by applying the relevant quarterly average or year-end conversion factors; and
v. The effect on the net monetary position of the Group is included in the consolidated statement of profit or loss as a monetary gain or loss from hyperinflation.

The application of the IAS 29 restatement procedures has the effect of amending certain accounting policies at the subsidiary's level which are used in the preparation of the financial statements under the historical cost conversion.

24. Financial instruments and risk management

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

The Group's risk management is carried out by executive committee and focuses on actively securing the Group's short to medium term cash flows by minimizing the potential adverse effects on the Group's financial performance through internal risk reports. The Company's Board of Directors are ultimately responsible for the overall risk management and for approving risk strategies and principles.

The Group is exposed to credit risk, liquidity risk, market risk and operational risk. Market risk is subdivided into profit rate risk, foreign currency risk and equity price risk.

The independent risk control process does not include business risks such as changes in the environment technology and industry. They are monitored through the Group's strategic planning process.

Market risk

Market risk is the risk that changes in market prices, such as foreign currency exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, profit rates and equity prices.

i. *Foreign currency exchange risk*

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar, Sudanese Pounds and UAE Dirham. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group had the following significant net exposures denominated in foreign currencies:

	2013 KD Equivalent	2012 KD Equivalent
US Dollar	**8,239,538**	7,743,763
Sudanese Pounds	**6,648,514**	9,465,807
UAE Dirham	**1,002,439**	1,158,253

24. Financial instruments and risk management (continued)

Market risk

Foreign currency sensitivity analysis

The Group is maintaining exposure mainly to the US Dollar, Sudanese Pounds and UAE Dirham. The following table details the Group's sensitivity to a 10% increase in the KD against the other currencies (as a result of a change in the foreign currency) at the year end due to the assumed change in market rates, with all other variance held constant. A 10 % decrease in the KD against these currencies would have the opposite effect. A positive number indicates increase in profit for the year before KFAS, NLST, Zakat and Directors' remunerations / equity and a negative number indicates decrease in profit for the year before KFAS, NLST, Zakat and Directors' remuneration / equity.

	2013		2012	
	Effect on profit KD	Effect on equity KD	Effect on profit KD	Effect on equity KD
US Dollar	**21,427**	**823,954**	30,625	725,367
Sudanese Pounds	**-**	**664,851**	-	956,932
UAE Dirham	**-**	**100,244**	-	115,825

ii. *Profit rate risk management*

Profit rate risk arises from the possibility that changes in profit rates of Islamic financial instruments will affect future profitability of the Group. Profit rate risk is managed by the Finance Department of the Company. The Group is not significantly exposed to profit rate risk as a result of mismatches of profit rate re-pricing of assets and liabilities since it does not own significant floating rate Islamic financial assets and Islamic financial liabilities that could have a material impact on the Group's results before taxes and Board of Directors' remuneration.

iii. *Equity price risk*

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio. The Group manages the risk by focusing on the long term holding of equity assets, keeping its exposure at an acceptable level and by continuously monitoring the markets.

The effects of other comprehensive income (as a result of a change in fair value of financial assets available for sale) due to a 3% change in regional market indices, with all other variables held constant, is not significant.

24. Financial instruments and risk management (continued)

Credit risk management

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group's credit policy and exposure to credit risk is monitored on an ongoing basis. The Group seeks to avoid undue concentrations of risks with individuals or groups of customers in specific locations or business through diversification.

With respect to credit risk arising from the other financial assets of the Group, which comprise bank balances and other assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Where financial instruments are recorded at fair value, it represents the current maximum credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

i. *Exposure to credit risk*

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2013	2012
	KD	KD
Bank balances	**6,215,047**	9,761,539
Accounts receivable and other assets	**7,189,263**	10,919,913
	13,404,310	20,681,452

The maximum exposure to credit risk for financial assets at the reporting date by geographic region was:

	Carrying amount	
	2013	2012
	KD	KD
Kuwait	**6,641,924**	8,190,455
MENA	**6,545,053**	11,783,688
Outside MENA	**217,333**	707,309
	13,404,310	20,681,452

24. Financial instruments and risk management (continued)

Credit risk management (continued)

The Group's credit risk bearing assets can be analysed by the industry sector as follows:

	Carrying amount	
	2013	2012
	KD	KD
Banks and other financial institutions	**6,215,047**	9,761,539
Construction and real estate	**6,027,469**	9,018,399
Others	**1,161,794**	1,901,514
	13,404,310	20,681,452

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates.

The Group has fully provided for all receivables due for a period greater than 365 days as a result of historical experience. Trade receivables between 30 days and 365 days are provided for based on estimated irrecoverable amounts determined by reference to past default experience.

Collateral and other credit enhancements

It is not the practice of the Group to obtain collateral over trade accounts receivable.

Liquidity risk management

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, the Company's management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents, and readily marketable securities.

The table below summarizes the analysis of Group's financial liabilities based on contractual undiscounted repayment obligations. The liquidity profile of financial liabilities reflects the projected cash flows which includes profit payments over the life of these financial liabilities.

24. Financial instruments and risk management (continued)

Liquidity risk management (continued)

At 31 December 2013	On demand KD	Less than 1 year KD	More than 1 year KD	Total KD	Weighted average effective profit rate %
Financial liabilities					
Murabaha payable	**16,000**	**1,543,263**	**-**	**1,559,263**	**4.53%**
Finance lease liabilities	**-**	**228,372**	**19,031**	**247,403**	
Accounts payable and other liabilities	**-**	**6,066,561**	**965,418**	**7,031,979**	
	16,000	**7,838,196**	**984,449**	**8,838,645**	
Commitments					
Commitment towards contribution of fund expenses	**-**	**217,333**	**-**	**217,333**	
Financial assets available for sale	**-**	**-**	**6,777,000**	**6,777,000**	
	-	**217,333**	**6,777,000**	**6,994,333**	
At 31 December 2012					
Financial liabilities					
Murabaha payable	16,000	2,637,123	-	2,653,123	5.48%
Bank overdraft	-	1,159,653	-	1,159,653	
Finance lease liabilities	-	372,748	327,945	700,693	
Accounts payable and other liabilities	1,516,200	7,965,843	-	9,482,043	
	1,532,200	12,135,367	327,945	13,995,512	
Commitments					
Commitment towards contribution of fund expenses	-		6,759,000	6,759,000	
Financial assets available for sale	-	312,701	-	312,701	
Cash call from associate	-	1,164,568	-	1,164,568	
	-	1,477,269	6,759,000	8,236,269	

25. Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, human error, systems failure or from external events. The Group has a set of policies and procedures, which are applied to identify, assess and supervise operational risk. The Group's management ensures compliance with policies and procedures and monitors operational risk as part of overall risk management.

26. Fair values

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair value of financial instruments traded in active markets (such as trading and available for sale securities) is based on quoted market prices at the financial position date. The quoted market price used for financial assets held by the Group is the current bid price.

The investment in an unquoted fund is carried at net asset value provided by the fund manager.

The fair value of investment property is determined based on the lower of two valuations performed as at 31 December 2013 by accredited independent valuators who are the industry specialists in valuing this type of investment property.

Fair value measurements recognised in the consolidated statement of financial position

The table below analyses the assets carried at fair value. The different levels have been defined as follows:

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

31 December 2013	**Level 1 KD**	**Level 2 KD**	**Total fair value KD**
Financial assets at fair value through profit or loss:			
Investment in an unquoted fund	-	6,043,473	6,043,473
Financial assets available for sale:			
Quoted equity securities	328,649	-	328,649
Investment property	-	6,860,446	6,860,446
	328,649	12,903,919	13,232,568

26. Fair values (continued)

31 December 2012	Level 1 KD	Level 2 KD	Total fair value KD
Financial assets at fair value through profit or loss:			
Investment in an unquoted fund	-	5,048,469	5,048,469
Financial assets available for sale:			
Quoted equity securities	418,751	-	418,751
Investment property	-	7,676,967	7,676,967
	418,751	12,725,436	13,144,187

There were no transfers between levels during the years ended 31 December 2013 and 31 December 2012.

27. Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business and maximise shareholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may return capital to shareholders or issue new shares.

In order to determine or adjust the capital structure, the Company monitors capital on the basis of gearing ratio. The ratio is calculated as net debt divided by total capital. Net debt is calculated as total liabilities less cash and bank balances. Total capital is calculated as equity as shown in the statement of financial position plus net debt.

The gearing ratios at the reporting date are as follows:

	2013 KD	2012 KD
Profit bearing murabaha payables	**1,509,991**	2,588,749
Deferred finance costs	**33,271**	48,374
Finance lease liabilities	**239,547**	700,693
Bank overdraft	**-**	1,159,653
Net debt	**1,782,809**	4,497,469
Total equity	**62,585,442**	62,001,834
Gearing ratio	**2.8%**	7.3%

The Company is not subject to minimum capital requirements according to Capital Market Authority and the Company Law No. 25 of 2012.