AREF ENERGY

AREF Energy Holding Company

09 ANNUAL REPORT

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ABOUT AREF ENERGY

AREF Energy Holding Company is a Kuwaiti shareholding Company listed on Kuwait Stock Exchange with a fully paid capital of KD 75,000,000. Company was established in September 2007 as a subsidiary of AREF Investment Group, a long-term investor and one of the leading investment institutions in the region focusing on investments in various sectors and activities while developing and nurturing local, regional and international partnerships.

Corporate Vision

Our vision is to become the leading investment Company in the field of energy in the region, armed with a solid identity and high-performance assets, environmental awareness programs and excellent human resources, thereby promoting growth of our shareholders' returns and increasing enterprise value of the Company.

Corporate Mission

To acquire and manage investments in the energy sector including oil, gas and power and other related energy sources, services, equipment and technologies particularly in MENA region, as well as globally.

In addition, we will create strong business identity by providing strategic guidance to our subsidiaries and affiliates for capacity building and growth, while meeting international standards of excellence in all aspects of business operations, processes and ethics. We will multiply our stakeholders' satisfaction by generating wealth and adding value, embracing an environment friendly culture and training employees for quality output, growth and innovative contribution.

BOARD OF DIRECTORS

Walid K. Al-Hashash
Chairman

Ebrahim A. Al-Khuzam
Vice Chairman

Mahmoud K. Al-Jassar
Board Member

Abdul Aziz A. Al-Ebrahim
Board Member

Tareq J. Al-Wazzan
Board Member & Chief Executive Officer

EXECUTIVE MANAGEMENT

Zeyad A. Al-Oudah
General Manager

Qatham F. Al-Jelaibi
Venture Development Manager

Mohammed A. Algharaballi
Business Development Manager

Paurus Kohina
Chief Financial Officer

MANAGEMENT REPORT

In the name of Allah, the Beneficent, the Merciful,

Praise is to the All Mighty Allah, and peace and blessings be upon
The master of messengers,

Honorable Shareholders of AREF Energy Holding Company,

It gives me great pleasure to present to you our second annual report of AREF Energy Holding Company including key achievements and strategic developments of the Company during the past year of 2009, the key financial indicators and financial results for the year ended 31 December 2009, against the background of tremendous challenges brought by the global economic crisis that has heavily weighed down on all local and international markets.

Undoubtedly, the circumstances that prevailed during the year were quite different from anything we saw in past years, caused, by the consequences and of the global economic crisis that emerged with far-reaching effects on global financial markets from which AREF Energy was no exception. The Company managed to deal with that crisis in an efficient manner, while safeguarding its investments and securing sufficient level of liquidity. AREF Energy made continuous efforts to maintain its existing ventures and, because of its strong assets, managed to gain the confidence of local and regional banks to support and finance its future projects. Considering Company's existing ventures, AREF Energy intensified its efforts to support such ventures and maximize their economic value.

The Company's operating results for 2009 reflect losses that may be considered unfortunate but prudent and conservative in view of the challenges the Company faced during the year.

FINANCIAL INDICATORS

	2009	16-month period ended 31 December 2008
Net Loss (KD)	(7,959,610)	(3,641,044)
Total Assets (KD)	109,970,616	116,621,690
Shareholders' Equity (KD)	64,615,552	72,514,125
Loss per share (Fils)	(10.6)	(7.5)

The total income for 2009 was KD 39,098,987/- as compared to KD 47,925,376/- in the previous period.

It is to be noted that the above results are attributed to AREF Energy share of the operational profits or losses of its subsidiaries and affiliates and share of results of its associates. The losses are due to the impairment of the fair value of the Company's assets during the global economic crisis. The International Financial Reporting Standards (IFRS) also require that such impairment to be recognized even if the Company does not sell those assets.

Going forward, we are optimistic about reversing these losses as we expect assets values to improve.

Following is a highlight of the main developments related to our subsidiaries and affiliated companies.

Higleig Petroleum Services and Investment Company

Higleig is on a continuing process to adopt the approved action plan for re-structuring its operations and enhance its efficiency. Work was successfully completed on several initiatives and projects, while remaining initiatives and projects are being pursued. For instance, the profitability system for each individual project was implemented with a view to distinguish the profitable projects from those causing losses. This is a key step toward improving operational efficiency and increasing the Company's profitability. In addition, a manpower re-structuring program was implemented, an independent engineering audit, research and development department was established that actively monitors and controls progress of Company's capital projects to maximize profitability.

Higleig is currently executing a large number of projects in the oil and gas field with a total value of around USD 230 million, in addition to several infra-structure projects with a total value of more than USD 200 million which resulted in total revenue for 2009 of more than 130 million U.S. dollars.

On the other hand, the company is currently evaluating three investment opportunities and operational activities to strengthen its profitability and expand its operations, and it is expected to witness significant growth in revenue in 2010 of approximately 20% compared to 2009.

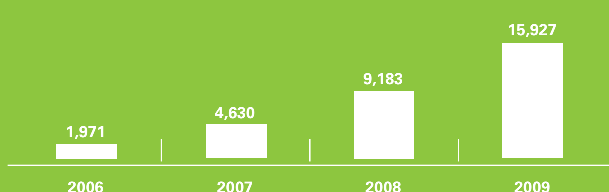
Continued

MANAGEMENT REPORT

Kuwait Energy Company

Kuwait Energy Company managed to successfully extend its operational base by raising its average production rate to approximately 16 thousand barrels of oil equivalent for the year 2009 and increasing its oil and gas reserves base. It is worth mentioning that Kuwait Energy Company is taking necessary actions for listing on the Kuwait Stock Exchange and/or the London Stock Exchange. Indeed, the Company is one of the fastest growing non-government companies in the region. The growth of the company can be clearly witnessed in the graph below which compares growth in company production level since inception in 2006.

PRODUCTION (WI) IN BOEPD



The Gas Project in USA (DeWitt)

A well-planned drilling program was implemented during 2009, resulting in completing the drilling operations of 3 wells within the project area. Limited volumes are being produced from first two wells (Buchhorn-1) and (Migura-1) wells. The third well (Krause) started its actual production in November 2009 with promising quantities of 1,000 barrels of oil and 3 million cubic feet of gas per day. Such achievement would have a positive effect on the financial and economic value of this important project. Therefore, an action plan has been laid down to delineate and develop the project's exploratory areas involving the drilling of more wells. Meanwhile, AREF Energy had surveyed the market in order to seize the most favorable exit opportunity that would achieve high returns for the Company.

The Company has subsequently sold substantial assets on 8 March 2010 earning net profit after taxes in excess of USD 60 million.

SynFuels International Inc.

The Company owns the patent for the technology of converting gas into liquid fuel. The economic benefits of this technology and the ease of its application provides the best option for oil and gas producers who are obliged to flare large volumes of gas in distant locations. The technology will provide them with the revenues that would otherwise be wasted, and would also result in the reduction of carbon dioxide gas emissions.

The marketing efforts of Synfuels' technology resulted in signing two contracts for the licensing of this technology by two companies operating in North America. This would increase the demand for the technology by gas producers worldwide. In addition, discussions are already under way with two prominent international companies for construction of two Gas to Liquid plants, one in the Middle east and the other in Africa.

Saudi Makamin Company Oil and Gas Services

The Company has formulated its strategic directives and long-term plans, and started the actual implementation through a number of acquisitions and partnerships with three oil and gas service companies in the Kingdom of Saudi Arabia and Europe. Those services include drilling support, installation of pipes, industrial control, low-frequency seismic surveys, in addition to products in the smart fields & delivery of well data. It is worth mentioning that these acquisitions will raise the Company's revenues for 2010 to nearly 57 million SAR. The Company currently serves existing projects of Saudi Aramco through long-term services contracts.

Continued

MANAGEMENT REPORT

KDDB Company

The Company operates in the field of contracting and is a qualified contractor for a large number of construction, electrical and mechanical projects mainly for the oil and gas industries in Kuwait. The Company is currently working on evaluating different options of restructuring as such step would expand the company's operations and considerably increase its future profits.

Intelligent Drilling Services

Intelligent Drilling Services Company

AREF Energy had disposed of its full 51% stake in the Omani based Intelligent Drilling Services Company during the first quarter of 2009.

Market Outlook 2010-2014

According to Arab Petroleum Investments Corporation (APICORP) research, the global financial crisis and the turmoil in the oil markets have combined to take a toll on the region's macroeconomic and energy investment outlooks. To cope with this dual crisis, Arab energy policy makers and project sponsors have had to reassess their investment strategies and scale down projects portfolios for the 5 year period 2010–2014, and as a result of that the capital investment potential to decrease by nearly 15 percent, to US$470 billion, and the actual capital requirements to fall by some 29 percent below this potential, to $335 billion. Furthermore, securing the appropriate amount and mix of debt is likely to be considerably more challenging than any time before, funding may not be fully restored until lenders and investors being reasonably confident that the global financial crisis is about to be over. Even though the credit and oil markets have stabilized yet the region's investment recovery, will ultimately depend on the revival of global and domestic growth.

AREF Energy Outlook

The outlook for the year 2010 is very promising with major improvements over the performance of the previous year. AREF Energy will continue to mitigate risks arising from market fluctuations and we are confident that the Company would achieve positive year-end results that will counter effect of the previous year's results. This will be accomplished by strategic planned divestment of some of the existing investments in order to secure liquidity and thereafter make room for new investment of improved returns to AREF Energy.

Given the fact that AREF Energy is an investment holding Company, we are currently evaluating our existing investments with a view to identify those that are mature enough and can be exited at attractive profits, thereby maximizing the enterprise value and expanding operations through new investments consistent with the Company's vision and strategic goals. The Company continues to look for promising investment opportunities, focusing on those involving steady flow of operational cash. To this end, several companies in the Kuwaiti energy services market have been evaluated and we are going to commence implementing the acquisition and partnership plans with prudent and well-considered steps. In addition, several other projects with a total value of around USD 250 million in the Middle East region are under evaluation. Several of these projects already play a vital role in the oil and power infra-structure, as well as environment projects for the conversion of gas into liquid fuel. The Company's underlying plan is to continue to achieve its objectives through the identification of the most profitable projects that involve minimum risks.

Seeking to achieve the expectations and aspirations of the shareholders, we emphasize that the Company will, with Allah's willing, continue to work as one coherent, efficient and effective team towards achieving the desired goals in order to attain a prominent position in the field of investment at the local and regional levels, and always keeping the interests of our shareholders in the forefront of our attention and at the top of our priorities. We will continue to work with a strong determination to increase the return on our shareholders' equity while maintaining a high level of transparency.

In conclusion, we would like to thank our shareholders for their valuable trust and continuous support of our endeavors to achieve the best possible results and sustained progress.

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

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

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BAKER TILLY
KUWAIT
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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AREF ENERGY HOLDING COMPANY K.S.C. (CLOSED)

We have audited the accompanying consolidated financial statements of Aref Energy Holding Company K.S.C. (Closed) ("the company") and its subsidiaries (together, "the group") which comprise the consolidated statement of financial position as at 31 December 2009 and related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

The company's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 of 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' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, 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 for 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.

ERNST & YOUNG

BAKER TILLY
KUWAIT
Dr. Saud Al-humaidi & Partners
Public Accountants

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2009, and the results of its financial performance and its 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, 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 articles of association have occurred during the year ended 31 December 2009 that might have had a material effect on the business of the company or on its financial position.

WALEED A. AL OSAIMI
LICENCE NO. 68-A
OF ERNST & YOUNG

DR. SAUD AL-HUMAIDI
LICENSE NO. 51 A
DR. SAUD AL-HUMAIDI & PARTNERS
MEMBER OF BAKER TILLY INTERNATIONAL

24 February 2010

Kuwait

	Notes	31 December 2009 KD	31 December 2008 KD
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	3	19,925,450	23,128,273
Investment property	4	4,956,952	5,051,446
Intangible assets	5	13,298,679	13,521,110
Investment in associates	6	3,581,377	5,674,051
Financial assets available for sale	7	3,428,166	3,404,244
		45,190,624	50,779,124
CURRENT ASSETS			
Inventories		4,696,945	6,580,928
Financial assets at fair value through income statement	8	32,400,000	32,400,000
Accounts receivables and other assets	9	24,372,228	25,445,712
Bank balances, deposits and cash	10	3,310,819	1,415,926
		64,779,992	65,842,566
TOTAL ASSETS		**109,970,616**	116,621,690
EQUITY AND LIABILITIES			
EQUITY			
Share capital	11	75,000,000	75,000,000
Share premium	12	193,550	193,550
Statutory reserve	12	314,957	314,957
Voluntary reserve	12	314,957	314,957
Foreign currency translation reserve		(1,294,751)	(1,331,866)
Cumulative changes in fair values		23,922	-
Accumulated losses		(9,937,083)	(1,977,473)
Equity attributable to equity holders of the company		64,615,552	72,514,125
Non-controlling interests		9,355,609	11,847,361
TOTAL EQUITY		73,971,161	84,361,486
NON-CURRENT LIABILITIES			
Employees' end of service benefits		337,006	225,226
Murabaha payables	13	295,092	504,209
Liabilities against assets subject to finance lease	14	4,909,211	-
		5,541,309	729,435
CURRENT LIABILITIES			
Accounts payable and other liabilities	15	15,667,275	15,607,139
Current portion of liabilities against assets subject to finance lease	14	765,781	-
Murabaha payables	13	14,025,090	15,923,630
		30,458,146	31,530,769
TOTAL LIABILITIES		**35,999,455**	32,260,204
TOTAL EQUITY AND LIABILITIES		**109,970,616**	116,621,690

Walid K. Al-Hashash
Chairman

Tareq Al-Wazzan
Chief Executive Officer

The attached Notes 1 to 23 form part of these consolidated financial statments

	Notes	12 months ended 31 December 2009 KD	16 months ended 31 December 2008 KD
Continuing operations			
Contract revenue		**38,572,100**	43,204,004
Rental income from investment property		**538,416**	309,042
Revaluation gain on investment property		**-**	552,793
Share of results from associates	6	**(1,217,670)**	(701,217)
Unrealised gain on financial assets at fair value through income statement		**-**	3,600,000
Foreign exchange (loss) gain		**(374,398)**	933,294
Other income	5	**1,580,539**	27,460
Income		**39,098,987**	47,925,376
Contract cost		**37,109,881**	39,402,784
Finance cost		**1,076,741**	766,976
Staff cost		**1,916,724**	2,524,450
General and administration expenses		**3,949,483**	2,196,936
Amortisation of intangible assets	5	**268,496**	515,024
Impairment / write off of intangible assets	5	**3,245,694**	4,458,982
Impairment of investment in an associate	6	**864,093**	2,704,080
Expenses		**48,431,112**	52,569,232
Loss before taxation		**(9,332,125)**	(4,643,856)
Taxation on overseas subsidiary	17	**(189,187)**	(299,287)
Loss for the year / period from continuing operations		**(9,521,312)**	(4,943,143)
(Loss) gain on sale of discontinued operation		**(25,543)**	1,444,015
Loss for the year / period		**(9,546,855)**	(3,499,128)
Attributable to:			
Equity holders of the company		**(7,959,610)**	(3,641,044)
Non-controlling interests		**(1,587,245)**	141,916
Loss for the year / period		**(9,546,855)**	(3,499,128)
Basic and diluted loss per share attributable to equity holders of the company	18	**(10.6) fils**	(7.5) fils
Basic and diluted loss per share from continuing operations attributable to equity holders of the company	18	**(10.6) fils**	(10.5) fils

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2009

	12 months ended 31 December 2009 KD	16 months ended 31 December 2008 KD
Loss for the year / period	**(9,546,855)**	(3,499,128)
Changes in fair value of financial assets available for sale	**23,922**	-
Foreign currency translation adjustment	**(598,144)**	(1,331,866)
Other comprehensive expense for the year / period	**(574,222)**	(1,331,866)
Total comprehensive expense for the year / period	**(10,121,077)**	(4,830,994)
Equity holders of the company	**(7,898,573)**	(4,972,910)
Non-controlling interests	**(2,222,504)**	141,916
Total comprehensive expense for the year / period	**(10,121,077)**	(4,830,994)

The attached Notes 1 to 23 form part of these consolidated financial statments

	Notes	12 months ended 31 December 2009 KD	16 months ended 31 December 2008 KD
OPERATING ACTIVITIES			
Loss for the year / period		**(9,546,855)**	(3,499,128)
Adjustments for:			
Rental income from investment property		**(538,416)**	(309,042)
Revaluation gain on investment property		**-**	(552,793)
Share of results from associates	6	**1,217,670**	701,217
Unrealised gain on financial assets at fair value through income statement		**-**	(3,600,000)
Amortization of Intangible assets	5	**268,496**	515,024
Impairment of intangible assets		**3,245,694**	4,458,982
Impairment of investment in an associate	6	**864,093**	2,704,080
Depreciation	3	**4,218,599**	3,256,216
Provision for doubtful debts		**1,549,247**	-
Impairment of property and equipment	3	**58,483**	-
(Gain) loss on disposal of property and equipment		**(120,375)**	139,096
Gain on disposal of intangible asset		**(790,416)**	-
Provision for employees' end of service benefits		**336,498**	262,842
Finance costs		**1,076,741**	766,976
Loss (gain) on sale of discontinued operations		**25,543**	(1,444,015)
		1,865,002	3,399,455
Working Capital changes:			
Inventories		**1,883,983**	(1,651,649)
Accounts receivables and other assets		**1,073,484**	2,761,610
Accounts payable and other liabilities		**60,136**	25,031
Cash from operating activities		**4,882,605**	4,534,447
Employees' end of service benefits paid		**(224,718)**	(378,287)
Net cash from operating activities		**4,657,887**	4,156,160
Acquisition of subsidiaries, net of cash acquired		**-**	(27,523,903)
Purchase of property and equipment	3	**(3,376,813)**	(2,083,901)
Proceeds from sale of property and equipment		**985,354**	-
Proceeds from sale of investment property		**4,956,952**	-
Rental income from investment property		**538,416**	309,042
Acquisition of intangible assets	5	**(3,839,595)**	(10,852,224)
Proceeds from sale of intangible asset		**1,188,480**	-
Acquisition of an associate		**-**	(6,869,750)
Purchase of financial assets available for sale		**-**	(2,715,600)
Purchase of financial assets at fair value through income statement		**-**	(28,800,000)
(Increase) decrease in restricted cash and cash equivalents	10	**(161,883)**	192,673
Proceeds from disposal of discontinued operation		**242,161**	7,371,647
Net cash from (used in) investing activities		**533,072**	(70,972,016)
FINANCING ACTIVITIES			
Issue of share capital		**-**	71,431,050
Finance cost paid		**(921,753)**	(766,976)
Net movement in murabaha payables		**(2,107,657)**	(2,821,060)
Net cash (used in) from financing activities		**(3,029,410)**	67,843,014
Net increase in cash and cash equivalents		**2,161,549**	1,027,158
Net foreign exchange difference		**(428,539)**	(218,016)
Cash and cash equivalents at the beginning of the year / period		**937,495**	128,353
Cash and cash equivalents at the end of the year / period	10	**2,670,505**	937,495

The attached Notes 1 to 23 form part of these consolidated financial statments

	Attributable to equity holders of the company									
	Share capital KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	Foreign currency translation reserve KD	ACumulative changes in fair values KD	Accumulated losses KD	Sub-total KD	Non-controlling interests KD	Total equity KD
Balance at 1 January 2009	75,000,000	193,550	314,957	314,957	(1,331,866)	-	(1,977,473)	72,514,125	11,847,361	84,361,486
Loss for the year	-	-	-	-	-	-	(7,959,610)	(7,959,610)	(1,587,245)	(9,546,855)
Other comprehensive income (expense)	-	-	-	-	37,115	23,922	-	61,037	(635,259)	(574,222)
Total comprehensive income (expense) for the year	-	-	-	-	37,115	23,922	(7,959,610)	(7,898,573)	(2,222,504)	(10,121,077)
Movement in non-controlling interest on discontinued operation	-	-	-	-	-	-	-	-	(269,248)	(269,248)
Balance at 31 December 2009	**75,000,000**	**193,550**	**314,957**	**314,957**	**(1,294,751)**	**23,922**	**(9,937,083)**	**64,615,552**	**9,355,609**	**73,971,161**
Balance at 1 September 2007	3,568,950	193,550	314,957	314,957	-	-	1,663,571	6,055,985	-	6,055,985
(Loss) profit for the period	-	-	-	-	-	-	(3,641,044)	(3,641,044)	141,916	(3,499,128)
Other comprehensive expense	-	-	-	-	(1,331,866)	-	-	(1,331,866)	-	(1,331,866)
Total comprehensive (expense) income for the period	-	-	-	-	(1,331,866)	-	(3,641,044)	(4,972,910)	141,916	(4,830,994)
Issue of share capital	71,431,050	-	-	-	-	-	-	71,431,050	-	71,431,050
Non-controlling interest arising on acquisition of subsidiaries	-	-	-	-	-	-	-	-	11,705,445	11,705,445
Balance at 31 December 2008	75,000,000	193,550	314,957	314,957	(1,331,866)	-	(1,977,473)	72,514,125	11,847,361	84,361,486

The attached Notes 1 to 23 form part of these consolidated financial statments

1. ACTIVITIES

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 Sharee'a.

The consolidated financial statements of the company and its subsidiaries ("the group") for the year ended 31 December 2009 were authorised for issue in accordance with a resolution of the Board of Directors on 24 February 2010 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 principal activities of the group are explained in note 19.

The company is a subsidiary of Aref Investment Group S.A.K. (the "parent company"). The parent company is a subsidiary of Kuwait Finance House (the "ultimate parent company"). Both the parent company and the ultimate parent company are listed on the Kuwait Stock Exchange.

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 the functional currency of the company.

The articles of association of the company were amended in the Extraordinary General Assembly of the shareholders held on 15 August 2007 to change the annual financial year end of the company from 31 August to 31 December. Accordingly, comparatives for the operating results for the year ended 31 December 2009 is for sixteen months period ended 31 December 2008 and is not comparable.

Measurement basis

The consolidated financial statements are prepared on a historical cost basis as modified for the revaluation at fair value of investment property, financial assets available for sale and financial assets at fair value through income statement.

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 that the group has adopted the following, relevant, new and amended International Accounting Standards Board (IASB) Standards and International Financial Reporting Interpretations Committee (IFRIC) Interpretations during the year:

IFRS 5: Non-current assets held for sale and discontinued operations (Amended)

IFRS 7: Financial Instruments: Disclosures (Amended)

IFRS 8: Operating Segments (new)

IAS 1: Presentation of Financial Statements (Revised)

IAS 16: Property, plant and equipment (Amended)

IAS 19: Employee benefits (Amended)

IAS 23: Borrowing costs (Revised)

IAS 28: Investment in associates (Amended)

IAS 31: Interest in Joint Ventures (Amended)

IAS 32: Financial instruments: Presentation (Amended)

IAS 36: Impairment of assets (Amended)

IAS 38: Intangible assets (Amended)

IAS 39: Financial instruments: recognition and measurement (Amended)

IAS 40: Investment property (Amended)

IFRIC Interpretation 15: Agreements for the construction of real estate

The major changes in the new and amended Standards are as follows:

IAS 1: Presentation of Financial Statements (Revised)

The revised Standard separates owner and non-owner changes in shareholders' equity. The statement of changes in shareholders' equity includes only details of transactions with owners, with non-owner changes in shareholders' equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The group has elected to present two statements.

IFRS 7: Financial Instruments: Disclosure (Amended)

The amended Standard requires additional disclosures about fair value measurement and liquidity risk. Measurements related to items at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments. The amended Standard also requires disclosing a reconciliation between the beginning and ending balance for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy.

IFRS 8: Operating segments

The new standard requires disclosures of information about the group's operating segments and replaces the requirement to determine primary (business) and secondary (geographic) reporting segments of the group. Adoption of this standard did not have any effect on the financial position or performance of the group. The group determined that operating segments were the same as the business segments previously identified under IAS 14 'Segment reporting'.

IAS 23: Borrowing costs (Revised)

The revised standard has eliminated the previously available option to expense all borrowing costs when incurred. Instead the group will now have to capitalise borrowing costs incurred on qualifying assets. However, the revised standard has had no impact on the previously or currently reported results or financial position of the group as the transitional provisions of this Standard permit an entity to continue expensing borrowing costs relating to qualifying assets for which the commencement date for capitalisation is before the effective date.

The application of other IASB Standards and IFRIC Interpretations did not have material impact on the consolidated financial statements of the group.

The following IASB Standards and IFRIC Interpretations, relevant to the group, have been issued/amended but not yet mandatory, and have not been adopted by the group:

IFRS 3: Business Combinations (Revised) (effective 1 July 2009)

IFRS 9: Financial Instruments: Classification and Measurement (effective 1 January 2013)

IAS 27: Consolidated and separate financial statements (Amended) (effective 1 July 2009)

IFRIC Interpretation 17: Distributions of non-cash assets to owners (effective 1 July 2009)

IFRIC Interpretation 18: Transfers of assets from customers (effective 1 July 2009)

Following are the major changes:

IFRS 3 (Revised) and IAS 27 (Amended):

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after effective date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests.

Adoption of other IASB Standards and IFRIC Interpretations will not have material effect on the financial performance, position or the consolidated financial statements of the group. Additional disclosures will be made in the consolidated financial statements when these Standards and Interpretations become effective.

A summary of the significant accounting policies used in preparation and presentation of the consolidated financial statement are set out below:

Principles of consolidation

The consolidated financial statements include the accounts of the company and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting period as the company, using consistent accounting policies. The financial statements of the subsidiary companies are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. All material inter-group balances and transactions, including inter-group profits and unrealised profits and losses are eliminated on consolidation.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities and cease to be consolidated from the date on which control is transferred out of the group. The results of the subsidiaries acquired or disposed off during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal, as appropriate.

Non-controlling interests represents the equity in the 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 income statement, consolidated statement of comprehensive income and consolidated statement of changes in equity.

Acquisitions of non-controlling interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill. When the controlling interest in the subsidiaries is disposed off, the difference between the selling price and the net asset value plus cumulative translation difference and goodwill is recognised in the consolidated income statement.

The principal subsidiaries of the group are as follows:

Name of country	*Country of incorporation*	*Effective interest as at %*		*Principal activities*
		2009	*2008*	
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
Intelligent Drilling Services Company ("IDS")	Oman	-	51	Drilling service contracting

Business combinations and goodwill

Business combinations are accounted for using the purchase method. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of an acquisition over the group's share of the acquiree's fair value of the net identifiable assets as at the date of the acquisition. Following initial recognition, goodwill is measured at cost less impairment losses. Any excess, at the date of acquisition, of the group's share in the acquiree's fair value of the net identifiable assets over the cost of the acquisition is recognised in the consolidated income statement.

Goodwill is allocated to each of the group's cash-generating units or groups of cash generating units and is tested annually for impairment or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill impairment is determined by assessing the recoverable amount of cash-generating unit, to which goodwill relates. The recoverable value is the value in use of the cash-generating unit, which is the net present value of estimated future cash flows expected from such cash-generating unit. If the recoverable amount of cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit prorated on the basis of the carrying amount of each asset in the unit. Any impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash generating units) and part of the operations 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 generation unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation difference and goodwill is recognised in the consolidated income statement.

Interest in a joint venture

The group has an interest in a jointly controlled asset. A jointly controlled asset involves joint control and offers joint ownership by the group and other venturers of assets contributed to or acquired for the purpose of joint venture, without the formation of a corporation, partnership or other entity.

The group accounts for its share of the jointly controlled assets, its share of any liabilities jointly incurred, income from the sale or use of its share of the joint venture's output, together with its share of the expenses incurred by the joint venture, and any expenses it incurs in relation to its interest in the joint venture.

Property and equipment

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

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 and fixtures	2 to 7 years
Equipment	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.

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 income statement as the expense is incurred.

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 income statement in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated income statement 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, plant and equipment up to the date of change in use.

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 capitalized and expenditure is reflected in consolidated income statement in the year in which the expenditure is incurred.

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

Exploration assets

The successful efforts method of accounting is used for oil and gas exploration and development costs. Under this method, initial acquisition costs of oil and gas properties and costs of drilling and equipping exploration wells are capitalised when incurred under 'exploration assets' and if subsequently determined to be unsuccessful, are charged to consolidated income statement. All other exploration expenses, including geological and geophysical exploration costs i.e. costs prior to acquisition of legal right to explore are expensed in the period in which they are incurred as 'exploration expense'.

Once the legal right to explore has been acquired, costs directly associated with an exploration well are capitalized as an intangible asset until the drilling of the well is complete and the results have been evaluated. If hydrocarbons are not found, the exploration expenditure is charged against income as 'exploration expense'. If hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells (exploration or exploratory-type stratigraphic test wells), are likely to be capable of commercial development, the costs continue to be carried as 'exploration assets'. All exploration assets are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the carrying value is written off. When proved reserves of oil and gas are determined and development is sanctioned after the technical feasibility and commercial viability of extracting oil and gas are demonstrable, the relevant expenditure is transferred to oil and gas properties after impairment is assessed and any resulting impairment loss is recognised.

Development costs on the construction, installation, or completion of infrastructure facilities such as platforms, pipelines and the drilling of developmental wells, including unsuccessful development or delineation wells, is capitalized within 'oil and gas properties'.

Investment in associates

The group's investment in its associates is 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, investment in an associate is initially recognised at cost and adjusted thereafter for the post-acquisition change in the group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised or separately tested for impairment. The group recognises in the consolidated income statement its share of the total recognised profit or loss of the associate from the date that influence or ownership effectively commenced until the date that it effectively ceases. Distributions received from an associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the group's share in the associate arising from changes in the associate's statement of comprehensive income that have not been recognised in the associate's income statement. The group's share of those changes is recognised directly in consolidated statement of comprehensive income.

After application of equity method, the group determines whether it is necessary to recognise an additional impairment loss on the group's investment in its associate. 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 income statement.

Unrealised gains on transactions with an associate are eliminated to the extent of the group's share in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

The reporting dates of the associates and the group are identical and in case of different reporting date of an associate, which are not more than three months, from that of the group, adjustments are made 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.

Financial instruments

Financial assets

Initial measurement and recognition

Financial assets within the scope of IAS 39 are classified as "financial assets at fair value through income statement", "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 income statement, 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.

Financial assets at fair value through income statement

Financial assets at fair value through income statement includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through income statement. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Financial assets are designated at fair value through income statement if they are managed and their performance is evaluated on reliable fair value basis in accordance with documented investment strategy.

Financial assets at fair value through income statement are carried in the consolidated statement of financial position at fair value with gains and losses recognised in the consolidated income statement. As at 31 December 2009, the group has no financial assets that are held for trading (31 December 2008: 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 income statement" 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 income statement.

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 company's loans and receivables include accounts receivables and other assets. Gains and losses are recognised in consolidated income statement 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; or
- the group has transferred its rights to receive cash flows from the asset and either
  a) has transferred substantially all the risks and rewards of the asset, or
  b) 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.

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 financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the 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 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 income statement is removed from the consolidated statement of comprehensive income and recognised in the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised directly in the consolidated statement of comprehensive income.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective profit rate and the loss is recorded in the consolidated income statement.

The group first assesses whether objective evidence of impairment exists individually for the financial assets that are individually significant, or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed 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. The impairment assessment is performed at each reporting date.

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

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 income statement" 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 income statement.

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.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 21.

Inventories

Inventories are stated at the lower of weighted average cost and net realisable value. Costs are those expenses incurred in bringing each product to its present location and condition.   Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion and disposal.

Leases

Group as lessee

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.

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 income statement.

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 income statement on a straight line basis over the lease term.

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.

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 indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, 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 group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine 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. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in consolidated income statement.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December either individually or at the cash generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired

Cash and cash equivalents

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

Discontinued operations

Disposal groups classified as discontinued operations are measured at the lower of carrying amount and the fair value less costs to sell and are classified as such if their carrying values 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 disposal group is available for immediate sale in its present condition. Management must be committed to sale, which should be expected to qualify for recognition as a completed sale within one year from the date of the classification.

In the consolidated income statement of the reporting year, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separate from continuing operations to the level of profit after taxes in the consolidated income statement, even when the group retains a non-controlling interest in the subsidiary after sale.

Property and equipment and intangible assets once classified as held for sale are not depreciated / amortised.

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 Kuwaiti Dinars at rates of exchange prevailing on the reporting date. Any resultant gains or losses are recognised in the consolidated income statement.

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 income statement are recognised in the consolidated income statement.

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 income statement 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.

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.

Revenue recognition

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.

Rental income

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

Dividend income

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

Taxation

National Labour Support Tax (NLST)

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

Zakat

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

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.

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.

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. In addition the group evaluates other factors such as the share price volatility.

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 group to use judgement 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 management to determine the level at which reasonable estimates can be reached.

Accounting of exploration assets

Capitalised exploration assets are expensed unless a) proved reserves are booked, or b) i) they have found commercially producible quantities of reserves and ii) they are subject to further exploration or appraisal activity in that either drilling of additional exploratory wells is underway or firmly planned for the near future or other activities are being undertaken to sufficiently progress the assessing of the reserves and the economic and operating viability of the project. In making decisions about whether to continue to capitalise exploration expenses, it is necessary to make judgements about the satisfaction of each of these conditions. If there is a change in one of these judgements in the subsequent period, then the related capitalised exploration expenses would be expensed during that period, resulting in a charge to the consolidated income statement.

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.

Impairment of property and equipment

The carrying amounts of the company'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 income statement whenever the carrying amount of an asset exceeds its recoverable amount.

Impairment of accounts receivables

The group reviews its problem accounts receivables on a quarterly basis to assess whether a provision for impairment should be recorded in the consolidated income statement. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation of oil and gas reserves

Oil and gas reserves are an important element in testing for impairment of exploration assets and changes with regard to the estimates will affect the standardised measure of discounted cash flows.

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e. prices and costs as of date the estimate is made. Proved developed reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Estimates of oil and gas reserves are inherently imprecise, require application of judgement and are subject to future revision. Accordingly, financial and accounting measures (such as discounted cash flows) that are based on proved reserves are also subject to change.

Furthermore, estimates of proved reserves only include volumes for which access to market is assured with reasonable certainty. All proved reserves estimates are subject to revision, either upward or downward, based on new information, such as from development, drilling and production activities or from changes in economic factors, including product prices, contract terms and developmental plans. In general, estimates of reserves for undeveloped or partially developed fields are subject to greater uncertainty over their future life than estimates of reserves for fields that are substantially developed and depleted.

Useful lives of property and equipment and intangible assets

The company's 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 PROPERTY AND EQUIPMENT

	Land	Leasehold properties	Buildings	Furniture and fixtures	Equipment	Work in progress	Total
	KD	KD	KD	KD	KD	KD	KD
Cost:							
At 1 January 2009	1,230,000	1,459,873	832,462	195,695	21,921,685	84,979	25,724,694
Additions	-	-	718,040	10,940	2,616,638	31,195	3,376,813
Disposals	-	-	(519,506)	-	(1,917,121)	-	(2,436,627)
Discontinued operation	-	-	(8,545)	(43,497)	(1,218,581)	-	(1,270,623)
Foreign currency translation adjustment	-	(27,309)	(23,170)	(296)	(649,950)	(1,590)	(702,315)
At 31 December 2009	**1,230,000**	**1,432,564**	**999,281**	**162,842**	**20,752,671**	**114,584**	**24,691,492**
Depreciation:							
At 1 January 2009	-	98,008	55,903	20,940	2,421,570	-	2,596,421
Charge for the year	-	59,851	91,390	42,352	4,025,006	-	4,218,599
Disposals	-	-	(92,577)	-	(1,479,071)	-	(1,571,648)
Impairment	-	-	-	-	58,483	-	58,483
Discontinued operation	-	-	(2,990)	(10,462)	(198,066)	-	(211,518)
Foreign currency translation adjustment	-	(2,079)	(9,016)	(38)	(312,712)	-	(323,845)
At 31 December 2009	-	155,780	42,710	52,792	4,515,210	-	4,766,492
Net carrying value:							
At 31 December 2009	1,230,000	1,276,784	956,571	110,050	16,237,461	114,584	19,925,450

3 PROPERTY AND EQUIPMENT (continued)

	Land KD	Leasehold properties	Buildings KD	Furniture and fixtures KD	Equipment KD	Work in progress KD	Total KD
Cost:							
Additions	-	-	331	101,243	1,897,348	84,979	2,083,901
Acquisition of subsidiaries	1,230,000	-	879,681	101,134	21,611,072	-	23,821,887
Reclassification **	-	1,459,873	-	-	-	-	1,459,873
Disposals	-	-	-	-	(353,172)	-	(353,172)
Foreign currencytranslation adjustment	-	-	(47,550)	(6,682)	(1,233,563)	-	(1,287,795)
At 31 December 2008	1,230,000	1,459,873	832,462	195,695	21,921,685	84,979	25,724,694
Depreciation:							
Charge for the period	-	-	71,295	25,152	3,159,769	-	3,256,216
Reclassification **	-	98,008	-	-	-	-	98,008
Disposals	-	-	-	-	(214,074)	-	(214,074)
Foreign currency translation adjustment			(15,392)	(4,212)	(524,125)		(543,729)
At 31 December 2008	-	98,008	55,903	20,940	2,421,570	-	2,596,421
Net carrying value:							
At 31 December 2008	1,230,000	1,361,865	776,559	174,755	19,500,115	84,979	23,128,273

During the year, the group sold one of the building to a related party and recognised a gain of KD 291,166. At the same time, the building has been leased back on a finance lease from the related party. The details of finance lease payments are disclosed in note 14.

Equipment with a net carrying value of KD 7,930,219 (31 December 2008: KD 6,692,473) is mortgaged as security against murabaha payables (note 13).

** Leasehold properties were classified earlier as prepayment at 31 December 2008 which have been reclassified to property and equipment on availability of additional information regarding the completion of legal formalities in prior year.

Depreciation charge for the year / period is allocated as follows:

	31 December 2009 KD	31 December 2008 KD
Contract costs	**3,997,890**	3,159,769
General and administration expenses	**220,709**	96,447
	4,218,599	3,256,216

4. INVESTMENT PROPERTY

	31 December 2009 KD	31 December 2008 KD
Opening balance	**5,051,446**	-
Acquisition of a subsidiary	**-**	4,596,439
Revaluation gain on investment property	**-**	552,793
Foreign currency translation adjustment	**(94,494)**	(97,786)
	4,956,952	5,051,446

During the year, one of the subsidiaries of the group sold the investment property to a related party and recognised a gain of KD Nil, at the same time, the investment property has been leased back on a finance lease from the related party. The details of finance lease payments are disclosed in note 14.

Investment property is stated at fair value, which has been determined based on the valuation performed as at 31 December 2009 by an accredited independent valuator who is an industry specialist in valuing this type of investment property.

5 INTANGIBLE ASSET

	Goodwill KD	Exploration assets KD	Other intangible assets KD	Total KD
Cost:				
At 1 January 2009	2,607,504	9,873,449	1,555,181	14,036,134
Additions	-	3,839,595	-	3,839,595
Disposal	-	(401,306)	-	(401,306)
Impairment loss / write off	-	(3,245,694)	-	(3,245,694)
Foreign currency translation adjustment	(146,530)	-	-	(146,530)
At 31 December 2009	**2,460,974**	**10,066,044**	**1,555,181**	**14,082,199**
Amortisation:				
At 1 January 2009	-	-	(515,024)	(515,024)
Charge for the year	-	-	(268,496)	(268,496)
At 31 December 2009	-	-	(783,520)	(783,520)
Net carrying value:				
At 31 December 2009	**2,460,974**	**10,066,044**	**771,661**	**13,298,679**

	Goodwill KD	Exploration assets KD	Other intangible assets KD	Total KD
Cost:				
Additions	-	9,873,449	978,775	10,852,224
Acquisition of a subsidiary	6,341,872	742,787	576,406	7,661,065
Impairment loss	(3,734,368)	(724,614)	-	(4,458,982)
Foreign currency translation adjustment	-	(18,173)	-	(18,173)
At 31 December 2008	2,607,504	9,873,449	1,555,181	14,036,134
Amortisation:				
Charge for the period	-	-	(515,024)	(515,024)
At 31 December 2008	-	-	(515,024)	(515,024)
Net carrying value:				
At 31 December 2008	2,607,504	9,873,449	1,040,157	13,521,110

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

Exploration assets include participating interest being a "non operator" in joint venture to the extent of 50% of income, expenses and risks associated in relation to activities for exploration and discovery of oil and gas reserve in United States of America.

At 31 December 2009, exploration assets amounting to KD 3,245,694 (31 December 2008: KD Nil), which were determined to be unsuccessful, have been written off.

Summarised financial information for the group's share of jointly controlled asset is as follows:

	31 December 2009 KD	31 December 2008 KD
Non-current assets	**10,066,044**	9,873,449
Current assets	**622,465**	283,733
Current liabilities	**555,781**	-
Capital commitments (note 20)	**5,736,820**	1,996,793

During the year, the group has disposed exploration assets amounting to KD 401,306 for a consideration of KD 1,188,480 and recorded the gain of KD 790,416 as "other income" in the consolidated income statement.

Impairment testing of goodwill

Goodwill acquired through business combinations with indefinite life has been allocated to Energy cash generating unit, which is also reportable operating segment, for impairment testing as follows:

The recoverable amount of the Energy cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. The discount rate applied to cash flow projections is 11.69% (31 December 2008: 11.69%) and cash flows beyond the five-year period are extrapolated using a 3% growth rate (31 December 2008: 3%) assuming that the cash-generating unit has reached competitive equilibrium state throughout the forecast period.

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.

6. INVESTMENT IN ASSOCIATES

	31 December 2009 KD	31 December 2008 KD
Opening balance	5,674,051	-
Arising on acquisition of subsidiary	-	2,301,269
Additions	-	6,869,750
Share of results	(1,217,670)	(701,217)
Impairment loss	(864,093)	(2,704,080)
Foreign currency translation adjustment	(10,911)	(91,671)
Closing balance	3,581,377	5,674,051

At 31 December 2009, carrying value of investments in associates were assessed for impairment which resulted in the recognition of impairment loss amounting to KD 864,093 (31 December 2008: KD 2,704,080) in the consolidated income statement.

Summarised financial information of associates is as follows:

	31 December 2009 KD	31 December 2008 KD
Share of associates' statement of financial position:		
Total assets	5,326,921	9,923,964
Total liabilities	(1,745,544)	(4,249,913)
Net assets	3,581,377	5,674,051
Share of associates' revenue and loss:		
Revenue	553,762	2,011,999
Loss for the year / period	(1,217,670)	(701,217)

Name of company	Principal Activities	Country of incorporation	Effective interest 31 December 2009	Effective interest 31 December 2008	Carrying value 31 December 2009	Carrying value 31 December 2008
Synfuels International, Inc.	Oil and gas technology and services	U.S.A.	25%	25%	2,720,829	3,667,788
Al Dindir Petroleum International Company Limited	Oil and gas technology and services	Sudan	45%	45%	860,548	2,006,263
					3,581,377	5,674,051

7. FINANCIAL ASSETS AVAILABLE FOR SALE

	31 December 2009 KD	31 December 2008 KD
Quoted equity securities	704,681	680,759
Unquoted equity securities	2,723,485	2,723,485
Total	3,428,166	3,404,244

Unquoted equity securities are carried at cost, less impairment if any, 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.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT

The financial asset at fair value through income statement consist of designated unquoted equity security and has been fair valued using a valuation technique (note 21).

9. ACCOUNTS RECEIVABLES AND OTHER ASSETS

	31 December 2009 KD	31 December 2008 KD
Trade accounts receivable	12,650,241	16,241,627
Retention receivables	6,690,996	5,537,263
Advances & prepayment	2,496,608	1,608,133
Amount due from related parties (note 16)	1,324,156	1,254,428
Other receivables	1,210,227	804,261
	24,372,228	25,445,712

As at 31 December 2009, trade accounts receivable at nominal value of KD 1,160,886 (31 December 2008: KD Nil) were impaired and fully provided for. Movement in the allowance for impairment of receivables is as follows:

	Total KD
At 1 January 2008	-
Net charge for the year	-
At 31 December 2008	-
Charge for the year	1,160,886
At 31 December 2009	1,160,886

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

		Past due but not impaired			
	Neither past due nor impaired KD	< 30 days KD	30 to 90 days KD	> 90 days KD	Total KD
2009	5,439,214	118,563	415,537	6,676,927	12,650,241

Comparatives for 2008 are not readily available.

10 CASH AND CASH EQUIVALENTS

	31 December 2009 KD	31 December 2008 KD
Bank balances, deposits and cash	3,310,819	1,415,926
Less: restricted bank balances and deposits	(640,314)	(478,431)
Cash and cash equivalents for the purpose of consolidated statement of cash flows	2,670,505	937,495

Restricted bank balances and deposits represent margin deposits that are held as security against letter of credit and letter of guarantees granted by a related party (note 16 and 20).

11. SHARE CAPITAL

The authorised, issued and fully paid up share capital of the company consists of 750,000,000 shares of 100 fils each (31 December 2008: 750,000,000 million shares of 100 fils each).

12. RESERVES

Share premium

The share premium account is not available for distribution.

Statutory reserve

In accordance with the Commercial Companies Law and the company's Articles of Association, 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 retained earnings are not sufficient for the payment of a dividend of this amount.

Voluntary reserve

In accordance with the company's Articles of Association, no transfer has been made to voluntary reserve, since losses have been incurred during the year. There are no restrictions on distribution from voluntary reserve.

13. MURABAHA PAYABLES

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

Murabaha payables include facilities amounting to KD 5,831,588 (31 December 2008: nil) taken from a related party (note 16). These facilities are secured against financial assets at fair value through income statement amounting to KD 17,720,000 (31 December 2008: nil).

Of the total murabaha payables, facilities amounting to KD 7,770,594 (31 December 2008: KD 13,273,393)are secured against property and equipment amounting to KD 7,930,219 (31 December 2008: KD 6,692,473) and inventories amounting to KD 4,696,945 (31 December 2008: KD 6,580,928). These payables include facilities amounting to KD 4,160,108 (2008: KD 11,016,208) that are borrowed from a related party (note 16).

14. LIABILITES AGAINST ASSETS SUBJECT TO FINANCE LEASE

The group has entered into a finance lease arrangement with a related party (note 16) resulted from a sale and lease back transaction of an investment property (note 5) and a building recorded under property and equipment (note 3). These leases are non-cancellable with a term of 5 years and the group has an option to buy back these assets at the end of the lease term at carrying value.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments, discounted at 14.13% per annum, are as follows:

	31 December 2009	
	Minimum lease payments KD	**Present value of minimum lease payments KD**
Within one year	1,456,581	765,781
After one year but not more than five years	6,488,408	4,909,211
Total minimum lease payments	7,944,989	5,674,992
Less: amounts represents finance charges	(2,269,997)	-
Present value of minimum lease payments	5,674,992	5,674,992
Less: payable within one year from the reporting date classified as current liabilities	(765,781)	(765,781)
Non-current portion of lease obligation	4,909,211	4,909,211

15. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	31 December 2009 KD	31 December 2008 KD
Trade payable under construction contracts	6,753,375	9,101,215
Advances received from customers	2,905,216	901,662
Amount due to related parties (note 16)	24,939	255,980
Provisions	2,351,046	2,091,155
Dividend payable	2,415,374	2,470,825
Other payables	1,217,325	786,302
	15,667,275	15,607,139

16 . 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:

	Ultimate parent/parent company KD	Other related parties KD	12 months ended 31 December 2009 KD	16 months ended 31 December 2008 KD
Bank balances and deposits	1,844,748	911,322	**2,756,070**	5,762,212
Accounts receivables and other assets	-	1,324,156	**1,324,156**	1,254,428
Murabaha payables secured against:				
-Financial assets	4,110,466	1,721,122	**5,831,588**	-
-Non-financial asset	-	4,160,108	**4,160,108**	11,016,208
Unsecured murabaha payables	718,000	-	**718,000**	1,190,875
Liabilities against assets subject to finance lease	-	5,674,992	**5,674,992**	-
Accounts payable and other liabilities	24,939	-	**24,939**	255,980

As at 31 December 2009, the group had outstanding letter of credit and letter of guarantee facilities obtained from a related party amounting to KD 5,312,254 (31 December 2008: KD 11,704,610) (note 20).

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

	Ultimate parent / parent company KD	Other related parties KD	12 months ended 31 December 2009 KD	16 months ended 31 December 2008 KD
Transactions				
Murabaha finance cost	192,666	535,970	**728,636**	524,622
Acquisition of intangible assets	-	-	-	978,775
Purchase of financial assets at fair value through income statement	-	-	-	28,800,000
Acquisition of subsidiaries	-	-	-	28,228,822

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:

	12 months ended 31 December 2009 KD	16 months ended 31 December 2008 KD
Short term benefits	554,969	588,646
End of service benefits	32,019	36,669
	586,988	625,315

17 . TAXATION

Taxation on overseas subsidiary represents the current year tax for one of the subsidiaries computed in accordance with the income tax regulations prevailing in the county of domicile.

18. BASIC AND DILUTED LOSS PER SHARE

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

	12 months ended 31 December 2009	16 months ended 31 December 2008
Loss for the year / period attributable to equity holders of the company (KD)	(7,959,610)	(3,641,044)
Weighted average number of shares outstanding during the year / period	750,000,000	485,897,086
Basic and diluted loss per share	(10.6) fils	(7.5) fils
Basic and diluted loss per share from continuing operations		

	12 months ended 31 December 2009	16 months ended 31 December 2008
Loss for the year / period attributable to equity holders of the company (KD)	(7,959,610)	(3,641,044)
Gain (loss) on sale of discontinued operation (KD)	25,543	(1,444,015)
Loss for the year / period attributable to equity holders of the company from continuing operation (KD)	(7,934,067)	(5,085,059)
Weighted average number of shares outstanding during the year / period	750,000,000	485,897,086
Basic and diluted loss per share	(10.6) fils	(10.5) fils

19. 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

12 months ended 31 December 2009	Energy KD	Others KD	Total KD
Revenue			
Segment revenues	39,691,164	625,493	40,316,657
Results			
Segment results	(8,757,455)	617,457	(8,139,998)
Share of result in associates	(1,217,670)	-	(1,217,670)
Taxation on overseas subsidiary	(189,187)	-	(189,187)
(Loss) profit for the year	(10,164,312)	617,457	(9,546,855)

12 months ended 31 December 2009 (continued)	Energy KD	Others KD	Total KD
Assets and liabilities			
Segment assets	99,320,195	7,069,044	106,389,239
Investment in associates	3,581,377	-	3,581,377
Total assets	102,901,572	7,069,044	**109,970,616**
Segment liabilities	30,121,529	5,877,926	**35,999,455**
Other segmental information:			
Capital expenditure:			
Intangible assets	3,839,595	-	**3,839,595**
Property and equipment	3,375,785	1,028	**3,376,813**
Depreciation	4,180,489	38,110	**4,218,599**
Impairment / write of intangible assets	3,245,694	-	**3,245,694**
Amortisation of intangible assets	268,496	-	**268,496**
Impairment of investment in associate	864,093	-	**864,093**

Segment assets under the energy segment includes goodwill of KD 2,460,974 (31 December 2008: KD 2,607,504) (Note 5).

16 months ended 31 December 2008	Energy KD	Others KD	Total KD
Revenue			
Segment revenues	47,737,298	889,295	48,626,593
Results			
Segment Results	(1,653,634)	(844,990)	(2,498,624)
Share of result of associates	(701,217)	-	(701,217)
Taxation	(299,287)	-	(299,287)
Loss for the period	(2,654,138)	(844,990)	(3,499,128)
Assets and liabilities			
Segment assets	103,763,499	7,184,140	110,947,639
Investment in associates	5,674,051	-	5,674,051
Total assets	109,437,550	7,184,140	116,621,690
Segment liabilities	31,834,750	425,454	32,260,204
Other segmental information:			
Capital expenditure:			
Intangible assets	10,852,224	-	10,852,224
Property and equipment	1,998,134	85,767	2,083,901
Depreciation	3,233,199	23,017	3,256,216
Impairment of intangible assets	1,280,682	3,178,300	4,458,982
Amortisation of intangible assets	515,024	-	515,024
Impairment of investments in associates	2,704,080	-	2,704,080

19. SEGMENTAL INFORMATION (continued)

The company 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, segment assets, segment liabilities and other segment information by geographical segment:

12 months ended 31 December 2009	Kuwait KD	Middle East & North Africa KD	Others KD	Total KD
Revenue				
Segment revenues	84,498	39,701,771	530,388	40,316,657
Non current assets	1,255,669	26,087,708	10,837,704	38,181,081

16 months ended 31 December 2008	Kuwait KD	Middle East & North Africa KD	Others KD	Total KD
Revenue				
Segment revenues	3,835,242	44,791,351	-	48,626,593
Non current assets	1,292,751	29,494,472	10,913,606	41,700,829

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

Segment assets under Middle East and North Africa includes goodwill of KD 2,460,974 (31 December 208 KD 2,607,504) (Note 5).

20. CAPITAL COMMITMENTS AND CONTINGENCIES

	31 December 2009 KD	31 December 2008 KD
Capital expenditure commitments		
Financial assets		
Financial assets available for sale	6,891,300	6,665,940
Others		
Property and equipment	-	955,247
Exploration assets	5,736,820	1,996,793
	12,628,120	9,617,980

At the reporting date, the group had contingent liabilities amounting to KD 8,469,160 (31 December 2008: KD 11,704,610) 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 letter of guarantees are partly secured by bank balances and deposits (note 10).

21. 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 7) and liabilities against assets subject to finance lease (note 14). 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:

31 December 2009	Level: 1 KD	Level: 3 KD	Total fair value KD
Financial assets at fair value through income statement:			
Unquoted equity securities	-	32,400,000	32,400,000
Financial assets available for sale:			
Quoted equity securities	704,828	-	704,828
	704,828	32,400,000	33,104,828

Comparative information has not been restated as not required by the transition provision of the amendment. During the year, there have been no transfers between the hierarchy's.

22 . 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 is exposed to credit risk, liquidity risk and market 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.

22.1 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. Financial assets subject to credit risk consist principally of bank balances and accounts receivables.

The group's bank balances are placed with high credit rating financial institutions. Accounts receivables are presented net of allowance for credit losses. The group manages credit risk by setting limits for individual customers and groups of customers and for geographical and industry segments. The group also monitors credit exposures and continually assesses the creditworthiness of counterparties.

Gross 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 setting credit limits for individual customers, monitoring outstanding receivables on an ongoing basis and by avoiding undue concentrations of risks with individuals or groups of customers in specific locations or business through diversification of business dealings. The five largest customers accounted for 99% (31 December 2008 95%) (Government/government controlled entities: 64% (31 December 2008 52%)) of the outstanding trade receivables.

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

	31 December 2009 KD	31 December 2008 KD
Bank balances and deposits	3,299,239	1,406,460
Accounts receivables and other assets	24,372,228	25,445,712
Gross maximum credit risk exposure	27,671,467	26,852,172

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

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:

	31 December 2009 KD	31 December 2008 KD
Geographic region:		
Kuwait	2,059,620	510,276
Middle East and North Africa	24,989,382	26,058,163
Others	622,465	283,733
	27,671,467	26,852,172

	31 December 2009 KD	31 December 2008 KD
Industry sector:		
Banks and financial institutions	3,299,239	1,406,460
Construction and real estate	23,605,906	24,339,545
Other	766,322	1,106,167
	27,671,467	26,852,172

Credit quality of financial assets that are neither past due nor impaired

Before accepting any new customer, the group uses internal and external sources of information to assess the credit quality of potential customers and defines credit limits by customer. Customer credit quality and limits are reviewed on an on going basis. The group manages the credit quality by conducting business with high credit worthy customers, related parties and government/government controlled entities and by regularly monitoring and reviewing outstanding receivables. It is not the practice of the group to obtain collateral over receivables.

22.2 Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The group manages its liquidity risk by active cash flow management and undrawn limits with banks and financial institutions and generation of funds from its operations.

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

31 December 2009	On demand KD	Less than 1 year KD	More than 1 year KD	Total KD
Murabaha payable	718,000	13,541,461	295,092	14,554,553
Liabilities against assets subject to finance lease	-	1,456,581	6,488,408	7,944,989
Accounts payable and other liabilities	24,939	15,642,336	-	15,667,275
	742,939	30,640,378	6,783,500	38,166,817
Capital commitments	-	12,628,120	-	12,628,120

31 December 2008	On demand KD	Less than 1 year KD	More than 1 year KD	Total KD
Murabaha payable	-	16,437,005	504,209	16,941,214
Accounts payable and other liabilities	255,980	15,351,159	-	15,607,139
	255,980	31,788,164	504,209	32,548,353
Capital commitments	-	2,675,690	6,942,290	9,617,980

22.3 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.

22.3.1 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.

22.3.2 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 positions on an ongoing basis to ensure positions are maintained within established limits.

The effect on profit before tax (due to change in the fair value of monetary assets and liabilities) and on the equity, as a result of change in currency rate, with all other variables held constant is shown below as at 31 December 2009:

	31 December 2009 Change in currency rate by 3%		*31 December 2008 Change in currency rate by 3%*	
	Effect on equity KD	*Effect on profit before taxation KD*	*Effect on equity KD*	*Effect on profit before taxation KD*
United State Dollar	**-**	**192,642**	13,802	314,898
Sudanese pounds	**764,578**	**-**	913,068	-

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.

22.3.3 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 equity (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 KD 21,145 (31 December 2008: KD 20,423).

22.3.4 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.

23. 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 shareholders' 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, issue new shares or borrow from Islamic financial institutions.

The group monitors capital using a gearing ratio, which is total debt divided by total equity. The group's policy is to keep the borrowings less than shareholder's equity. The group includes within total debt, profit bearing muhrabha payables and accrued profit thereon. Capital includes equity attributable to the equity holders of the company.

	31 December 2009 KD	31 December 2008 KD
Profit bearing muhrabha payables	14,320,182	16,427,839
Deferred finance cost	234,372	497,832
Total debt	14,554,554	16,925,671
Equity attributable to the equity holders of the company	64,615,552	72,514,125
Gearing ratio	23%	23%

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