

**AREF Energy Holding Company K.S.C.  
(Closed) and Subsidiaries**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2011**



Ernst & Young  
Al Aiban, Al Osaimi & Partners  
P.O. Box 74 Safat  
13001 Safat, Kuwait  
Baitak Tower, 18-21st Floor  
Safat Square  
Ahmed Al Jaber Street  
Tel : 2245 2880/2295 5000  
Fax: 2245 6419  
Email: [kuwait@kw.ey.com](mailto:kuwait@kw.ey.com)  
[www.ey.com/me](http://www.ey.com/me)



## BAKER TILLY KUWAIT

**Dr. Saud Al-humaidi & Partners**  
**Public Accountants**

P.O.Box 1486 Safat, 13015 Kuwait  
Sharq Area, Omar Bin Khattab Street  
Shawafat Bldg, Block No. 5, 1<sup>st</sup> Floor  
Tel : 22442333 / 22443222  
Fax : 22461225  
[www.bakertillykuwait.com](http://www.bakertillykuwait.com)

### **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AREF ENERGY HOLDING COMPANY K.S.C. (CLOSED)**

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

We have audited the accompanying consolidated financial statements of Aref Energy Holding Company K.S.C. (Closed) ("the company") and its subsidiaries (collectively, "the group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and 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 the auditors' judgment, 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, the auditor considers 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.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF  
AREF ENERGY HOLDING COMPANY K.S.C. (CLOSED) (continued)**



**Report on the Consolidated Financial Statements (continued)**

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as at 31 December 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on Other Legal and Regulatory Matters**

Furthermore, in our opinion, proper books of account have been kept by the company and the consolidated financial statements, together with the contents of the report of the company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that, we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the company's articles of association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the company's articles of association, as amended, have occurred during the year ended 31 December 2011 that might have had a material effect on the business of the company or on its financial position.

  
WALEED A. ALJOSAIMI  
LICENCE NO. 68-A  
OF ERNST & YOUNG  
DR. SAUD AL-HUMAIIDI  
LICENSE NO. 51 A  
DR. SAUD AL-HUMAIIDI & PARTNERS  
MEMBER OF BAKER TILLY INTERNATIONAL

13 March 2012  
Kuwait

## AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2011

	Notes	2011 KD	2010 KD
<b>Continuing operations</b>			
<b>Revenues</b>			
Rendering of services		1,309,902	415,844
Sale of goods		371,858	-
Net rental income		86,862	-
		<u>1,768,622</u>	<u>415,844</u>
<b>Cost of revenue</b>			
Cost of rendering of services		(1,255,408)	(401,668)
Cost of sale of goods		(317,366)	-
		<u>(1,572,774)</u>	<u>(401,668)</u>
<b>Gross profit</b>		<b>195,848</b>	<b>14,176</b>
Other income		173,516	327,026
Gain on sale of exploration assets		-	25,074,149
Staff costs		(1,064,695)	(909,799)
General and administration expenses		(1,231,160)	(583,367)
Finance cost		(170,115)	(304,005)
Share of results from associates	10	(229,166)	(480,953)
Dividend income		900,000	-
Foreign exchange loss		(285,141)	(605,308)
Impairment loss on accounts receivable	13	(57,838)	-
Impairment of intangible assets	8	-	(2,607,504)
Amortisation of intangible assets	8	(97,797)	(97,798)
<b>(Loss) profit for the year before taxation from continuing operations</b>		<b>(1,866,548)</b>	<b>19,826,617</b>
Write back of (provision for) board of directors' remuneration	3	150,000	(300,000)
Taxation	4	(24,110)	(8,075,964)
<b>(Loss) profit for the year from continuing operations</b>		<b>(1,740,658)</b>	<b>11,450,653</b>
<b>Loss for the year from discontinued operations</b>	15	<b>(5,574,367)</b>	<b>(1,025,147)</b>
<b>(Loss) profit for the year</b>		<b>(7,315,025)</b>	<b>10,425,506</b>
<b>Attributable to:</b>			
Equity holders of the company		(5,113,572)	10,798,282
Non-controlling interests		(2,201,453)	(372,776)
<b>(Loss) profit for the year</b>		<b>(7,315,025)</b>	<b>10,425,506</b>
Basic and diluted (loss) earnings per share attributable to equity holders of the company	5	<b>(6.8) fils</b>	<b>14.4 fils</b>
Basic and diluted (loss) earnings per share from continuing operations attributable to equity holders of the company	5	<b>(2.0) fils</b>	<b>15.3 fils</b>

The attached notes 1 to 25 form part of these consolidated financial statements

## AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	2011 KD	2010 KD
<b>(Loss) profit for the year</b>	<b>(7,315,025)</b>	<b>10,425,506</b>
Cumulative changes in fair values	25,345	-
Foreign currency translation adjustment	(2,646,401)	(815,491)
<b>Other comprehensive loss for the year</b>	<b>(2,621,056)</b>	<b>(815,491)</b>
<b>Total comprehensive (loss) income for the year</b>	<b>(9,936,081)</b>	<b>9,610,015</b>
<b>Attributable to:</b>		
Equity holders of the company	(6,791,029)	10,364,991
Non-controlling interests	(3,145,052)	(754,976)
<b>Total comprehensive (loss) income for the year</b>	<b>(9,936,081)</b>	<b>9,610,015</b>

The attached notes 1 to 25 form part of these consolidated financial statements




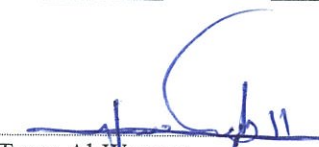
## AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 KD	2010 KD
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	7	3,218,582	15,817,396
Intangible assets	8	942,584	673,863
Investment property	9	-	5,647,680
Investment in associates	10	3,373,556	4,710,907
Financial assets available for sale	11	35,115,600	3,397,085
		<u>42,650,322</u>	<u>30,246,931</u>
<b>Current assets</b>			
Inventories		184,011	2,695,814
Financial asset at fair value through statement of income	12	-	32,400,000
Accounts receivable and other assets	13	1,110,628	22,771,342
Bank balances, deposits and cash	14	18,408,063	24,952,355
		<u>19,702,702</u>	<u>82,819,511</u>
Assets classified as held for sale	15	31,387,191	-
		<u>51,089,893</u>	<u>82,819,511</u>
<b>TOTAL ASSETS</b>		<u>93,740,215</u>	<u>113,066,442</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	16	75,000,000	75,000,000
Share premium	17	193,550	193,550
Statutory reserve	17	472,723	461,295
Voluntary reserve	17	314,957	314,957
Foreign currency translation reserve		129,230	(1,728,042)
(Accumulated losses) retained earnings		(4,410,139)	714,861
Cumulative changes in fair values		-	23,922
Reserves of a disposal group classified as held for sale	15	(3,510,807)	-
<b>Equity attributable to equity holders of the company</b>		<u>68,189,514</u>	<u>74,980,543</u>
Non-controlling interests		640,868	8,600,633
Non-controlling interests relating to disposal group		5,433,443	-
<b>Total equity</b>		<u>74,263,825</u>	<u>83,581,176</u>
<b>Non-current liabilities</b>			
Employees' end of service benefits		258,794	250,048
Liabilities against assets subject to finance lease		3,191	3,780,905
		<u>261,985</u>	<u>4,030,953</u>
<b>Current liabilities</b>			
Accounts payable and other liabilities	18	740,909	18,696,168
Current portion of liabilities against assets subject to finance lease		3,926	914,172
Bank overdrafts	14	475,029	-
Murabaha payables	19	2,613,252	5,843,973
		<u>3,833,116</u>	<u>25,454,313</u>
Liabilities directly associated with the assets classified as held for sale	15	15,381,289	-
		<u>19,214,405</u>	<u>25,454,313</u>
<b>Total liabilities</b>		<u>19,476,390</u>	<u>29,485,266</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>93,740,215</u>	<u>113,066,442</u>

  
 Walid K. Al-Hashash  
 Chairman

  
 Tareq Al-Wazzan  
 Managing Director & CEO

The attached notes 1 to 25 form part of these consolidated financial statements

## AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	Notes	2011 KD	2010 KD
<b>OPERATING ACTIVITIES</b>			
(Loss) profit for the year from continuing operations		(1,740,658)	11,450,653
Loss for the year from discontinued operations		(5,574,367)	(1,025,147)
		(7,315,025)	10,425,506
Adjustments for:			
Rental income from investment property		(516,182)	(564,636)
Share of results from associates	10	(55,480)	1,221,507
Gain on disposal of property and equipment		(231,419)	(95,601)
Gain on sale of exploration assets		-	(25,074,149)
Fair valuation gain on investment property	9	(2,861,544)	(946,240)
Depreciation	7	2,857,923	3,928,838
Amortisation of intangible assets	8	97,797	97,798
Impairment of intangible assets		-	2,607,504
Provision for / (write back of) impairment loss on accounts receivables		1,246,621	(118,176)
Impairment of property and equipment	15	2,900,994	-
Provision / (write back of provision) for employees' end of service benefits		167,824	(9,106)
Provision for taxation		83,564	8,278,396
Finance costs		559,890	1,305,859
Provision for Board of directors' remuneration		-	300,000
		(3,065,037)	1,357,500
Working capital changes:			
Inventories		686,802	2,001,131
Accounts receivable and other assets		8,330,039	3,482,567
Accounts payable and other liabilities		(3,988,233)	(1,349,376)
Cash from operating activities		1,963,571	5,491,822
Employees' end of service benefits paid		(67,738)	(77,852)
Taxes paid		(82,273)	(7,265,201)
Net cash used in operating activities		1,813,560	(1,851,231)
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment	7	(1,864,486)	(1,162,769)
Proceed from disposal of property and equipment		407,242	758,162
Rental income from investment property		516,182	564,636
Disposal of intangible asset (net)		-	35,207,044
Investment in associates	10	(36,655)	(1,642,062)
Investment in wakala deposits		(5,754,300)	(1,800,000)
Net movement in restricted bank balances and deposits		295,913	(29,930)
Net cash (used in) from investing activities		(6,436,104)	31,895,081
<b>FINANCING ACTIVITIES</b>			
Finance costs paid		(266,268)	(679,826)
Net cash out on acquisition of subsidiaries		(67,582)	-
Net movement in murabaha payables		(3,416,973)	(8,476,209)
Net movement in assets subject to finance lease		(3,617,777)	(979,915)
Net cash used in financing activities		(7,368,600)	(10,135,950)
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>			
Net foreign exchange difference		(57,425)	(96,294)
Cash and cash equivalents at the beginning of the year		22,482,111	2,670,505
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	14	10,433,542	22,482,111

The attached notes 1 to 25 form part of these consolidated financial statements

AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to equity holders of the company											
	Share capital KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	Foreign currency translation reserve KD	(Accumulated losses) retained earnings KD	Cumulative changes in fair values KD	Reserves of a disposal group classified as held for sale KD	Sub-total KD	Non-controlling interests KD	Non-controlling interests relating to disposal group KD	Total equity KD
Balance at 1 January 2011	75,000,000	193,550	461,295	314,957	(1,728,042)	714,861	23,922	-	74,980,543	8,600,633	-	83,581,176
Loss for the year	-	-	-	-	-	(5,113,572)	-	-	(5,113,572)	(2,201,453)	-	(7,315,025)
Other comprehensive loss for the year	-	-	-	-	(1,693,741)	-	16,284	-	(1,677,457)	(943,599)	-	(2,621,056)
Total comprehensive (loss) income for the year	-	-	-	-	(1,693,741)	(5,113,572)	16,284	-	(6,791,029)	(3,145,052)	-	(9,936,081)
Discontinued operation (Note 15)	-	-	-	-	3,551,013	-	(40,206)	(3,510,807)	-	-	-	-
Transfer to reserves (Note 17)	-	-	11,428	-	-	(11,428)	-	-	-	-	-	-
Acquisition of a subsidiary (Note 6)	-	-	-	-	-	-	-	-	-	618,730	-	618,730
Transfer relating to disposal group	-	-	-	-	-	-	-	-	-	(5,433,443)	5,433,443	-
Balance at 31 December 2011	75,000,000	193,550	472,723	314,957	129,230	(4,410,139)	-	(3,510,807)	68,189,514	640,868	5,433,443	74,263,825

The attached notes 1 to 25 form part of these consolidated financial statements



AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

*Attributable to equity holders of the company*

	Share capital KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	Foreign currency translation reserve KD	(Accumulated losses) retained earnings KD	Cumulative changes in fair values KD	Sub-total KD	Non-controlling interests KD	Total equity KD
Balance at 1 January 2010	75,000,000	193,550	314,957	314,957	(1,294,751)	(9,937,083)	23,922	64,615,552	9,355,609	73,971,161
Profit (loss) for the year	-	-	-	-	-	10,798,282	-	10,798,282	(372,776)	10,425,506
Other comprehensive loss for the year	-	-	-	-	(433,291)	-	-	(433,291)	(382,200)	(815,491)
Total comprehensive (loss) income for the year	-	-	-	-	(433,291)	10,798,282	-	10,364,991	(754,976)	9,610,015
Transfer to reserves	-	-	146,338	-	-	(146,338)	-	-	-	-
Balance at 31 December 2010	75,000,000	193,550	461,295	314,957	(1,728,042)	714,861	23,922	74,980,543	8,600,633	83,581,176

# AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 1 CORPORATE INFORMATION

Aref Energy Holding Company K.S.C. (Closed) ("the company") is a Kuwaiti shareholding company registered in Kuwait on 1 October 1996 and is listed on the Kuwait Stock Exchange. The registered office of the company is located at P.O. Box 21909, Safat 13080, Kuwait. The company carries out its activities as per Islamic Shari'ah.

The consolidated financial statements of the company and its subsidiaries ("the group") for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the Board of Directors on 13 March 2012 and are issued subject to the approval of the Ordinary General Assembly of the shareholders' of the company. The Ordinary General Assembly of the shareholders has the power to amend these consolidated financial statements after issuance.

The company carries out its activities as per Islamic Shari'ah. The principal activities of the company and its subsidiaries (collectively "the group") are explained in Note 21.

Aref investment Group S.A.K. ("AIG"), one of the subsidiaries of Kuwait Finance House ("KFH") had 72.52% equity interest in the company. Accordingly, AIG was the parent company and KFH was the ultimate parent company upto 28 December 2011. On 29 December 2011, AIG sold 29% equity interest in the company to Development Enterprise Holding Company K.S.C. (Closed) ("DEH"), another subsidiary of KFH. AIG continued to hold the remaining 43.52% equity interest in the company with significant influence as at the reporting date. As a result, at the reporting date, AIG is no longer the parent company, however KFH is considered the parent company by virtue of its holdings in the company through AIG and DEH.

Subsequent to the year end, AIG has agreed to sell the remaining 43.52% equity interest in the company to DEH and the same is pending regulatory approvals as on the date of these consolidated financial statements.

### 2 SIGNIFICANT ACCOUNTING POLICIES

#### Basis of preparation

The consolidated financial statements of the group have been prepared in accordance with International Financial Reporting Standards ("IFRS") and applicable requirements of Ministerial Order No. 18 of 1990.

The consolidated financial statements are presented in Kuwaiti Dinars (KD) which is also the functional currency of the company.

#### Measurement basis

The consolidated financial statements have been prepared under the historical cost convention except for the measurement at fair value of financial assets at fair value through statement of income, financial assets available for sale and investment property.

#### Changes in accounting policies and disclosures

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the following issued, revised and amended International Accounting Standards Board (IASB) Standards and International Financial Reporting Interpretation Committee (IFRIC) interpretations adopted by the group during the year:

*IAS 24: Related party disclosures (effective for annual periods beginning on or after 1 January 2011).*

The IASB has issued an amendment to IAS 24 that clarifies the definition of related party. The new definition emphasise a symmetrical view of related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Secondly, the amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of this amendment did not have an impact on the financial position or performance of the group.

*IAS 32: Financial Instruments: Presentation – Classification of Rights Issues (Amendment) (effective for annual periods beginning on or after 1 February 2010)*

The amendment to IAS 32 alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no impact on the financial position or performance of the group.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Improvement to IFRSs (issued in May 2010)

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the group.

- **IFRS 3 *Business Combinations*:** The measurement options available for non-controlling interest (NCI) have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.
- **IFRS 7 *Financial Instruments: Disclosures*:** The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.
- **IAS 1 *Presentation of Financial Statements*:** The amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the consolidated financial statements.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the group:

- **IFRS 3 *Business Combinations*-** Unreplaced and voluntarily replaced share-based payment awards and its accounting treatment within a business combination.
- **IAS 27 *Consolidated and Separate Financial Statements*-** applying the IAS 27 (as revised in 2008) transition requirements to consequentially amended standards.
- **IFRIC 13 *Customer Loyalty Programmes*-** in determining the fair value of award credits, an entity shall consider discounts and incentives that would otherwise be offered to customers not participating in the loyalty programme.

The group, however, expects no impact from the adoption of the amendments on its financial position or performance.

**The following IASB Standards have been amended or issued but are not yet mandatory, and have not been adopted by the group:**

### *IFRS 9: Financial Instruments: Classification and Measurement*

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the group's financial assets. The group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

### *IFRS 10 Consolidated Financial Statements*

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation - Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management of the company to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by the company, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

### *IFRS 12 Disclosure of Interests in Other Entities*

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

# AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *IFRS 13 Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. The standard does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard becomes effective for annual periods beginning on or after 1 January 2013.

#### *IAS 1 Financial Statement Presentation – Presentation of items of Other Comprehensive Income*

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

The group, however, expects no material impact from the adoption of the above amended or new standards on its financial position or performance.

#### **Basis of consolidation**

The consolidated financial statements comprise the financial statements of the company and its subsidiaries as at 31 December 2011. Subsidiaries are those enterprises which are controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements on a line by line basis from the date that control is effective until the date that control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the company, using consistent accounting policies. All material intra group balances, transactions, unrealised gains and losses resulting from intra group transactions are eliminated on consolidation.

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 income, 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.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in consolidated statement of income
- Reclassifies the Parent's share of components previously recognised in other comprehensive income to consolidated statement of income or retained earnings, as appropriate.

# AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Basis of consolidation (continued)

The consolidated financial statements include the financial statements of the company and the following primary subsidiaries:

Name of company	Country of incorporation	Effective interest at		Principal activities
		2011	2010	
Khalifa Daij Al Dabbous and Brothers Company - W.L.L. ("KDDB")	Kuwait	80	80	General trading and contracting
Higleig Petroleum Services & Investment Company Ltd. ("Higleig")*	Sudan	64.25	64.25	Contracting
Al Meshari Heavy Equipment Trading L.L.C. ("Al-Meshari")	Dubai (UAE)	51%	-	Trading and rental of construction equipment and machinery and loading and lifting equipment.
Nordic Energy FZC ("NES")	Ras Al Khaimah (UAE)	75%	-	Trading in oilfield & well drilling equipments and spare parts.
Nordic Intervention Services L.L.C ("NIS")	Dubai (UAE)	100%	-	Administrative and support services for Nordic Energy FZC.
AREF Energy Global Ltd	Cayman Islands	100%	-	Investing activities.

\* Higleig has been classified as a disposal group held for sale and disclosed as a discontinued operation as per International Financial Reporting Standard 5: Non-current Assets held for sale and discontinued operations. (Note 15)

#### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

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 profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.



# AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Business combinations and goodwill (continued)**

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

#### **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.

The following specific recognition criteria must also be met before revenue is recognised:

##### *Construction contracts*

Revenue and profits from long-term contracts are calculated in accordance with the percentage of completion method of accounting. Such contracts generally extend for periods in excess of one year. Under this method the amount of revenue and profit from construction contracts is measured by reference to the percentage of actual costs incurred to date to the estimated total costs for each contract applied to the estimated contract profit, and reduced by the proportion of profit previously recognised.

Profit is only recognised when the contract reaches a point where the ultimate profit can be estimated with reasonable certainty. During the early stages of a contract, contract revenue is recognised only to the extent of costs incurred that are expected to be recoverable; hence no profit is recognised. Claims and variation orders are only included in the determination of contract profit when negotiations have reached an advanced stage such that it is probable they will be approved by contract owners and can be reliably measured. Anticipated losses on contracts are recognised in full as soon as they become foreseen.

##### *Sale 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.

##### *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.

##### *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.

##### *Dividend income*

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

##### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of profit and other costs that an entity incurs in connection with the borrowing of funds.

The group capitalises borrowing costs for all eligible assets where construction was commenced on or after 1 January 2009. The group continues to expense borrowing costs relating to construction projects that commenced prior to 1 January 2009.

# AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Taxation**

##### *National Labour Support Tax (NLST)*

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

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

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

##### *Zakat*

Contribution to Zakat is calculated at 1% of the profit of the group in accordance with the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

##### *Taxation on overseas subsidiaries*

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.

#### **Property and equipment**

Property and equipment is stated at cost less accumulated depreciation and / or accumulated impairment losses, if any. An item of property and equipment initially recognised is derecognised upon disposal when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income when the asset is derecognised.

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

Leasehold properties	5 to 50 years
Buildings	12 to 14 years
Furniture, fixtures and office equipments	2 to 7 years
Motor vehicles and equipments	4 to 10 years

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

Leasehold improvements and fittings in rented property are depreciated over the duration term of the corresponding rent contracts or the period of useful life, if shorter.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in the consolidated statement of income as the expense is incurred.

#### **Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets (other than goodwill and exploration assets) are carried at cost less any accumulated amortisation that is recognised on a straight line basis over their useful lives and any accumulated impairment losses. Internally generated intangible assets excluding capitalised developmental costs are not capitalised and expenditure is reflected in consolidated statement of income in the year in which the expenditure is incurred.

**2 SIGNIFICANT ACCOUNTING POLICIES(continued)**

**Intangible assets (continued)**

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

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

**Investment property**

Investment property is 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 properties are stated at fair value, which reflects market conditions at the reporting date that is determined based on valuation 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 properties are included in the consolidated statement of income in the year in which they arise.

Investment property is derecognised when either it have been disposed off or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of income 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.

**Non-current assets held for sale and discontinued operations**

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the consolidated statement of income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separate from income and expenses from continuing activities, down to the level of profit, even when the group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the consolidated statement of income.

**Investment in associates**

The group's investments in its associates are accounted for under the equity method of accounting. An associate is an entity in which the group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post-acquisition changes in the group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised nor separately tested for impairment.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investment in associates (continued)**

The consolidated statement of income reflects the group's share of the results of operations of the associate. Where there has been a change recognised directly in the other comprehensive income of the associate, the group recognises its share of any changes and discloses this, when applicable, in other comprehensive income. Unrealised gains and losses resulting from transactions between the group and the associate are eliminated to the extent of the interest in the associate.

The reporting dates of the associates and the group are identical for the effects of significant transactions or events that occur between that date and the date of the group's consolidated financial statements. The associate's accounting policies conform to those used by the group for like transactions and events in similar circumstances.

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

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

**Impairment of non-financial assets**

The group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or a cash-generating unit's fair value less costs to sell and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount by recognising impairment loss in the consolidated statement of income.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit). In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income. After such a reversal, the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

# AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Financial assets and liabilities**

The group classifies its financial assets and liabilities as "financial assets at fair value through statement of income", "loans and receivables", financial assets available for sale" and "financial liabilities other than at fair value through statement of income". The group determines the classification of financial assets and liabilities at initial recognition.

#### *Financial assets*

##### *Initial measurement and recognition*

Financial assets within the scope of IAS 39 are classified as "financial assets at fair value through statement of income", "financial assets available for sale" and "loans and receivables". The group determines the classification of financial assets at initial recognition.

All financial assets are initially recognised at fair value plus, in the case of investments not at fair value through statement of income, directly attributable transaction costs.

Purchase or sale of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way purchases) are recognised on trade date, i.e., the date that the group commits to purchase or sell the asset.

The group's financial assets include cash and cash equivalents, trade and other receivables and quoted and unquoted financial instruments.

##### *Subsequent measurement*

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

##### *Financial assets at fair value through statement of income*

Financial assets at fair value through statement of income includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through statement of income. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Non-trading financial assets may be designated at initial recognition as financial assets designated as at fair value through statement of income if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented investment and risk management strategy.

After initial recognition, financial assets at fair value through statement of income are remeasured at fair value with all changes in fair value recognised in the consolidated statement of income.

Financial assets at fair value through statement of income are carried in the consolidated statement of financial position at fair value with gains and losses recognised in the consolidated statement of income. As at 31 December 2011, the group has no financial assets that are held for trading (31 December 2010: Nil).

##### *Financial assets available for sale*

Financial assets available for sale are those non-derivative financial assets that are designated as available for sale or are not classified as "financial assets at fair value through statement of income" and "loans and receivables".

After initial recognition, financial assets available for sale are measured at fair value with gains and losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is recognised in the consolidated statement of income.



**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial assets and liabilities (continued)**

***Financial assets (continued)***

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are carried at amortised cost using the effective profit method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective profit rate. The group's loans and receivables include accounts receivables and other assets. Gains and losses are recognised in consolidated statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

***Derecognition of financial assets***

A financial asset (in whole or in part) is derecognised either when:

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

When the group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the group's continuing involvement in the asset.

In that case, the group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the group has retained.

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

***Impairment of financial assets***

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

***Financial assets carried at amortised cost***

For financial assets carried at amortised cost, the group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective profit rate. If a loan has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial assets and liabilities (continued)**

***Impairment of financial assets (continued)***

***Financial assets carried at amortised cost (continued)***

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. Assets together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the related account in the consolidated statement of income.

***Financial assets available for sale***

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

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income is removed from the consolidated statement of comprehensive income and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognised directly in other comprehensive income.

***Financial liabilities***

***Initial recognition and measurement***

Financial liabilities within the scope of IAS 39 are classified as "Financial liabilities other than at fair value through statement of income" and "loans and borrowings". The group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The financial liabilities include trade and other payables, murabaha payables and liabilities against assets subject to finance lease.

***Subsequent measurement***

The measurement of financial liabilities depends on their classification as follows:

***Accounts payable and accruals***

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

***Murabaha payable***

Murabaha payable represents the amount payable on a deferred settlement basis for assets purchased under murabaha arrangements. Murabaha payable is stated at the gross amount of the payable, net of deferred profit payable. Profit payable is expensed on a time apportionment basis taking account of the profit rate attributable and the balance outstanding.

***Derecognition of financial liabilities***

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of income.

# AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial assets and liabilities (continued)

##### *Offsetting of financial instruments*

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

##### *Fair value of financial instruments*

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

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

#### Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in process comprises the cost of raw materials, consumables and supplies, direct labour costs, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The amount of impairment loss is recognised in the consolidated statement of income under cost of sales of good. Reversals of such impairments resulting from an increase in the net sales value are recorded as a reduction in the cost of materials in the period in which the reversal occurs.

#### Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date: whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

##### *Group as lessee*

Finance leases, which transfer to the group substantially all the risks and benefits incidental to the ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant periodic rate of profit on the remaining balance of the liability. Finance charges are recognised in the consolidated statement of income.

Leased assets are depreciated on a straight line basis over the useful life of the asset. However, if there is no reasonable certainty that the group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the consolidated statement of income on a straight line basis over the lease term.

#### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of bank balances and cash and short term deposits with an original maturity of three months or less, net of outstanding bank overdrafts, if any.

# AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Foreign currency translation**

The group's consolidated financial statements are presented in Kuwaiti Dinars, which is also the company's functional currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

#### *Transactions and balances*

Transactions in foreign currencies are initially recorded by group entities at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated to respective functional currencies at rates of exchange prevailing on the reporting date. Any resultant gains or losses are recognised in the statement of income of respective entities.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Kuwaiti Dinars at the foreign exchange rates prevailing at the dates that the values were determined. In case of non-monetary assets whose change in fair values are recognised directly in the consolidated statement of comprehensive income, foreign exchange differences are recognised directly in the consolidated statement of comprehensive income and for non-monetary assets whose change in fair value are recognised in the consolidated statement of income are recognised in the consolidated statement of income.

#### *Group companies*

Assets including goodwill and liabilities, both monetary and non-monetary, of foreign operations are translated at the exchange rates prevailing at the reporting date. Operating results of such operations are translated at average exchange rates for the year. The resulting exchange differences are accumulated in a separate section of consolidated statement of comprehensive income "foreign currency translation reserve" until the disposal of the foreign operation.

#### **Segment reporting**

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

#### **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 an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in consolidated statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

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

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 counter party, the group recorded the related amount as other receivable.

#### **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.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Significant accounting judgments, estimates and assumptions**

***Judgments***

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

In the process of applying the group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect in the amounts recognised in the consolidated financial statements.

***Impairment of financial assets available for sale***

The group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

***Impairment losses of receivables***

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

***Classification of investments***

Judgments are made in the classification of financial instruments based on management's intention at acquisition.

***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.

***Estimates and assumptions***

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

***Impairment of goodwill***

The group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.



# AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Significant accounting judgments, estimates and assumptions (continued)

##### *Estimates and assumptions (continued)*

##### *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 income whenever the carrying amount of an asset exceeds its recoverable amount.

##### *Useful lives of property and equipment and intangible assets*

The management determines the estimated useful lives of its property and equipment and intangible assets for calculating depreciation and amortisation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation and amortisation charge would be adjusted where the management believes the useful lives differ from previous estimates.

##### *Valuation of unquoted financial assets*

Valuation of unquoted equity financial assets is normally based on one of the following:

- Recent arm's length market transactions;
- Current fair value of another instrument that is substantially the same;
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; and
- Other valuation models.

The determination of the cash flows and discount factors for unquoted equity financial assets requires significant estimation.

### 3 WRITE BACK OF (PROVISION FOR) BOARD OF DIRECTORS' REMUNERATION

The annual general meeting of the shareholders held on 24 April 2011 approved the consolidated financial statements for the year ended 31 December 2010. The shareholders approved to reduce the Board of Director remuneration from KD 300,000 as proposed by the Board of Directors for the year ended 31 December 2010, to KD 150,000. Accordingly the excess provision of KD 150,000 has been written back during the current year.

### 4 TAXATION

	2011 KD	2010 KD
Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS")	-	14,313
National Labour Support Tax ("NLST")	-	287,869
Zakat	-	114,278
Taxation relating to sale of exploration assets	-	7,553,805
Taxation on foreign operations	24,110	105,699
	<u>24,110</u>	<u>8,075,964</u>

# AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 5 BASIC AND DILUTED (LOSS) EARNINGS PER SHARE

Basic and diluted (loss) earning per share is calculated by dividing the (loss) profit attributable to equity holders of the company for the year by the weighted average number of shares outstanding during the year, as follows:

	2011	2010
(Loss) profit for the year attributable to equity holders of the company (KD)	(5,113,572)	10,798,282
Weighted average number of shares outstanding during the year	750,000,000	750,000,000
Basic and diluted (loss) earnings per share	(6.8) fils	14.4 fils

### Basic and diluted (loss) earnings per share from continuing operations

	2011	2010
(Loss) profit for the year attributable to equity holders of the company (KD)	(5,113,572)	10,798,282
Add: Loss from discontinuing operations (KD)	3,581,531	658,657
(Loss) profit for the period attributable to equity holders of the company from continuing operations (KD)	(1,532,041)	11,456,939
Weighted average number of shares outstanding during the year	750,000,000	750,000,000
Basic and diluted (loss) earnings per share	(2.0) fils	15.3 fils

### 6 ACQUISITION OF SUBSIDIARIES

- On 24 March 2011, the group acquired 51% equity interest in Al Meshari Heavy Equipment Trading L.L.C., a company incorporated in Dubai, United Arab Emirates, ("Al Meshari") and engaged in the business of trading and rental of construction equipment and machinery and loading and lifting equipment.
- On 1 July 2011, the group acquired 75% equity interest in Nordic Energy FZC ("Nordic"), a company incorporated in Ras Al Khaimah Free Trade Zone, Ras Al Khaimah, United Arab Emirates, and engaged in the business of trading in oilfield & well drilling equipments and spare parts.

These acquisitions have been accounted in accordance with requirements of IFRS 3 - Business Combinations.

# AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 6 ACQUISITION OF SUBSIDIARIES (continued)

The fair values of identifiable assets and liabilities of Al Meshari and Nordic as at the date of acquisition are as follows:

	<i>Al Meshari</i> <i>KD</i>	<i>Nordic Energy</i> <i>FZC</i> <i>KD</i>	<i>Total</i> <i>KD</i>
Property and equipment (Note 7)	171,178	-	171,178
Inventories	6,551	-	6,551
Accounts receivable and other assets	136,122	224	136,346
Bank balances, deposits and cash	996,034	72,398	1,068,432
Accounts payable and other liabilities	(54,967)	(42,702)	(97,669)
Liabilities against assets subject to finance lease	(7,469)	-	(7,469)
Total net assets value	1,247,449	29,920	1,277,369
Less: Non controlling interests	(611,250)	(7,480)	(618,730)
Add: goodwill (Note 8)	351,175	14,960	366,135
Total purchase consideration	987,374	37,400	1,024,774
Less: Bank balances, deposits and cash acquired	(996,034)	(72,398)	(1,068,432)
Net cash inflow on acquisition	(8,660)	(34,998)	(43,658)

Had the acquisition taken place at the beginning of the year, revenue from sale of goods of the group for the period would have been higher by KD 39,501 and the loss attributable to the shareholders of the company would have been higher by KD 9,938.

- c. On 23 February 2011, the company had incorporated a 100% owned Special Purpose Vehicle ("SPV") AREF Energy Global Ltd in Cayman Islands with a share capital of USD 400,000 (equivalent to KD 111,240). Subsequently, the SPV acquired 25% equity interest in Eastbridge Aref Holding Company Limited, a newly incorporated entity in Cayman Islands for an amount of KD 111,240. Accordingly, the investment in Eastbridge Aref Holding Company Limited is included as investment in associate in the consolidated financial information.
- d. On 19 July 2011, the company has incorporated a 100% owned subsidiary Nordic Intervention Services L.L.C in Dubai, United Arab Emirates, with a share capital of AED 300,000 (equivalent to KD 22,560). The company has been incorporated with the purpose of performing certain administrative and support services for Nordic Energy FZC.

# AREF Energy Holding Company K.S.C. (Closed) and its Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 7 PROPERTY AND EQUIPMENT

Cost:	Land KD	Leasehold properties KD	Buildings KD	Furniture, fixtures and office equipments KD	Motor vehicles and equipments KD	Work in progress KD	Total KD
At 1 January 2011	1,230,000	759,160	945,682	221,916	19,578,122	118,397	22,853,277
Additions	-	145,800	-	58,945	1,653,389	6,352	1,864,486
Arising on acquisition of subsidiaries (Note 6)	-	3,244	-	805	167,129	-	171,178
Disposals	-	-	-	-	(1,324,524)	-	(1,324,524)
Discontinued operation (Note 15)	-	(668,112)	(887,097)	(107,991)	(14,271,917)	(109,095)	(16,044,212)
Foreign currency translation adjustment	-	(91,068)	(58,585)	(3,715)	(4,032,305)	(14,200)	(4,199,873)
At 31 December 2011	1,230,000	149,024	-	169,960	1,769,894	1,454	3,320,332
Depreciation:							
At 1 January 2011	-	114,664	119,172	38,710	6,763,335	-	7,035,881
Charge for the year	-	73,597	33,171	39,655	2,711,500	-	2,857,923
Disposal	-	-	-	-	(1,148,701)	-	(1,148,701)
Transfers	-	45,451	(45,451)	-	-	-	-
Discontinued operation (Note 15)	-	(213,938)	(64,685)	(4,638)	(5,769,708)	-	(6,052,969)
Foreign currency translation adjustment	-	(15,687)	(42,207)	(1,526)	(2,530,964)	-	(2,590,384)
At 31 December 2011	-	4,087	-	72,201	25,462	-	101,750
Net carrying value:							
At 31 December 2011	1,230,000	144,937	-	97,759	1,744,432	1,454	3,218,582

## AREF Energy Holding Company K.S.C. (Closed) and its Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

## 7 PROPERTY AND EQUIPMENT (continued)

	Land KD	Leasehold properties KD	Buildings KD	Furniture, fixtures and office equipments KD	Motor vehicles and equipments KD	Work in progress KD	Total KD
Cost:							
At 1 January 2010	1,230,000	1,432,564	999,281	162,842	20,752,671	114,584	24,691,942
Additions	-	-	-	122,199	1,031,759	8,811	1,162,769
Disposals	-	(610,917)	-	(62,015)	(688,622)	-	(1,361,554)
Foreign currency translation adjustment	-	(62,487)	(53,599)	(1,110)	(1,517,686)	(4,998)	(1,639,880)
At 31 December 2010	1,230,000	759,160	945,682	221,916	19,578,122	118,397	22,853,277
Depreciation:							
At 1 January 2010	-	155,780	42,710	52,792	4,515,210	-	4,766,492
Charge for the year	-	33,353	91,959	41,237	3,762,289	-	3,928,838
Disposals	-	(69,161)	-	(54,847)	(574,985)	-	(698,993)
Foreign currency translation adjustment	-	(5,308)	(15,497)	(472)	(939,179)	-	(960,456)
At 31 December 2010	-	114,664	119,172	38,710	6,763,335	-	7,035,881
Net carrying value:							
At 31 December 2010	1,230,000	644,496	826,510	183,206	12,814,787	118,397	15,817,396



# AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 7 PROPERTY AND EQUIPMENT (continued)

Depreciation charge for the year is allocated as follows:

	2011 KD	2010 KD
General and administration expenses	76,835	35,619
Discontinued operation (Note 15)	2,781,088	3,893,219
	<u>2,857,923</u>	<u>3,928,838</u>

### 8 INTANGIBLE ASSETS

	Goodwill KD	Other intangible assets KD	Total KD
<b>Cost:</b>			
At 1 January 2011	-	1,555,181	1,555,181
Arising on acquisition of subsidiaries (Note 6)	366,135	-	366,135
Foreign currency translation adjustment	383	-	383
<b>At 31 December 2011</b>	<u>366,518</u>	<u>1,555,181</u>	<u>1,921,699</u>
<b>Amortisation:</b>			
At 1 January 2011	-	(881,318)	(881,318)
Charge for the year	-	(97,797)	(97,797)
<b>At 31 December 2011</b>	<u>-</u>	<u>(979,115)</u>	<u>(979,115)</u>
<b>Net carrying value:</b>			
<b>At 31 December 2011</b>	<u>366,518</u>	<u>576,066</u>	<u>942,584</u>

	Goodwill KD	Exploration assets KD	Other intangible assets KD	Total KD
<b>Cost:</b>				
At 1 January 2010	2,460,974	10,066,044	1,555,181	14,082,199
Additions	-	328,678	-	328,678
Disposals	-	(10,394,722)	-	(10,394,722)
Impairment loss	(2,607,504)	-	-	(2,607,504)
Foreign currency translation adjustment	146,530	-	-	146,530
<b>At 31 December 2010</b>	<u>-</u>	<u>-</u>	<u>1,555,181</u>	<u>1,555,181</u>
<b>Amortisation:</b>				
At 1 January 2010	-	-	(783,520)	(783,520)
Charge for the year	-	-	(97,798)	(97,798)
<b>At 31 December 2010</b>	<u>-</u>	<u>-</u>	<u>(881,318)</u>	<u>(881,318)</u>
<b>Net carrying value:</b>				
<b>At 31 December 2010</b>	<u>-</u>	<u>-</u>	<u>673,863</u>	<u>673,863</u>

# AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 8 INTANGIBLE ASSETS (continued)

Other intangible assets have finite useful lives and are amortised over 10 years.

#### Key assumptions used in value in use calculations

The calculation of value in use for the cash-generating unit is most sensitive to the following assumptions:

- Gross margin;
- Discount rates and
- Growth rate to extrapolate cash flows beyond forecast period

#### Sensitivity to changes in assumptions

With regard to the assessment of value in use of the cash-generating unit, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

### 9 INVESTMENT PROPERTY

	2011 KD	2010 KD
Opening balance	5,647,680	4,956,952
Fair valuation gain on investment property	2,861,544	946,240
Foreign currency translation adjustment	(757,421)	(255,512)
Discontinued operation (Note 15)	(7,751,803)	-
	<u>-</u>	<u>5,647,680</u>

Investment property is stated at fair value, which has been determined based on the valuation performed as at 31 December 2011 by an accredited independent valuator who is an industry specialist in valuing this type of investment property.

### 10 INVESTMENT IN ASSOCIATES

	2011 KD	2010 KD
Opening balance	4,710,907	3,581,377
Arising on acquisition of subsidiary (Note 6)	111,240	-
Additions*	36,655	2,250,748
Share of results	(229,166)	(480,953)
Share of result of discontinued operation (Note 15)	284,646	(740,554)
Foreign currency translation adjustment	(140,718)	100,289
Discontinued operation (Note 15)	(1,400,008)	-
Closing balance	<u>3,373,556</u>	<u>4,710,907</u>

\* In 2010 additions include KD 608,686 that represents conversion of partial receivables to investment in an associate resulting in the increase of group's equity participation in the associate.

# AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 10 INVESTMENT IN ASSOCIATES (continued)

Summarised financial information of associates is as follows:

	2011 KD	2010 KD
<b>Share of associates' statement of financial position:</b>		
Total assets	3,498,197	8,413,852
Total liabilities	(124,641)	(3,702,945)
Net assets	<u>3,373,556</u>	<u>4,710,907</u>
<b>Share of associates' revenue and loss:</b>		
Revenue	<u>67,089</u>	<u>2,658</u>
Loss for the year	<u>(229,166)</u>	<u>(480,953)</u>

Name of company	Principal Activities	Country of incorporation	Effective interest 2011	Effective interest 2010	Carrying value 2011	Carrying value 2010
Synfuels International, Inc.	Oil and gas technology and services	U.S.A.	25.01%	25.01%	1,888,632	2,347,747
Al Dindir Petroleum International Company Limited *	Oil and gas technology and services	Sudan	-	50%	-	640,863
Resource Development Group *	Oil & Gas Exploration	Sudan	-	50%	-	593,897
Kitara OFIL Limited	Oil and gas technology and services	Mauritius	36.36%	36.36%	1,373,324	1,128,400
Eastbridge Aref Holding Company Limited	Investing activities	Cayman Islands	25%	-	111,600	-
					<u>3,373,556</u>	<u>4,710,907</u>

\* These associates relate to the subsidiary Higlieg which has been classified as discontinued operations as at 31 December 2011.

Eastbridge Aref Holding Company Limited has not started its operations as at 31 December 2011.

All the associates are unquoted companies.

# AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 11 FINANCIAL ASSETS AVAILABLE FOR SALE

	2011 KD	2010 KD
Quoted equity securities	-	673,600
Unquoted equity securities	35,115,600	2,723,485
<b>Total</b>	<b>35,115,600</b>	<b>3,397,085</b>

The company had 17.39% equity interest in Kuwait Energy Company K.S.C. (Closed) (KEC) as at 31 December 2010 and classified as financial asset at fair value through statement of income. During the year, KEC transferred its working interest to Kuwait Energy plc (KEplc) a company incorporated in Jersey, in consideration for shares in KEplc. Thereafter, KEC reduced its share capital by distributing shares of KEplc (held by KEC) to KEC shareholders in lieu of their 90% shareholding in KEC and remaining 10% shareholding is continued to be held by the KEC shareholders in KEC. As a result, investment in KEC has been derecognised. The investment in KEplc has been recognised as financial assets available for sale amounting to KD 29,160,000 and the balance holding in KEC at KD 3,240,000 is also recognised as financial assets available for sale due to change in the nature of financial assets.

Unquoted equity securities amounting to KD 2,715,600 (2010: KD 2,723,485) 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.

Financial assets available for sale with a net carrying value of KD 8,323,700 (31 December 2010: KD 8,323,700) is mortgaged as security against murabaha payables (Note 19).

### 12 FINANCIAL ASSET AT FAIR VALUE THROUGH STATEMENT OF INCOME

During the year, the group has derecognised the financial assets at fair value through statement of income and recognised the investment as financial assets available for sale at the same fair value on the date of recognition (Note 11).

### 13 ACCOUNTS RECEIVABLE AND OTHER ASSETS

	2011 KD	2010 KD
Trade accounts receivable	228,378	12,863,784
Retention receivables	-	3,496,430
Advances & prepayments	162,362	3,785,746
Amount due from related parties (Note 20)	422,692	1,770,324
Other receivables	297,196	855,058
	<b>1,110,628</b>	<b>22,771,342</b>

As at 31 December 2011, trade accounts receivable at nominal value of KD 86,708 (31 December 2010: KD 5,804,603) was impaired and provided for to the extent of KD 57,838 (2010: KD 1,323,063).

Movement in the allowance for impairment of trade receivables is as follows:

	KD
At 1 January 2010	1,441,239
Write back for the year	(118,176)
At 31 December 2010	1,323,063
Charge for the year	57,838
Discontinued operations	(1,323,063)
At 31 December 2011	<b>57,838</b>

## AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

**13 ACCOUNTS RECEIVABLE AND OTHER ASSETS (continued)**

As at 31 December, the ageing of unimpaired trade accounts receivable is as follows:

	<i>Neither past due nor impaired KD</i>	<i>Past due but not impaired</i>			<i>Total KD</i>
		<i>&lt; 30 days KD</i>	<i>30 to 90 days KD</i>	<i>&gt; 90 days KD</i>	
<b>2011</b>	<b>100,518</b>	<b>23,510</b>	<b>34,773</b>	<b>40,707</b>	<b>199,508</b>
2010	6,578,147	162,940	533,350	1,107,807	8,382,244

Unimpaired trade accounts receivable are expected, on the basis of past experience, to be fully recoverable.

**14 CASH AND CASH EQUIVALENTS**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include the following balances in the consolidated statement of financial position:

	<i>31 December 2011 KD</i>	<i>31 December 2010 KD</i>
Bank balances and cash	5,868,763	23,152,355
Wakala deposits	12,539,300	1,800,000
Bank balances, deposits and cash	18,408,063	24,952,355
Add: Discontinued operation (Note 15)	429,139	-
Less: Bank overdrafts	(475,029)	-
Less: restricted bank balances	(374,331)	(670,244)
Less: wakala deposits with original maturity of more than 3 months	(7,554,300)	(1,800,000)
Cash and cash equivalents for the purpose of consolidated statement of cash flows	<u>10,433,542</u>	<u>22,482,111</u>

Restricted bank balances represent margin deposits that are held as security against letters of guarantees (Note 20 and 22). Further, wakala deposits with original maturity of more than 3 months include KD 1,800,000 (31 December 2010: KD 1,800,000) that represent margin deposits that are held as security against the same letters of guarantee.

# AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 15 DISCONTINUED OPERATIONS

As on 31 December 2011 the management of the company has committed to a plan to sell 52.04% equity interest in Higlieg Petroleum Services & Investment Company Ltd (Higlieg). The disposal of Higlieg is due to be completed in the first half of 2012 and, as at 31 December 2011, final negotiations for the sale were in progress. As a result, Higlieg has been classified as a disposal group held for sale and disclosed as a discontinued operation as per International Financial Reporting Standard 5: Non-current Assets held for sale and discontinued operations. The results of Higlieg for the year are presented below:

	<i>2011</i> <i>KD</i>	<i>2010</i> <i>KD</i>
Revenues	9,633,006	18,141,647
Expenses	(12,249,258)	(18,964,362)
Impairment loss recognised on the remeasurement of fair value less costs to sell	(2,900,994)	-
Loss before tax from discontinued operations	(5,517,246)	(822,715)
Taxation	(57,121)	(202,432)
Loss for the year from discontinued operations	(5,574,367)	(1,025,147)
Basic & diluted loss per share from discontinued operations attributable to equity holders' of the company	(4.8) fils	(0.9) fils

The major classes of assets and liabilities of Higlieg classified as held for sale as at 31 December 2011 are as follows:

	<i>2011</i> <i>KD</i>
<b>Assets</b>	
Property and equipment (Note 7)	7,090,249
Investment property (Note 9)	7,751,803
Investment in associate (Note 10)	1,400,008
Financial assets available for sale	625,097
Inventories	1,831,554
Accounts receivable and other assets	12,259,341
Cash and bank balances (Note 14)	429,139
<b>Assets classified as held for sale</b>	<b>31,387,191</b>
<b>Liabilities</b>	
Employees' end of service benefits	(133,902)
Liabilities against assets subject to finance lease	(826,059)
Accounts payable and other liabilities	(14,062,365)
Current portion of liabilities against assets subject to finance lease	(251,593)
Murabaha payables	(107,370)
<b>Liabilities directly associated with the assets classified as held for sale</b>	<b>(15,381,289)</b>
<b>Net assets directly associated with disposal group</b>	<b>16,005,902</b>

# AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 15 DISCONTINUED OPERATIONS (continued)

<b>Impairment loss allocation</b>	<b>2011</b>
	<b>KD</b>
Property and equipment	(2,900,994)
<b>Reserves of disposal group classified as held for sale:</b>	
Cumulative changes in fair value	40,206
Foreign currency translation reserve	(3,551,013)
	<b>(3,510,807)</b>

The net cash flows incurred by Higleig are as follows

	<b>2011</b>	<b>2010</b>
	<b>KD</b>	<b>KD</b>
Operating	2,768,090	7,228,691
Investing	1,155,251	(253,642)
Financing	(5,453,783)	(7,641,920)
<b>Net cash outflow</b>	<b>(1,530,442)</b>	<b>(666,871)</b>

### 16 SHARE CAPITAL

The authorised, issued and fully paid up share capital of the company is KD 75,000,000 (2010: KD 75,000,000) consisting of 750,000,000 shares of 100 fils each (31 December 2010: 750,000,000 shares of 100 fils each), paid in cash.

### 17 RESERVES

#### *Share premium*

The share premium account is not available for distribution.

#### *Statutory reserve*

In accordance with the Law of Commercial Companies no transfer has been made to statutory reserve, since losses have been incurred during the year.

Distribution of the reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

The annual general meeting of the shareholders held on 24 April 2011 approved the consolidated financial statements for the year ended 31 December 2010. The shareholders approved to transfer KD 11,428 from retained earnings to statutory reserve due to an error in the computation of statutory reserve for the year ended 31 December 2010. Accordingly, the amount has been transferred from the retained earnings to statutory reserve in the current period.

#### *Voluntary reserve*

In accordance with the company's Articles of Association, 10% of the profit for the year attributable to shareholders of the company before contribution to KFAS, and provision for NLST, Zakat and Board of directors' remuneration is transferred to voluntary reserve. Such annual transfers may be discontinued by a resolution of the company's annual general meeting upon a recommendation by the Board of Directors. Voluntary reserve is available for distribution. No transfer has been made by the company as losses have been incurred during the year.

## AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

**18 ACCOUNTS PAYABLE AND OTHER LIABILITIES**

	<i>2011</i> <i>KD</i>	<i>2010</i> <i>KD</i>
Trade payable under construction contracts	406,650	8,688,082
Advances received from customers	16,050	3,715,712
Amount due to related parties (Note 20)	23,116	351,648
Provisions	200,749	2,123,675
Dividend payable	-	2,310,018
Other payables	94,344	1,507,033
	<u>740,909</u>	<u>18,696,168</u>

**19 MURABAHA PAYABLES**

Murabaha payables represent the value of assets purchased on a deferred settlement basis.

	<i>2011</i> <i>KD '000</i>	<i>2010</i> <i>KD '000</i>
Unsecured Murabaha	16,000	16,000
Secured Murabaha	2,597,252	5,827,973
	<u>2,613,252</u>	<u>5,843,973</u>

Murabaha payables include facilities amounting to KD 2,597,252 (31 December 2010: 4,039,558) taken from a related party (Note 20). These facilities are secured against financial assets available for sale amounting to KD 8,323,700 (31 December 2010: 8,323,700 (Note 11).



# AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 20 RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, associates, directors and key management personnel of the group and entities controlled, jointly controlled or significantly influenced by such parties. The terms of these transactions are approved by the group's management. Transactions with related parties are as follows:

	<i>Parent company KD</i>	<i>Other related parties KD</i>	<i>2011 KD</i>	<i>2010 KD</i>
<b>Consolidated statement of financial position</b>				
Bank balances and deposits	4,972,633	-	4,972,633	21,503,929
Accounts receivable and other assets (Note 13)	-	422,692	422,692	1,770,324
Assets classified as held for sale	-	1,955,495	1,955,495	-
Murabaha payables secured against:				
-Financial assets (Note 19)	2,597,252	-	2,597,252	4,039,558
-Non-financial asset	-	-	-	299,981
Liabilities against assets subject to finance lease	-	-	-	4,695,077
Accounts payable and other liabilities (Note 18)	-	23,116	23,116	351,648
Liabilities directly associated with the assets classified as held for sale	-	1,100,672	1,100,672	-

As at 31 December 2011, the group had outstanding letter of credit and letter of guarantee facilities obtained from a related party amounting to KD Nil (31 December 2010: KD 1,004,132) (Note 22).

Accounts receivable/payable from/to related parties are unsecured, free of finance charges and are receivable/payable on demand.

	<i>Parent company KD</i>	<i>Other related parties KD</i>	<i>2011 KD</i>	<i>2010 KD</i>
<b>Consolidated statement of income</b>				
Murabaha finance cost	169,417	-	169,417	719,262
Discontinued operation	-	600,904	600,904	-
Brokerage fees	500	-	500	800

#### Key management compensation

Remuneration paid or accrued in relation to "key management" (deemed for this purpose to comprise Directors in relation to their committee service, the Chief Executive Officer and other Senior Officers) as follows:

	<i>2011 KD</i>	<i>2010 KD</i>
Short term employee benefits – including salary and bonus	556,170	678,476
End of service benefits	57,289	31,989
Discontinued operation	76,550	-
	<u>690,009</u>	<u>710,465</u>

# AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 21 SEGMENTAL INFORMATION

For management reporting purpose the group is organised into business units based on products 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;
- Other: Investment and other related services

31 December 2011

	<i>Energy KD</i>	<i>Others KD</i>	<i>Total KD</i>
Segment revenues	-	1,768,622	1,768,622
<b>Segment results</b>			
Results from continuing operations	(1,609,247)	(131,411)	(1,740,658)
Results from discontinued operation	(8,957,743)	3,383,376	(5,574,367)
	(10,566,990)	3,251,965	(7,315,025)
Depreciation and amortisation	2,908,567	47,153	2,955,720
Segment impairment loss	2,900,994	-	2,900,994
<b>Assets and liabilities</b>			
Segment assets	53,909,819	4,104,770	58,014,589
Investment in associates	4,338,435	-	4,338,435
Assets classified as held for sale	23,010,291	8,376,900	31,387,191
<b>Total assets</b>	<b>81,258,545</b>	<b>12,481,670</b>	<b>93,740,215</b>
Segment liabilities	3,290,032	805,069	4,095,101
Liabilities directly associated with the assets classified as held for sale	14,303,637	1,077,652	15,381,289
<b>Total liabilities</b>	<b>17,593,669</b>	<b>1,882,721</b>	<b>19,476,390</b>

Segment assets under the energy and others segment includes goodwill of KD 14,960 and KD 351,175 respectively (31 December 2010: KD Nil, KD Nil) (Note 8).

# AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 21 SEGMENTAL INFORMATION (continued)

31 December 2010

	Energy KD	Others KD	Total KD
Segment revenues	-	415,844	415,844
<b>Segment results</b>			
Results from continuing operations	11,477,592	(26,939)	11,450,653
Results from discontinued operation	(2,536,023)	1,510,876	(1,025,147)
	8,941,569	1,483,937	10,425,506
Depreciation and amortization	4,026,493	143	4,026,636
Segment impairment loss	2,607,504	-	2,607,504
<b>Assets and liabilities</b>			
Segment assets	99,611,059	8,056,508	107,667,567
Investment in associates	5,398,875	-	5,398,875
Total assets	105,009,934	8,056,508	113,066,442
Segment liabilities	24,720,671	4,764,595	29,485,266

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

31 December 2011

	Kuwait KD	Middle East and North Africa KD	Others KD	Total KD
Segment revenues	1,341,402	427,220	-	1,768,622
Non current assets	1,311,831	2,273,269	576,066	4,161,166

31 December 2010

	Kuwait KD	Middle East and North Africa KD	Others KD	Total KD
Segment revenues	415,844	-	-	415,844
Non current assets	1,329,399	20,135,677	673,863	22,138,939

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

# AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 22 CAPITAL COMMITMENTS AND CONTINGENCIES

	2011 KD	2010 KD
<b>Capital expenditure commitments</b>		
<i>Financial assets</i>		
Financial assets available for sale	<u>6,696,000</u>	<u>6,743,700</u>

At the reporting date, the group had contingent liabilities amounting to KD 720,379 (31 December 2010: KD 6,200,382) in respect of outstanding letters of credit and letters of guarantees. No material liabilities are anticipated to arise out of contingent liabilities. These letters of credit and letters of guarantee are partly secured by bank balances and deposits (Note 14).

### 23 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Fair values of all financial instruments are not materially different from their carrying values except financial assets available for sale carried at cost (Note 11). For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value.

This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

The group uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in an active market for identical assets and liabilities:

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: other techniques which use inputs which have a significant effect on the recorded fair value are not based on observable market data.

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

	Level: 1 KD	Level: 3 KD	Total fair value KD
<b>31 December 2011</b>			
<b>Financial assets available for sale:</b>			
Unquoted equity securities	-	32,400,000	32,400,000
<b>31 December 2010</b>			
<b>Financial assets at fair value through statement of income:</b>			
Unquoted equity securities	-	32,400,000	32,400,000
<b>Financial assets available for sale:</b>			
Quoted equity securities	673,600	-	673,600
	<u>673,600</u>	<u>32,400,000</u>	<u>33,073,600</u>

During the year ended 31 December 2011, there were no transfers between Level 1 and Level 3 fair value measurements.

# AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 24 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 investment and management 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, prepayment risk and operational risk. Market risk is subdivided into profit rate risk, foreign currency risk, equity price risk and prepayment 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.

#### 24.1 Credit risk

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.

#### *Maximum exposure to credit risk*

The group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these financial 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 bears credit risk on bank balances and accounts receivables.

The group seeks to limit its credit risk with respect to banks by only dealing with reputable banks, and with respect to customers by monitoring outstanding receivables on an ongoing basis. The five largest customers accounted for 66% (31 December 2010: 99%) (Government/government controlled entities: Nil (31 December 2010: 76%)) of the outstanding trade accounts receivable.

The table below shows the gross maximum exposure to credit risk across financial assets:

	2011 KD	2010 KD
Bank balances and deposits	18,407,530	24,937,084
Accounts receivable and other assets	948,266	18,985,596
Gross maximum credit risk exposure	19,355,796	43,922,680

The exposures set above are based on carrying amounts as reported in the consolidated statement of financial position.

# AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 24 RISK MANAGEMENT (continued)

#### 24.1 Credit risk (continued)

##### *Risk concentration of the maximum exposure to credit risk*

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the group's performance to developments affecting a particular industry or geographic location.

The group's credit bearing assets can be analysed by the geographical regions and industry wise sector as follows:

	2011 KD	2010 KD
<b>Geographic region:</b>		
Kuwait	17,090,092	23,954,547
Middle East and North Africa	1,890,841	19,742,529
Others	374,863	225,604
	<u>19,355,796</u>	<u>43,922,680</u>
	2011 KD	2010 KD
<b>Industry sector:</b>		
Banks and financial institutions	18,407,530	24,937,084
Construction and real estate	100,518	18,780,881
Other	847,748	204,715
	<u>19,355,796</u>	<u>43,922,680</u>

##### **Collateral and other credit enhancements**

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

#### 24.2 Liquidity risk

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 summarises 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 future profit payments over the life of these financial liabilities.

## AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

**24 RISK MANAGEMENT (continued)****24.2 Liquidity risk (continued)**

31 December 2011	<i>On demand KD</i>	<i>Less than 1 year KD</i>	<i>More than 1 year KD</i>	<i>Total KD</i>
Murabaha payable	-	2,666,411	-	2,666,411
Bank overdrafts	-	475,029	-	475,029
Liabilities against assets subject to finance lease	-	3,926	3,191	7,117
Accounts payable and other liabilities	101,343	639,566	-	740,909
	<u>101,343</u>	<u>3,784,932</u>	<u>3,191</u>	<u>3,889,466</u>
<b>Capital commitments</b>	<u>-</u>	<u>-</u>	<u>6,696,000</u>	<u>6,696,000</u>
31 December 2010	<i>On demand KD</i>	<i>Less than 1 year KD</i>	<i>More than 1 year KD</i>	<i>Total KD</i>
Murabaha payable	1,254,359	4,645,942	-	5,900,301
Liabilities against assets subject to finance lease	126,641	1,393,047	4,685,703	6,205,391
Accounts payable and other liabilities	151,037	18,545,131	-	18,696,168
	<u>1,532,037</u>	<u>24,584,120</u>	<u>4,685,703</u>	<u>30,801,860</u>
<b>Capital commitments</b>	<u>-</u>	<u>-</u>	<u>6,743,700</u>	<u>6,743,700</u>

**24.3 MARKET RISK**

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all financial assets traded in the market.

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, diversification of assets in terms of geographical distribution and industry concentration, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

**24.3.1 Profit rate risk**

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 treasury department of the company. The group is not significantly exposed to profit rate risk as a result of mismatches of profit rate repricing 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 profit before taxes and Board of Directors' remuneration.

**24.3.2 Currency risk**

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

The management monitors the open positions on an ongoing basis to ensure that they are maintained within established limits.

# AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 24 RISK MANAGEMENT (continued)

#### 24.3 MARKET RISK (continued)

##### 24.3.2 Currency risk

As at the reporting date the group had the following significant net asset exposures denominated in foreign currencies:

	2011 KD	2010 KD
US Dollar	17,466,157	24,947,901
Sudanese pounds	16,005,902	23,391,681
UAE Dirham	1,089,331	-

The group's exposure to other foreign currencies is not material to the consolidated financial statements.

The effect on profit before tax (due to change in the fair value of monetary assets and liabilities) and on the other comprehensive income, as a result of change in currency rate, with all other variables held constant is shown below as at 31 December 2011:

	31 December 2011 Change in currency rate by 3%		31 December 2010 Change in currency rate by 3%	
	Effect on other comprehensive income KD	Effect on profit before taxation KD	Effect on other comprehensive income KD	Effect on profit before taxation KD
United State Dollar	92,722	431,263	104,284	729,416
Sudanese pounds	480,177	-	701,750	-
UAE Dirham	33,818	(1,139)	-	-

Sensitivity to currency rate movements is assumed to be on a symmetric basis and financial instruments giving rise to non-symmetric movements are not significant.

##### 24.3.3 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 effect on other comprehensive income (as a result of a change in the 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.

##### 24.3.4 Prepayment risk

Prepayment risk is the risk that the group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. The group is not significantly exposed to prepayment risk.



# AREF Energy Holding Company K.S.C. (Closed) and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 25 CAPITAL MANAGEMENT

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

The group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ended 31 December 2011 and 31 December 2010.

The group monitors capital on the basis of the gearing ratio which is total debt divided by total equity attributable to equity holders of the company. The group includes profit bearing murabaha payables (including deferred profit) and liabilities against assets subject to finance lease within total debt.

The capital structure of the group consists of the following:

	2011 KD	2010 KD
Profit Bearing murabaha payables	2,613,252	5,843,973
Deferred finance cost	53,159	56,328
Total liabilities against assets subject to finance lease	7,117	6,205,391
Bank overdraft	475,029	-
Liabilities directly associated with the assets classified as held for sale	1,509,514	-
Total debt	4,658,071	12,105,692
Equity attributable to the equity holders of the company	68,189,514	74,980,543
Gearing ratio	7%	16%