ANNUAL REPORT 2010

AREF ENERGY

AREF Energy Holding Company

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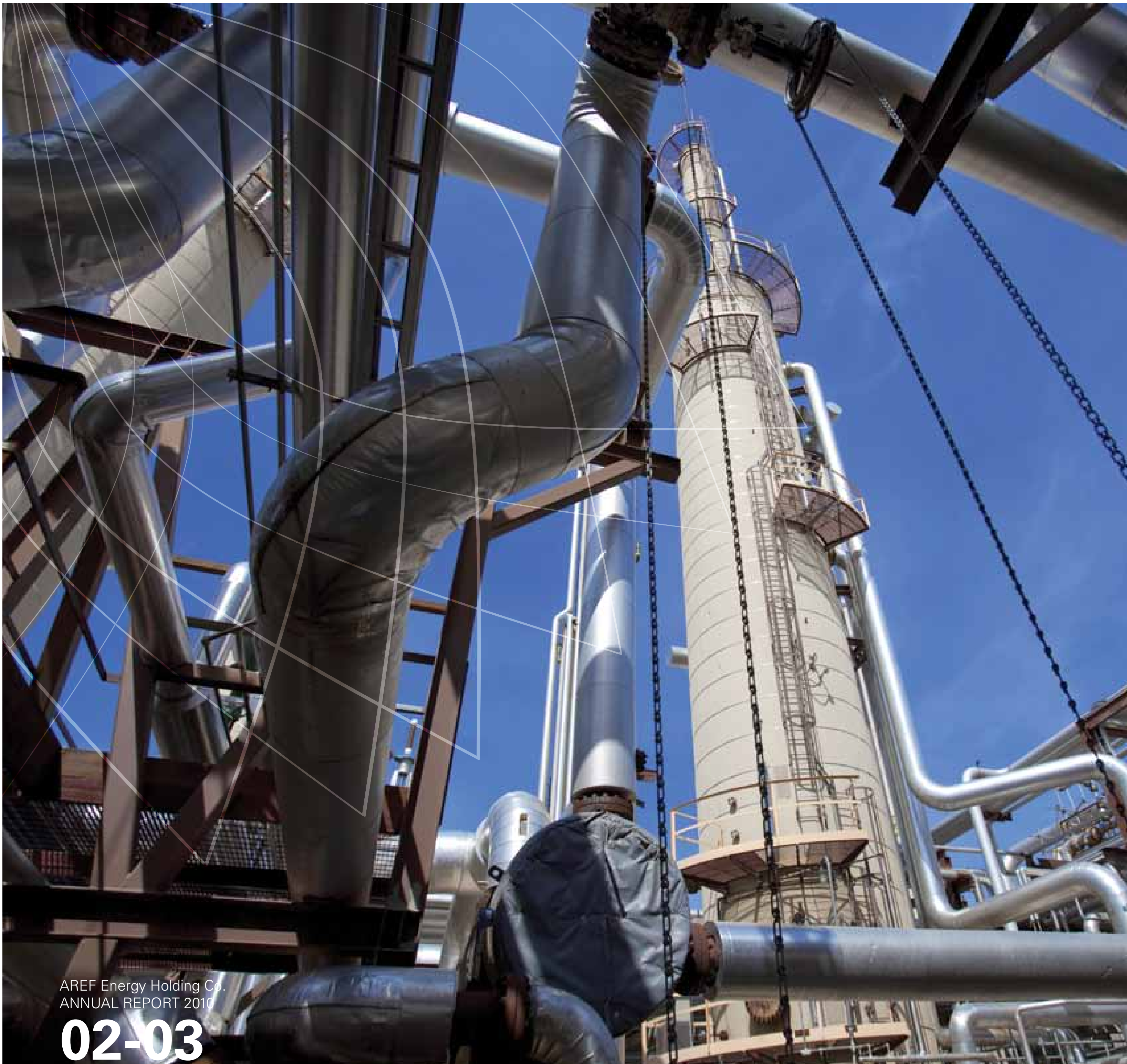

ABOUT AREF ENERGY

OUR COMPANY

AREF Energy Holding Company K.S.C.C. is a Kuwaiti shareholding company listed on the Kuwait Stock Exchange specialized in the field of investments in the Energy Sector. The Company, established in September 2007 with a fully paid share capital of KD 75 Million 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 and are one of the largest conglomerates in the region with diversified investments that have contributed to the country's development and maintained regional and international alliances.

OUR BUSINESS

AREF Energy Holding Company is Sharia compliant with a clear philosophy of playing an active role in medium to long term investments having defined geographical focus and planned financial targets.

Successful exit from DeWitt during the first quarter of 2010 has resulted in wiping out the accumulated losses of the yester years and has maintained the capital intact paving way for the company's future growth in line with the approved business plan.

CORPORATE STATEMENTS

VISION

To become the leading energy investment holding company in the region with strong business identity, distinctive high performing assets, an environmentally friendly conscience, and quality competent staff in order to maximize stakeholder's return and capital value

MISSION

To acquire and manage investments in the energy sector including hydrocarbons, power, and other related energy sources, services, equipment, and technologies in the Middle East and North Africa Region (MENA) and globally.

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

SHARED VALUES

We adhere to a clear set of values that will drive our operating principles, business ambitions and are fundamental to the way we are working.

OUR PRESENCE

BOARD OF DIRECTORS

Walid K. Al-Hashash
Chairman

Ebrahim A. Al-Khuzam
Vice Chairman

Mahmoud K. Al-Jassar
Board Director

Abdul Aziz A. Al-Ebrahim
Board Director

Tareq J. Al-Wazzan
Board Director
Managing Director & CEO


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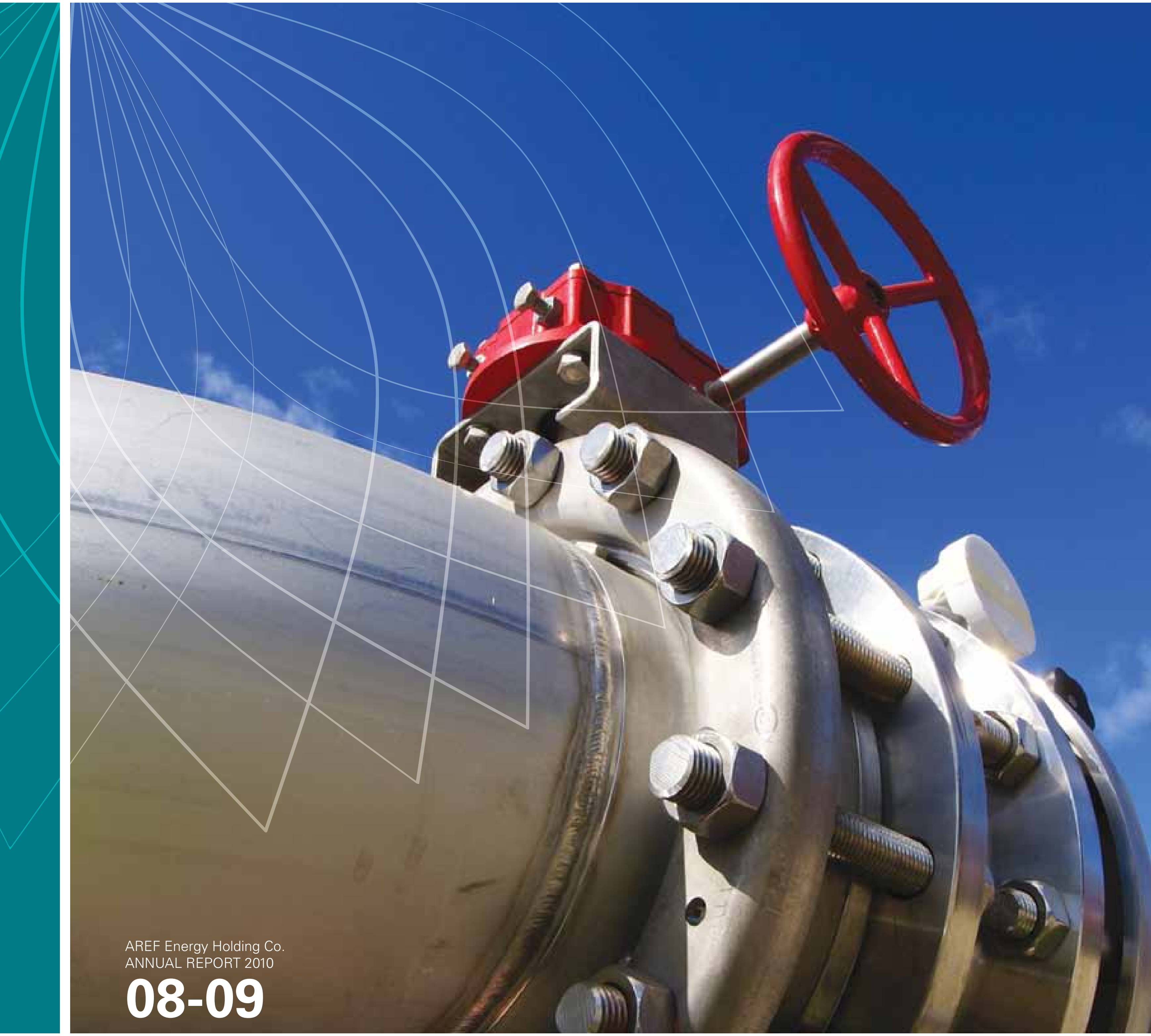
EXECUTIVE **MANAGEMENT**

1. Tareq J. Al-Wazzan
   Managing Director & CEO
2. Zeyad A. Al-Oudah
   General Manager
3. Qatham F. Al-Jelaibi
   Bussiness Development Manager
4. Paurus Kohina
   Chief Financial Officer
5. Mohammed A. Algharaballi
   Venture Development Manager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EXECUTIVE MANAGEMENT'S **REPORT**

In the name of Allah the most compassionate, the most merciful,

Thanks be to Allah the Lord of all beings, and prayer and peace be upon the most prominent messenger,

Honorable Shareholders of AREF Energy Holding Company K.S.C.C.,

We are pleased to present to you the third annual report of AREF Energy Holding Company K.S.C.C. ("AREF Energy") which reviews the main developments and strategic achievements of the Company during the year 2010. The report also brings out the operating results for year ended 31 December 2010 and explores the future prospects in the slower pace of economic activity and the challenges brought about by the global economic crisis with its impact on local and international markets.

The year under review was truly challenging for AREF Energy as economies continued to bear the brunt of the world-wide recession. Though the economic climate showed green shoots of recovery in the latter part of the financial year, world Gross Domestic Product (GDP) contracted. This fragmented and sporadic economic revival gave little relief to value reduction resulting from the systemic collapse of financial systems and economies at large.

AREF Energy dealt with the crisis efficiently, guided at all times by the basic goal of protecting its investments and maintaining the required level of liquidity. AREF Energy made continuous efforts to maintain its existing investments due to the strength of its assets profile and investment policies that are in place and this has contributed, to a large extent, in mitigating the impact of the crisis.

AREF Energy stepped up its efforts to strengthen investment ventures and maximize their economic value. Based on sound and robust investment policy, the company aims to gain the confidence of local and regional banks to procure sources of finance for existing and future projects.

The Company's profitability in 2010 was mainly due to the successful exit from DeWitt Gas Project and in spite of the decline due to the operational performance of existing investments and impairment considered due to the reduction in the fair value of the Company's assets owing to the global economic crisis. The International Financial Reporting Standards (IFRS) also require such impairment to be recognized even if the Company does not sell those assets.

FINANCIAL INDICATORS

	2010	2009
Net Profit / (Loss) (KD)	**10,798,282**	(9,546,855)
Total Assets (KD)	**113,066,442**	112,342,807
Shareholders' Equity (KD)	**74,980,543**	64,615,552
Profit / (Loss) per share (Fils)	**14.4**	(10.6)

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 results were achieved due to concerted efforts within the company to control operational costs, whilst optimising available resources. Moving forward, we expect to improve the profitability of the company and increase Shareholders' Equity at a consistent pace.

INVESTMENT EXIT WITH REWARDING PROFITS

One of the major achievements of AREF Energy during the past year was achieving profit by selling its entire share of DeWitt Gas Project for a profit of KD 17.7 Million net of taxes.

It is worth mentioning that the company invested in the said project during the year 2007 by purchasing a 50% share of the privilege rights for drilling and producing oil and gas over an area of 77 thousand acres in Dewitt County – Texas in the United States. Then it contributed, with its partners, in developing the said privilege right by executing the studied drilling program, which resulted in increasing the economic value of the project. It also resulted in obtaining more interest from oil companies working in the region who presented offers for purchasing the share of AREF Energy. Based on the same, the management of the company accepted in the offer presented by the American Oil Company for purchasing its entire shares in February 2010.

It is worth mentioning that the availability of this liquidity during 2010, contributed to a great extent in increasing the capital value of the company and achieving its investment objectives of expanding its operations scope in accordance with its strategic visions and goals.

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NEW INVESTMENTS

OIL FIELD INSTRUMENTATION (INDIA) LIMITED (OFIL)

AREF Energy's indirect ownership in OFIL is 12.75% (36% of the special purpose vehicle "Kitara-OFIL" owning 35.4% of OFIL).

OFIL provides mud logging services to corporate establishments that are engaged in oil well drilling, exploration and development including deep waters and Coal Bed Methane (CBM). The Company manufactures its own Mud Logging Units (MLUs) and also provides rig instrumentation and services for accurate, reliable and globally accessible online real time drilling data using pressure indicators, diaphragms, drillers console, recorder, etc. Company also provides real time gas evaluation systems consisting of FID/TCD Gas Chromatograph (GC) with sensitivity in PPM.

The company has also recently entered into high growth business of Measurement While Drilling and Directional Drilling by acquisition of 41% stake in Black Viper Energy Services Ltd. ("BVES"), a USA based limited partnership engaged in business of Directional Drilling.

The Company operates in India, Syria, Bangladesh, Kurdistan, Kazakhstan and Oman. Currently, more focus is given to the Middle East region.

COMPETITIVE ADVANTAGE

OFIL is the market leader in Mud Logging in India with a 45% market share. The company has an installed capacity of 40 MLUs and has monitored more than 2500 wells in offshore and onshore locations. The company has an in-house software development team for development and upgrading of its Mud Logging software. Further, it has a pool of more than 300 well qualified and trained professionals, including Data Engineers, Mud Loggers, Service Engineers, Computer Experts, Software Professionals and engineers.

GROWING ACTIVITIES IN KUWAIT...

It is well known that AREF Energy owns the majority of shares (80% Stake) of Khalifa Daij Al Dabbous and Bros (KDDB), a Kuwaiti company whose activities concern contracting works and presenting services for the energy sector in the country. The company is considered as an accredited contractor for delivering many construction, electricity, and mechanical projects pertaining to the oil and gas industries sector in Kuwait.

During the previous year, the company witnessed a growing activity in its operations for it was able to win the tender for providing manpower with a value of 29.8 million USD for 4 years with Kuwait Gulf Oil Company (Joint Operations). In January 2011, the company was also awarded with a tender for the lowest price for the project of updating of 3 fuel stations owned by the Kuwait National Petroleum Company, for a value with KD 1,717,226/-. The company is expecting to sign the contract pertaining to the tender in the next few months.

The company concluded two agency contracts by means of which it is the exclusive agent in Kuwait for Impact Solutions, specialized in consulting services, and Higleig Petroleum and Investment Services in Sudan.

The company is continuing exerting all efforts for expanding its operational activities and entering in several major and unprecedented oil projects for doubling its future profits and for achieving its strategic goals.

ENHANCED EFFICIENCY IN SUDAN'S SUBSIDIARY....

Higleig Petroleum Services and Investment Company continued its operational activity as an EPC contractor for major projects in the civil, infrastructure, oil and gas fields within different areas in the Republic of Sudan. Company continues its operational improvements and financial enhancement activities which are expected to boost revenues of 2011 compared to 2010 results.

On a macro level, Sudan which has long faced embargoes, completed a successful conduct of South Sudan's independence referendum and continue to further progress within peace agreements and process. The United States has so far taken some small initial steps to lift export controls and is expected to soon lift economic sanctions on Sudan. This would provide an opening for economic opportunities for the country and would call for more investment and stronger trade.

ENVIRONMENT FRIENDLY PROJECTS...

In light of AREF Energy's interest in investing in the fields of clean energy, the company continues to support its affiliate company (Synfuels International) which owns a revolutionary patent in the technology of transferring gas to liquid fuel with encouraging prices and a great variety of application. These aspects have led to it becoming the ideal option for oil and gas producers who are obliged to burn large amounts of gas in distant locations. This technology allows them to save part of the wasted revenues and to decrease the carbon dioxide emissions.

AREF Energy concluded an investment contract for facilitating the project for building a new station for transforming gas to liquid fuel or ethylene in certain regions including northern Iraq, Russia, the CIS countries, and Brunei. The scope of work of the said works includes providing a long term contract for providing the plant with natural gas and concluding vending contracts for the manufactured product and the possibility of contributing in providing the required funding for the project.

In addition to the above, negotiations have commenced with parties who have expressed their intention to fund the new plant on the grounds of the project being environment friendly. Currently, feasibility studies are being conducted in the Gulf region for obtaining the required approval for funding.

EFFECTIVE PRESENCE IN THE KINGDOM OF SAUDI ARABIA...

Makamin Oil and Gas Services - KSA, in which AREF Energy owns 10%, was able to attain a major position as a Saudi operation company that presents various services for exploration and oil development operations in the KSA. It has an increasing database of clients that includes Saudi Aramco. It's success allowed it to attain well drilling contracts. It's course of success was crowned by being awarded a contract of a value of 260 million Saudi Riyals with Saudi Aramco Company.

INVESTMENT FORESEEING LISTING...

The procedure required for listing Kuwait Energy Company, with AREF Energy's stake of around 16%, is being finalized. The listing will be either in Kuwait Stock Exchange or the London Stock Exchange. It is expected that these procedures will be completed during the first half of 2011.

INDUSTRY OUTLOOK

According to Arab Petroleum Investment Corporation (APICORP) brief, the global demand for energy is gradually recovering and crude oil prices are stabilizing within price range of $70 to $90/bbl. This has encouraged investors to bring back in line some of the oil-based projects they had previously shelved or postponed and to slate for new developments. In the gas sector, as world gas sector has come under tremendous pressure, the option to wait may have more value for project sponsors. APICORP's assumptions is that gas prices, which are greatly deviating from oil-price parity, will keep diverting between regional markets: $4-5 / MBtu in fully liberalized and well supplied markets, to $8-10 / Mbtu in markets where oil-linked prices prevail.

The industry market outlook by APICORP suggests growth in MENA energy capital investments and for the period 2011-15 points to a higher potential investment of $ 615 billion as compared to one year ago of $ 470 billion for the period 2010-14. Furthermore, the total amount of investments shelved or postponed has dropped to 22% of potential as compared to 29% a year ago and as a result, actual capital requirements should amount to $478 billion for the period 2011-15 as compared to $335 billion projected one year ago for the period 2010-14.

Of the above capital investment of $478 billion, 41% is in oil supply chain, 35% in gas supply chain and 24% in power sector. The investment in power sector is more growth-based as compared to oil and gas.


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AREF ENERGY OUTLOOK

The outlook for 2011 and beyond appears to be positive as we are currently evaluating our existing investments with a view to identify those that are mature enough and can be sold at attractive profits, thereby maximizing the enterprise value of the Company and expanding the scope of its operations through new investments consistent with the Company's mission and strategic goals. The Company continues to look for promising investment opportunities focusing on high yielding projects. Several companies in the energy services market have been evaluated and we have already commenced implementing the acquisition and partnership plans gradually and in a prudent manner.

In order to achieve the expectations and aspirations of the shareholders, we emphasize that the Company will with Allah's willingness, continue to work as one coherent, efficient and effective team towards achieving the desired goals in order to enable the Company 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 confidence and continued support to our steps that seek to achieve the best results and continuous progress.

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

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2010

ERNST & YOUNG
Ernst & Young
Al Aiban, Al Osaimi & Partners
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Tel : 2245 2880/2295 5000
Fax: 2245 6419
Email: kuwait@kw.ey.com
www.ey.com/me

BAKER TILLY
KUWAIT
Dr. Saud Al-humaidi & Partners
Public Accountants
P.O.Box 1486 Safat,13015 Kuwait
Sharq Area, Omar Bin Khattab Street
Shawafat Bldg, Block No. 5, 1st Floor
Tel : 22442333 / 22443222
Fax : 22461225
www.bakertillykuwait.com

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

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Aref Energy Holding Company K.S.C. (Closed) ("the company") and its subsidiaries (collectively, "the group") which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows 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 and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate 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.

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

Report on Consolidated Financial Statements (continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as at 31 December 2010, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory matters

Furthermore, in our opinion, proper books of account have been kept by the company and the consolidated financial statements, together with the contents of the report of the company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that, we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the company's articles of association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law, as amended, nor of the company's articles of association, as amended, have occurred during the year ended 31 December 2010 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

14 March 2011
Kuwait

	Notes	2010 KD	2009 KD
ASSETS			
Non-current assets			
Property and equipment	3	**15,817,396**	19,925,450
Investment property	4	**5,647,680**	4,956,952
Intangible assets	5(a)	**673,863**	13,298,679
Investment in associates	6	**4,710,907**	3,581,377
Financial assets available for sale	7	**3,397,085**	3,428,166
		30,246,931	45,190,624
Current assets			
Inventories		**2,695,814**	4,696,945
Financial asset at fair value through statement of income	8	**32,400,000**	32,400,000
Accounts receivable and other assets	9	**22,771,342**	26,744,419
Bank balances, deposits and cash	10	**24,952,355**	3,310,819
		82,819,511	67,152,183
TOTAL ASSETS		**113,066,442**	112,342,807
EQUITY AND LIABILITIES			
Equity			
Share capital	11	**75,000,000**	75,000,000
Share premium	12	**193,550**	193,550
Statutory reserve	12	**461,295**	314,957
Voluntary reserve	12	**314,957**	314,957
Foreign currency translation reserve		**(1,728,042)**	(1,294,751)
Cumulative changes in fair values		**23,922**	23,922
Retained earnings (accumulated losses)		**714,861**	(9,937,083)
Equity attributable to equity holders of the company		**74,980,543**	64,615,552
Non-controlling interests		**8,600,633**	9,355,609
Total equity		**83,581,176**	73,971,161
Non-current liabilities			
Employees' end of service benefits		**250,048**	337,006
Murabaha payables	13	**-**	295,092
Liabilities against assets subject to finance lease	14	**3,780,905**	4,909,211
		4,030,953	5,541,309
Current liabilities			
Accounts payable and other liabilities	15	**18,696,168**	18,039,466
Current portion of liabilities against assets subject to finance lease	14	**914,172**	765,781
Murabaha payables	13	**5,843,973**	14,025,090
		25,454,313	32,830,337
Total liabilities		**29,485,266**	38,371,646
TOTAL EQUITY AND LIABILITIES		**113,066,442**	112,342,807

Walid K. Al-Hashash
Chairman

Tareq Al-Wazzan
Chief Executive Officer

The attached Notes 1 to 24 form part of these consolidated financial statments

	Notes	2010 KD	2009 KD
Continuing operations			
Contract revenue		**22,377,838**	38,572,100
Rental income from investment property		**564,636**	538,416
Fair valuation gain on investment property	4	**946,240**	-
Share of results from associates	6	**(1,221,507)**	(1,217,670)
Gain on sale of exploration assets	5(b)	**25,074,149**	790,416
Other income		**962,836**	790,123
Foreign exchange gain (loss)		**282,435**	(374,398)
Income		**48,986,627**	39,098,987
Contract cost		**22,075,703**	37,109,881
Finance cost		**1,305,859**	1,076,741
Staff cost		**1,725,244**	1,916,724
General and administration expenses		**2,288,793**	2,788,596
Write back of impairment loss on accounts receivable	9	**(118,176)**	-
Impairment loss on accounts receivable	9	**-**	1,160,887
Amortisation of intangible assets	5(a)	**97,798**	268,496
Impairment of intangible assets	5(c)	**2,607,504**	-
Write off of intangible assets	5(c)	**-**	3,245,694
Impairment of investment in an associate		**-**	864,093
Expenses		**29,982,725**	48,431,112
Profit (loss) for the year before taxation		**19,003,902**	(9,332,125)
Board of directors' remuneration	17	**(300,000)**	-
Taxation	18	**(8,278,396)**	(189,187)
Profit (loss) for the year from continuing operations		**10,425,506**	(9,521,312)
Loss on sale of discontinued operation		**-**	(25,543)
Profit (loss) for the year		**10,425,506**	(9,546,855)
Attributable to:			
Equity holders of the company		**10,798,282**	(7,959,610)
Non-controlling interests		**(372,776)**	(1,587,245)
Profit (loss) for the year		**10,425,506**	(9,546,855)
Basic and diluted earnings (loss) per share attributable to equity holders of the company	19	**14.4 fils**	(10.6) fils
Basic and diluted earnings (loss) per share from continuing operations attributable to equity holders of the company	19	**14.4 fils**	(10.6) fils

The attached Notes 1 to 24 form part of these consolidated financial statments

	2010 KD	2009 KD
Profit (loss) for the year	**10,425,506**	(9,546,855)
Change in fair value of financial assets available for sale	-	23,922
Foreign currency translation adjustment	**(815,491)**	(598,144)
Other comprehensive loss for the year	**(815,491)**	(574,222)
Total comprehensive income (loss) for the year	**9,610,015**	(10,121,077)
Attributable to:		
Equity holders of the company	**10,364,991**	(7,898,573)
Non-controlling interests	**(754,976)**	(2,222,504)
Total comprehensive income (loss) for the year	**9,610,015**	(10,121,077)

The attached Notes 1 to 24 form part of these consolidated financial statments

	Notes	2010 KD	2009 KD
OPERATING ACTIVITIES			
Profit (loss) for the year from continuing operations		**10,425,506**	(9,521,312)
Loss for the year from discontinuing operations		**-**	(25,543)
		10,425,506	(9,546,855)
Adjustments for:			
Rental income from investment property		**(564,636)**	(538,416)
Share of results from associates	6	**1,221,507**	1,217,670
Gain on disposal of property and equipment		**(95,601)**	(120,375)
Gain on sale of exploration assets	5	**(25,074,149)**	(790,416)
Fair valuation gain on investment property	4	**(946,240)**	-
Depreciation	3	**3,928,838**	4,218,599
Amortisation of intangible assets	5	**97,798**	268,496
Impairment / write off of intangible assets	5	**2,607,504**	3,245,694
Impairment of investment in an associate	6	**-**	864,093
(Write back of) impairment for trade receivables		**(118,176)**	1,160,887
Impairment of property and equipment	3	**-**	58,483
(Write back of) provision for employees' end of service benefits		**(9,106)**	336,498
Provision for taxation	18	**8,278,396**	189,187
Finance costs		**1,305,859**	1,076,741
Provision for Board of directors' remuneration	17	**300,000**	-
Loss on sale of discontinued operations		**-**	25,543
		1,357,500	1,665,829
Working capital changes:			
Inventories		**2,001,131**	1,883,983
Accounts receivable and other assets		**3,482,567**	(910,345)
Accounts payable and other liabilities		**(1,349,376)**	2,243,138
Cash from operating activities		**5,491,822**	4,882,605
Employees' end of service benefits paid		**(77,852)**	(224,718)
Taxes paid		**(7,265,201)**	-
Net cash (used in) from operating activities		**(1,851,231)**	4,657,887
INVESTING ACTIVITIES			
Purchase of property and equipment	3	**(1,162,769)**	(3,376,813)
Proceeds from sale of property and equipment		**758,162**	985,354
Proceeds from sale of investment property		**-**	4,956,952
Rental income from investment property		**564,636**	538,416
Acquisition of intangible assets	5	**-**	(3,839,595)
Net proceeds from sale of intangible asset	5	**35,207,044**	1,188,480
Investment in associates	6	**(1,642,062)**	-
Increase in restricted bank balances and deposits	10	**(993,768)**	(161,883)
Proceeds from disposal of discontinued operation		**-**	242,161
Net cash from investing activities		**32,731,243**	533,072
FINANCING ACTIVITIES			
Net movement in assets subject to finance lease		**(979,915)**	-
Finance costs paid		**(679,826)**	(921,753)
Net movement in murabaha payables		**(8,476,209)**	(2,107,657)
Net cash used in financing activities		**(10,135,950)**	(3,029,410)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**20,744,062**	2,161,549
Net foreign exchange difference		**(96,294)**	(428,539)
Cash and cash equivalents at the beginning of the year		**2,670,505**	937,495
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	10	**23,318,273**	2,670,505

The attached Notes 1 to 24 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**	**Cumulative changes in fair values KD**	**Retained earnings (accumulated losses) KD**	**Sub-total KD**	**Non-controlling interests KD**	**Total equity KD**
Balance at 1 January 2010	75,000,000	193,550	314,957	314,957	(1,294,751)	23,922	(9,937,083)	64,615,552	9,355,609	73,971,161
Profit (loss) for the year	-	-	-	-	-	-	10,798,282	10,798,282	(372,776)	10,425,506
Other comprehensive loss for the year	-	-	-	-	(433,291)	-	-	(433,291)	(382,200)	(815,491)
Total comprehensive (lose) income for the year	-	-	-	-	(433,291)	-	10,798,282	10,364,991	(754,976)	9,610,015
Transfer to reserves	-	-	146,338	-	-	-	(146,338)	-	-	-
Balance at 31 December 2010	**75,000,000**	**193,550**	**461,295**	**314,957**	**(1,728,042)**	**23,922**	**714,861**	**74,980,543**	**8,600,633**	**83,581,176**
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 period	-	-	-	-	-	-	(7,959,610)	(7,959,610)	(1,587,245)	(9,546,855)
Other comprehensive income (loss) for the year	-	-	-	-	37,115	23,922	-	61,037	(635,259)	(574,222)
Total comprehensive income (loss) 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

The attached Notes 1 to 24 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 2010 were authorised for issue in accordance with a resolution of the Board of Directors on 14 March 2011 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 20.

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 also the functional currency of the company.

Measurement basis

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

Changes in accounting policies and disclosures

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

- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5 IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009.

The adoption of the standards and interpretations is described below:

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended):

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. 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) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

IFRIC 17 Distribution of Non-cash Assets to Owners

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either, the financial position or performance of the group.

The application of the above revised and amended IASB Standards and new interpretation did not have any impact on the consolidated financial statements of the group.

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

IAS 24 Related Party Disclosures (Amended)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in accounting policies and disclosures (continued)

a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities.

IFRS 9: Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the group's financial assets. The group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

Improvements to IFRSs (issued in May 2010)

The IASB issued improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011.

IFRS 3 Business Combinations

IFRS 7 Financial Instruments: Disclosures

IAS 1 Presentation of Financial Statements

IAS 27 Consolidated and Separate Financial Statements

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

BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and subsidiaries [including Special Purpose Vehicles (SPVs)] as at 31 December 2010.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

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

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

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

The principal subsidiaries of the group are as follows:

Name of country	*Country of incorporation*	*Effective interest as at %*		*Principal activities*
		2010	*2009*	
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

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non controlling

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

Business combinations from 1 January 2010 (continued)

interest in the acquiree. For each business combination, the acquirer measures the non controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated income statement.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in consolidated statement of income or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

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

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

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

Business combinations prior to 1 January 2010

In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Property and equipment

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment (continued)

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 statement of income 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 statement of income in the year in which they arise.

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

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

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 statement of income in the year in which the expenditure is incurred.

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

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

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

Investment in associates

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

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

The consolidated statement of income reflects the group's share of the results of operations of the associate. Where there

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in associates (continued)

has been a change recognised directly in the other comprehensive income of the associate, the group recognises its share of any changes and discloses this, when applicable, in other comprehensive income. Unrealised gains and losses resulting from transactions between the group and the associate are eliminated to the extent of the interest in the associate.

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

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

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

Financial assets and liabilities

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

Financial assets

Initial measurement and recognition

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

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

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

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

Subsequent measurement

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

Financial assets at fair value through statement of income

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

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

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

Financial assets at fair value through statement of income are carried in the consolidated statement of financial position at fair value with gains and losses recognised in the consolidated statement of income. As at 31 December 2010, the group has no financial assets that are held for trading (31 December 2009: Nil).

Financial assets available for sale

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

After initial recognition, financial assets available for sale are measured at fair value with gains and losses being recognised

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent measurement (continued)

in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is recognised in the consolidated statement of income.

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 statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Derecognition of financial assets

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

- the contractual rights to receive the cash flows from the asset have expired;
- the group retains the right to receive the cash flows from the assets, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; and either

  a) the group has transferred substantially all the risks and rewards of the asset, or

  b) the group has neither transferred nor retained substantially all the risks and rewards of ownership of the asset, but has transferred control of the asset.

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

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. Assets together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the group.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and liabilities (continued)

Impairment of financial assets (continued)

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the related account in the consolidated statement of income.

Financial assets available for sale

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Accounts payable and accruals

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

Murabaha payable

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

Derecognition of financial liabilities

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and liabilities (continued)

Fair value of financial instruments (continued)

to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

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

Inventories

Inventories are stated at the lower of weighted average cost and net realisable value. Cost is determined using weighted average basis except for those in transit which are stated at invoice price plus other charges paid thereupon to the statement of financial position date. 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 statement of income.

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

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

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

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset

Financial assets and liabilities (continued)

Impairment of non-financial assets (continued)

is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income. After such a reversal, the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Cash and cash equivalents

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

Foreign currency translation

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

Transactions and balances

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

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

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

Group companies

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

Segment reporting

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

Provisions

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

Employees' end of service benefits

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

Employees' end of service benefits (continued)

in accordance with the legal requirements in Kuwait.

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

Contingencies

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

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

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable.

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

Construction contracts

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

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

Rental income

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

Dividend income

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

Taxation

National Labour Support Tax (NLST)

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

Kuwait Foundation for the Advancement of Sciences (KFAS)

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

Zakat

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

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.

Impairment losses of receivables

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

Estimated cost on uncompleted contracts

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

Profit on uncompleted contracts

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

Estimates and assumptions

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

Impairment of goodwill

The group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the group to make

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant accounting judgments, estimates and assumptions (continued)

Estimates and assumptions (continued)

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

Useful lives of property and equipment and intangible assets

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

Valuation of unquoted financial assets

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

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

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

3 PROPERTY AND EQUIPMENT

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

Motor vehicles and equipments with a net carrying value of KD 5,326,235 (31 December 2009: KD 8,648,173) is mortgaged as security against murabaha payables (Note 13).

In 2009, buildings amounting to KD 718,040 had been entered into a finance lease arrangement with a related party (Note 16) resulting from a sale and lease back transaction (Note 14). 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.

3 PROPERTY AND EQUIPMENT (continued)

	Land KD	Leasehold properties KD	Buildings KD	Furniture, fixtures and office equipment KD	Motor vehicles and equipments KD	Work in progress KD	Total 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)

Depreciation charge for the year is allocated as follows:

	2010 KD	2009 KD
Contract cost	**3,756,490**	3,997,890
General and administration expenses	**172,348**	220,709
	3,928,838	4,218,599

4. INVESTMENT PROPERTY

	2010 KD	2009 KD
Opening balance	**4,956,952**	5,051,446
Fair valuation gain on investment property	**946,240**	-
Foreign currency translation adjustment	**(255,512)**	(94,494)
	5,647,680	4,956,952

Investment property is stated at fair value, which has been determined based on the valuation performed as at 31 December 2010 by an accredited independent valuator who is an industry specialist in valuing this type of investment property.

In 2009, one of the subsidiaries entered into a finance lease arrangement with a related party (Note 16) resulting from a sale and lease back transaction (Note 14). The lease is non-cancellable with a term of 5 years and the group has an option to buy back the asset at the end of the lease term at carrying value of the investment property prevailing at the time of buy back.

5. INTANGIBLE ASSETS

(a)

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

5. INTANGIBLE ASSETS (CONTINUED)

	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

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

(b) During the current year, the group sold exploration assets (held through special purpose vehicles entities incorporated in Cayman Islands) having the carrying value of KD 10,394,722 for a total sale consideration of KD 36,336,471 which resulted in a total gain of KD 25,074,149, net of transactions costs. The company is in the process of winding up these special purpose entities at the reporting date.

(c) During the current year, the group based on the impairment testing of goodwill recognized on the acquisition of Higleig Petroleum Services and Investment Company Limited recorded an impairment loss of KD 2,607,504 in the consolidated statement of income.

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

	2010 KD	2009 KD
Opening balance	**3,581,377**	5,674,051
Additions*	**2,250,748**	-
Share of results	**(1,221,507)**	(1,217,670)
Impairment loss	**-**	(864,093)
Foreign currency translation adjustment	**100,289**	(10,911)
Closing balance	**4,710,907**	3,581,377

During the year 2009, carrying value of investments in associates were assessed for impairment which resulted in the recognition of impairment loss amounting to KD 864,093 in the consolidated statement of income. No such impairment loss was recorded in the current year.

6. INVESTMENT IN ASSOCIATES (CONTINUED)

* Additions include KD 608,686 (2009: KD Nil) that represents conversion of partial receivables to investment in an associate resulting in the increase of group's equity participation in the associate.

Summarised financial information of associates is as follows:

	2010 KD	2009 KD
Share of associates' statement of financial position:		
Total assets	**8,413,852**	5,326,921
Total liabilities	**(3,702,945)**	(1,745,544)
Net assets	**4,710,907**	3,581,377
Share of associates' revenue and loss:		
Revenue	**1,034,100**	553,762
Loss for the year	**(1,221,507)**	(1,217,670)

Name of company	Principal Activities	Country of incorporation	Effective interest 2010	Effective interest 2009	Carrying value 2010	Carrying value 2009
Synfuels International, Inc.	Oil and gas technology and services	U.S.A.	**25.01%**	25.01%	**2,347,747**	2,720,829
Al Dindir Petroleum International Company Limited	Oil and gas technology and services	Sudan	**50%**	45%	**640,863**	860,548
Resource Development Group	Oil & Gas Exploration	Sudan	**50%**	-	**593,897**	-
Kitara OFIL Limited	Oil and gas technology and services	Mauritius	**36.36%**	-	**1,128,400**	-
					4,710,907	3,581,377

Kitara OFIL Limited has not started its operations as of 31 December 2010.

All the associates are unquoted companies.

7. FINANCIAL ASSETS AVAILABLE FOR SALE

	2010 KD	2009 KD
Quoted equity securities	**673,600**	704,681
Unquoted equity securities	**2,723,485**	2,723,485
Total	**3,397,085**	3,428,166

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

8. FINANCIAL ASSET AT FAIR VALUE THROUGH STATEMENT OF INCOME

The financial asset at fair value through statement of income consist of designated unquoted equity security and has been fair valued using a valuation technique (Note 22).

Financial asset at fair value through statement of income with a net carrying value of KD 8,000,000 (31 December 2009: KD 17,720,000) is mortgaged as security against murabaha payables (Note 13).

9. ACCOUNTS RECEIVABLE AND OTHER ASSETS

	2010 **KD**	2009 KD
Trade accounts receivable	**12,863,784**	12,227,194
Retention receivables	**3,496,430**	6,690,996
Advances & prepayments	**3,785,746**	4,716,153
Amount due from related parties (Note 16)	**1,770,324**	1,899,849
Other receivables	**855,058**	1,210,227
	22,771,342	26,744,419

As at 31 December 2010, trade accounts receivable at nominal value of KD 5,804,603 (31 December 2009: KD 5,599,053) was impaired and provided for to the extent of KD 1,323,063 (2009: KD 1,441,239). Movement in the allowance for impairment of trade receivables is as follows:

	KD
At 1 January 2009	280,352
Charge for the year	1,160,887
At 31 December 2009	1,441,239
Write back for the year	(118,176)
At 31 December 2010	1,323,063

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

		Past due but not impaired			
	Neither past due nor impaired	< 30 days	30 to 90 days	> 90 days	Total
	KD	KD	KD	KD	KD
2010	**6,578,147**	**162,940**	**533,350**	**1,107,808**	**8,382,244**
2009	7,050,471	117,842	413,010	488,057	8,069,380

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

10. CASH AND CASH EQUIVALENTS

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

	2010 **KD**	2009 KD
Bank balances, deposits and cash	**24,952,355**	3,310,819
Less: restricted bank balances and deposits	**(1,634,082)**	(640,314)
Cash and cash equivalents for the purpose of consolidated statement of cash flows	**23,318,273**	2,670,505

10. CASH AND CASH EQUIVALENTS (CONTINUED)

Bank balances and deposits include KD 21,503,290 (2009: KD 2,756,070) that are placed with related parties (Note 16).

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 21).

11. SHARE CAPITAL

The authorized, issued and fully paid up share capital of the company is KD 75,000,000 (2009: KD 75,000,000) consisting of 750,000,000 shares of 100 fils each (31 December 2009: 750,000,000 shares of 100 fils each) paid in cash.

12. RESERVES

Share premium

The share premium account is not available for distribution.

Statutory reserve

In accordance with the Law of Commercial Companies and the company's articles of association, 10% of the profit attributable to the equity holders of the company before contribution to KFAS, and provision for NLST, Zakat and Board of directors' remuneration for the year, after offsetting accumulated losses brought forward, has been transferred to statutory reserve. Distribution of the reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

Voluntary reserve

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

13. MURABAHA PAYABLES

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

Murabaha payables include facilities amounting to KD 4,039,558 (31 December 2009: 5,831,588) taken from a related party (Note 16). These facilities are secured against financial assets at fair value through statement of income amounting to KD 8,000,000 (31 December 2009: 17,720,000) (Note 8).

Of the total murabaha payables, facilities amounting to KD 1,788,415 (31 December 2009: KD 7,770,594) are secured against property and equipment amounting to KD 5,326,235 (31 December 2009: KD 8,648,173) (Note 3). These payables include facilities amounting to KD 299,981 (2009: KD 4,160,108) 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 4) 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 prevailing on the date of buy back.

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 2010	
	Minimum lease payments KD	Present value of minimum lease payments KD
Within one year	1,519,688	914,172
After one year but not more than five years	4,685,703	3,780,905
Total minimum lease payments	6,205,391	4,695,077
Less: amounts represents finance charges	(1,510,314)	-
Present value of minimum lease payments	4,695,077	4,695,077
Less: payable within one year from the reporting date classified as current liabilities	(914,172)	(914,172)
Non-current portion of lease obligation	3,780,905	3,780,905

14. LIABILITES AGAINST ASSETS SUBJECT TO FINANCE LEASE (CONTINUED)

	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. ACCOUNT'S PAYABLE AND OTHER LIABILITIES

	2010 **KD**	2009 KD
Trade payable under construction contracts	**8,688,082**	8,404,795
Advances received from customers	**3,715,712**	2,905,216
Amount due to related parties (Note 16)	**351,648**	24,939
Provisions	**2,123,675**	2,351,046
Dividend payable	**2,310,018**	2,415,374
Other payables	**1,507,033**	1,938,096
	18,696,168	18,039,466

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	**2010** **KD**	2009 KD
Consolidated statement of financial position				
Bank balances and deposits	21,199,336	304,593	**21,503,929**	2,756,070
Accounts receivable and other assets (Note 9)	-	1,770,324	**1,770,324**	1,899,849
Murabaha payables secured against:				
- Financial assets (Note 13)	4,039,558	-	**4,039,558**	5,831,588
- Non-financial asset (Note 13)	-	299,981	**299,981**	4,160,108
Unsecured murabaha payables	-	-	**-**	718,000
Liabilities against assets subject to finance lease	-	4,695,077	**4,695,077**	5,674,992
Accounts payable and other liabilities (Note 15)	151,036	200,612	**351,648**	24,939

As at 31 December 2010, the group had outstanding letter of credit and letter of guarantee facilities obtained from a related party amounting to KD 1,004,132 (31 December 2009: KD 5,312,254) (Note 21).

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

16. RELATED PARTY TRANSACTIONS (CONTINUED)

	Ultimate parent/parent company KD	Other related parties KD	**2010 KD**	2009 KD
Consolidated statement of income				
Murabaha finance cost	278,900	440,362	**719,262**	728,636
Brokerage fees	-	800	**800**	27,800

Key management compensation

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

	2010 KD	2009 KD
Short term employee benefits – including salary and bonus	**678,476**	554,969
End of service benefits	**31,989**	32,019
	710,465	586,988

17. DIRECTOR'S REMUNERATION

Directors' remuneration of KD 300,000 (2009: KD Nil) is subject to approval by the annual general assembly of the shareholders of the company.

18 . TAXATION

	2010 KD	2009 KD
Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS")	**14,313**	-
National Labour Support Tax ("NLST")	**287,869**	-
Zakat	**114,278**	-
Taxation relating to sale of exploration assets	**7,553,805**	-
Taxation on foreign operations	**308,131**	189,187
	8,278,396	189,187

Taxation on foreign operations includes the current year Zakat tax amounting to KD 202,432 (2009: KD 189,187) for one of the subsidiaries computed in accordance with the regulations prevailing in the county of domicile.

19. BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

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

	2010 KD	2009 KD
Profit (loss) for the year attributable to equity holders of the company (KD)	**10,798,282**	(7,959,610)
Weighted average number of shares outstanding during the year	**750,000,000**	750,000,000
Basic and diluted earnings (loss) per share	**14.4 fils**	(10.6) fils

19. BASIC AND DILUTED EARNINGS (LOSS) PER SHARE (CONTINUED)

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

	2010 KD	2009 KD
Profit (loss) for the year attributable to equity holders of the company (KD)	**10,798,282**	(7,959,610)
Loss on sale of discontinued operation (KD)	**-**	25,543
Profit (loss) for the year attributable to equity holders of the company from continuing operations (KD)	**10,798,282**	(7,934,067)
Weighted average number of shares outstanding during the year	**750,000,000**	750,000,000
Basic and diluted earnings (loss) per share from continuing operations	**14.4 fils**	(10.6) fils

20. SEGMENTAL INFORMATION

For management reporting purpose the group is organised into business units based on products as follows:

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

31 December 2010	**Energy KD**	**Others KD**	**Total KD**
Segment revenues	**46,399,234**	**2,587,393**	**48,986,627**
Segment results	16,859,376	2,144,526	19,003,902
Depreciation and amortisation	3,991,017	35,619	4,026,636
Segment impairment loss	2,607,504	-	2,607,504
Assets and liabilities			
Segment assets	100,201,075	8,154,460	108,355,535
Investment in associates	4,710,907	-	4,710,907
Total assets	**104,911,982**	**8,154,460**	**113,066,442**
Segment liabilities	**23,745,137**	**5,740,129**	**29,485,266**

Segment assets under the energy segment includes goodwill of KD Nil (31 December 2009: KD 2,460,974) (Note 5).

31 December 2009	Energy KD	Others KD	Total KD
Segment revenues	38,473,494	625,493	39,098,987
Segment results	(9,949,582)	617,457	(9,332,125)
Depreciation and amortisation	4,448,985	38,110	4,487,095
Segment impairment loss	4,109,787	-	4,109,787
Assets and liabilities			
Segment assets	101,692,386	7,069,044	108,761,430
Investment in associates	3,581,377	-	3,581,377
Total assets	105,273,763	7,069,044	112,342,807
Segment liabilities	32,560,876	5,810,770	38,371,646

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:

20. SEGMENTAL INFORMATION (CONTINUED)

31 December 2010	**Kuwait KD**	**Middle East and North Africa KD**	**Others KD**	**Total KD**
Segment revenues	**(164,601)**	**24,255,869**	**24,895,359**	**48,986,627**
Non current assets	**1,329,399**	**24,767,522**	**4,150,010**	**30,246,931**

31 December 2009	Kuwait KD	Middle East and North Africa KD	Others KD	Total KD
Segment revenues	84,498	39,453,114	(438,625)	39,098,987
Non current assets	1,255,669	30,376,422	13,558,533	45,190,624

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

Segment assets at the year ended 31 December 2009 under Middle East and North Africa includes carrying value of goodwill amounting to KD 2,460,974 which was impaired during the year (Note 5).

21. CAPITAL COMMITMENTS AND CONTINGENCIES

	2010 KD	2009 KD
Capital expenditure commitments		
Financial assets		
Financial assets available for sale	**6,743,700**	6,891,300
Others		
Exploration assets	**-**	5,736,820
	6,743,700	12,628,120

At the reporting date, the group had contingent liabilities amounting to KD 5,511,241 (31 December 2009: KD 8,469,160) in respect of outstanding letters of credit and letters of guarantees. No material liabilities are anticipated to arise out of contingent liabilities. These letters of credit and letters of guarantee are partly secured by bank balances and deposits (Note 10).

22. 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). 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.

22. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

31 December 2009	Level: 1 KD	Level: 3 KD	Total fair value KD
Financial assets at fair value through statement of income:			
Unquoted equity securities	-	32,400,000	32,400,000
Financial assets available for sale:			
Quoted equity securities	704,681	-	704,681
	704,681	32,400,000	33,104,681

During the year ended 31 December 2010, there were no transfers between Level 1 and Level 3 fair value measurements.

23. RISK MANAGEMENT

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

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

The group is exposed to credit risk, liquidity risk, market risk, prepayment risk and operational risk. Market risk is subdivided into profit rate risk, foreign currency risk, equity price risk and prepayment risk. The independent risk control process does not include business risks such as changes in the environment technology and industry. They are monitored through the group's strategic planning process.

23.1 CREDIT RISK

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

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

Maximum exposure to credit risk

The group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these financial instruments. Where financial instruments are recorded at fair value, it represents the current maximum credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values. The group bears credit risk on bank balances and accounts receivables.

23. RISK MANAGEMENT (CONTINUED)

23.1 CREDIT RISK (CONTINUED)

Maximum exposure to credit risk (continued)

The group seeks to limit its credit risk with respect to banks by only dealing with reputable banks, and with respect to customers by monitoring outstanding receivables on an ongoing basis. The five largest customers accounted for 99% (31 December 2009: 99%) (Government/government controlled entities: 76% (31 December 2009: 64%)) of the outstanding trade accounts receivable.

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

	2010 KD	2009 KD
Bank balances and deposits	**24,937,084**	3,299,239
Accounts receivable and other assets	**18,985,596**	22,028,266
Gross maximum credit risk exposure	**43,922,680**	25,327,505

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:

	2010 KD	2009 KD
Geographic region:		
Kuwait	**23,954,547**	1,986,163
Middle East and North Africa	**19,742,529**	22,863,516
Others	**225,604**	477,826
	43,922,680	25,327,505

	2010 KD	2009 KD
Industry sector:		
Banks and financial institutions	**24,937,084**	3,299,239
Construction and real estate	**18,780,881**	21,480,040
Others	**204,715**	548,226
	43,922,680	25,327,505

Collateral and other credit enhancements

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

23.2 LIQUIDITY RISK

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

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

23. RISK MANAGEMENT (CONTINUED)

23.2 LIQUIDITY RISK (CONTINUED)

31 December 2010	**On demand KD**	**Less than 1 year KD**	**More than 1 year KD**	**Total KD**
Murabaha payable	1,254,359	4,645,942	-	**5,900,301**
Liabilities against assets subject to finance lease	126,641	1,393,047	4,685,703	**6,205,391**
Accounts payable and other liabilities	151,037	18,545,131	-	**18,696,168**
	1,532,037	24,584,120	4,685,703	**30,801,860**
Capital commitments	-	-	6,743,700	**6,743,700**

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	18,014,527	-	18,039,466
	742,939	33,012,569	6,783,500	40,539,008
Capital commitments	-	12,628,120	-	12,628,120

23.3 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.

23.3.1 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.

23.3.2 Currency risk

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

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

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

	2010 KD	2009 KD
US Dollar	**24,947,901**	2,076,556
Sudanese pounds	**23,391,681**	25,485,919

23. RISK MANAGEMENT (CONTINUED)

23.3 MARKET RISK (CONTINUED)

23.3.2 Currency risk (continued)

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

The effect on profit before tax (due to change in the fair value of monetary assets and liabilities) and on the other comprehensive income, as a result of change in currency rate, with all other variables held constant is shown below as at 31 December 2010:

	31 December 2010 Change in currency rate by 3%		31 December 2009 Change in currency rate by 3%	
	Effect on other comprehensive income KD	**Effect on profit before taxation KD**	Effect on other comprehensive income KD	Effect on profit before taxation KD
United State Dollar	**104,284**	**729,416**	81,625	192,642
Sudanese pounds	**701,750**	**-**	764,578	-

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.

23.3.3 Equity price risk

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

The effect on other comprehensive income (as a result of a change in the fair value of financial assets available for sale) due to a 3% change in regional market indices, with all other variables held constant is KD 20,223 (31 December 2009: KD 21,145).

23.3.4 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.

24. CAPITAL MANAGEMENT

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

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

No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 31 December 2009.

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

The capital structure of the group consists of the following:

	2010 KD	2009 KD
Profit Bearing Murabaha Payables	**5,843,973**	14,320,182
Deferred Finance Cost	**56,328**	234,372
Total liabilities against assets subject to finance lease	**6,205,391**	7,944,989
Total debt	**12,105,692**	22,499,543
Equity attributable to the equity holders of the company	**74,980,543**	64,615,552
Gearing ratio	**16%**	35%





AREF ENERGY

AREF Energy Holding Company