

Annual Report 2012

Oil

Gas

Power

Service

Equipment

AREF Energy Holding Co.



AREF Energy Holding Company شركة عارف للطاقة القابضة

Company Information

AREF Energy Holding Company K.S.C.C. ("Company") is a Kuwaiti shareholding company listed on the Kuwaiti Stock Exchange specialized in the field of investments in medium-sized entities in the Energy Sector. AREF Energy was formed in September 2007 as a subsidiary of AREF Investment Group (AIG). On 29 December 2011, AIG sold 29% equity interest in AREF Energy to Development Enterprise Holding Company K.S.C. (Closed) (DEH), subsidiary of KFH. In August 2012, DEH acquired additional 66.76% equity interest in AREF Energy from AIG and Others, in accordance with Capital Market Law No. 7 of 2010 and its Executive Regulations resulting in a 95.76% equity interest in AREF Energy. Consequently, DEH is the new parent Company of AREF Energy. AREF Energy spearheads DEH's objectives in the strategically important and fast growing energy business sector.

The ultimate parent company, KFH being a leading Islamic bank listed on the Kuwait Stock Exchange is one of the largest financial institutions in the region with diversified investments that have contributed to the country's development and maintained regional and international alliances.

The company's investments strategy complies with Islamic Sharia laws.

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 investment methodology, defined geographical focus and planned financial targets.

With its clearly defined strategy, the company continues to harness and develop its portfolio to maximize synergies and opportunities, to strengthen its capabilities as part of its ongoing efforts to become the leading energy investment company in the region. The company has managed to acquire controlling stake in number of energy companies in the services sector with operations spreading over different regions.

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.

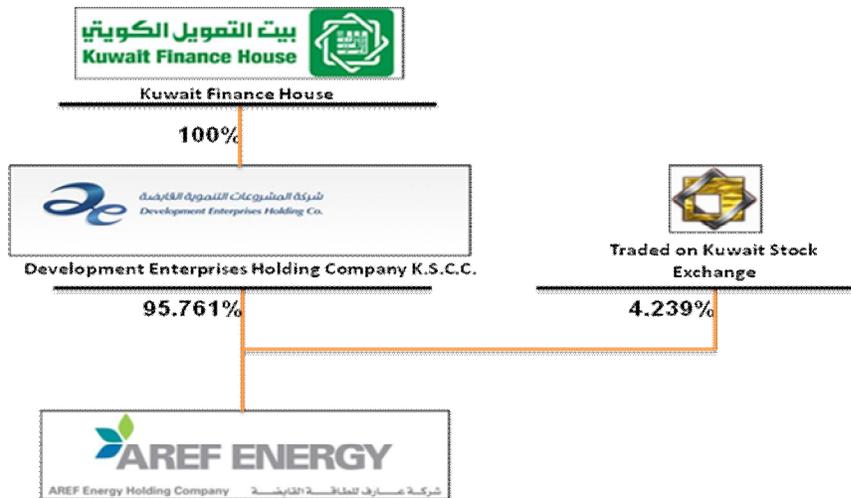
We will create strong business identity by providing strategic guidance to our subsidiaries and affiliates for capacity building and growth, while meeting international standards of excellence in all aspects of business operations, processes, and ethics.

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.

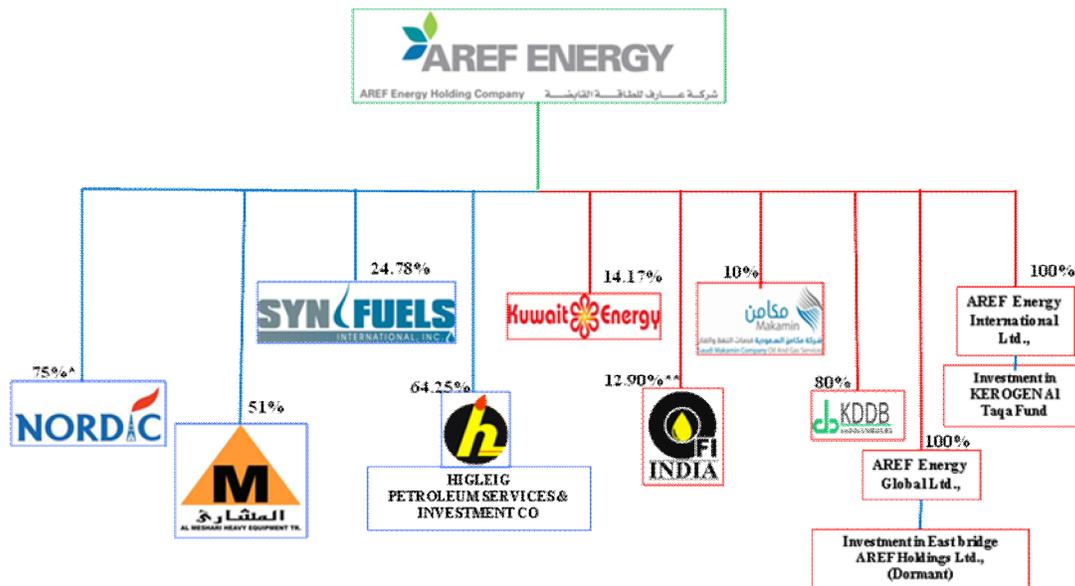
Shared Values

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.

Shareholding Structure



Corporate Structure



* 12.50% Capital Increase under legal process

** Through ownership of 36.36% of the special purpose vehicle "Kitara-OFIL" owning 35.4% of OFIL

Our Geographical Presence & Investment Distribution



Board of Directors

- Mr. Walid Al-Hashash** - Chairman
- Mr. Tareq Al-Wazzan** - Vice Chairman
- Mr. Suliman Al-Turkait** - Board Member
- Mr. Ahmed Al-Kandari** - Board Member

Chairman's Message

"AREF Energy's resilient business structure, endurance and commitment towards strategy integration has helped it to tide over challenging business situations. The financial and operational performance for the year ended 31st December 2012 reflects conservative approach adopted by the company in taking impairment losses in a major subsidiary exposed to political risk in MENA region. It is also important to highlight the concerted efforts of the Company to grow and improve the efficient conduct of its business that has strengthened its ability to identify and assess potential opportunities. The Company is all set to gear up and eventually focus in enhancing shareholder value."

CEO'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,

We are pleased to present to you the fifth annual report of AREF Energy Holding Company K.S.C.C. which reviews the main developments and achievements of the Company during the year 2012. The report also brings out the operating results for year ended 31 December 2012 and explores the future prospects with the continuing challenges in the global economic scenario and its impact on local and international markets.

The main focus during the year under review was to maintain portfolio quality. AREF Energy could accomplish the same by adding value creating assets. Keeping in view the primary objective of improving investment and investor's value, the company exercised its best efforts in protecting the same. Although all major investments had shown improved performance, yet investment in Sudan posed challenges consequent to the tough market and political environment existing in the nation. The efforts to exit from this investment did not materialize during the year. However, the management is taking all possible steps to divest at the earliest.

2012 also saw AREF Energy embarking on new investments and took initiatives by providing solid financial support in existing investments, which could increase their value creation potential

AREF Energy acquired additional 12.5% share in NORDIC Energy resulting in revised ownership of 87.5% in NORDIC. AREF Energy also supported Nordic by giving murabaha of USD 6 Million during the year.

AREF Energy has given financial support of nearly KD 2 Million, mainly for KOC Pipeline Repair/Replacement & Rehabilitation of Flow Lines in South and East Kuwait Areas Project. In addition, the company is in process to acquire additional 10% share by injecting KD 2 Million in early 2013 and steps taken for better corporate governance.

AREF Energy International Ltd, a Cayman exempted Limited Liability Company structured and fully owned by AREF Energy, successfully closed investment in Kerogen Al Taqa Fund with capital contribution of USD 20 Million including fund related expenses.

The company's result for 2012 reflects losses of KD 9.9 Million attributable to the shareholders of AREF Energy mainly due to the losses in Sudan investment, HPSIC. The company is striving to divest from this loss making entity and further utilize the proceeds in investing in cash generating entities in the energy sector.

FINANCIAL INDICATORS

	2012	2011
Net Profit / (Loss) (KD)	(9,961,286)	(5,113,572)
Total Assets (KD)	82,860,117	92,785,350
Shareholders' Equity (KD)	62,001,834	68,189,514
Profit / (Loss) per share (Fils)	(13.3)	(6.8)

It is to be noted that the above results are attributed to the Equity Holders of AREF Energy and includes share of operational profits or losses of company's subsidiaries and affiliates and share of results of its associates.

Looking ahead and being in the hands of a strong and stable financial institution, AREF Energy will be driving to improve the profitability of the company and increasing Shareholders' Equity at a consistent pace with "Growth" and "Portfolio Quality" being the priorities and key focus areas. The ongoing focus of the Company will remain on Services and Energy Equipment Services as they have growth prospect. The Company is targeting to assign majority of investments in mature and growth assets.

As a continuation of structuring corporate governance mechanism and monitoring of ethical standards, AREF Energy continued its engagement with Capital Standards (CSR), an independent credit rating agency to rate the company. CSR had assigned AREF Energy BB+ rating on an international scale and BBB+KW rating on a national scale with "Stable" outlook for 2012. The company was able to maintain the same rating as in 2011.

Industry Outlook

According to Arab Petroleum Investment Corporation (APICORP) brief, MENA energy capital investment is expected to add up to \$740bn for the five-year period 2013-17, which is much higher than previous year assessment of \$525bn for the five year period 2012-16. Compared to past assessments, which have been uniformly and consistently revised to reflect the full scale and scope of the power sector, investment appears overall on the rise again, driven mainly by costs and a catch up effect. Not unexpectedly, lingering socio-political turmoil in parts of the region has hampered investment decisions and project implementation. As a result, investment has fallen below potential in countries affected by the turmoil. This has somewhat distorted the geographical pattern of investment. A little more than three quarters of energy capital investment are shared by seven countries among the biggest holders of oil and gas reserves that have not faced such turmoil. These exclude Libya but include Iraq, notwithstanding its enduring troubles. In Saudi Arabia, investment is projected to reach \$165bn, mostly engendered by Saudi Aramco, SABIC and its affiliates as well as Saudi electricity company (SEC). Pending further implementation decisions Algeria has jumped in the region's rankings, overtaking both Qatar and Iran as the third potential investor. As investment readiness has gained momentum in the wake of the restoration of good governance the result of catch up investment – have reached \$71bn. In contrast, tighter international sanctions, and the retreat of foreign companies, have ended up taking a toll on Iran's elusive nuclear energy investment program, which has tentatively been put at \$68bn. Finally, despite moving up the rankings ahead of Qatar and Kuwait, Iraq with \$56bn worth of capital requirements is still far below its huge potential.

The following is a brief outline of our subsidiary and affiliate companies.



In 1959, KDDDB was established by members of Al-Dabbous family and has been operating as a registered contractor in Kuwait providing turnkey projects for civil, electrical and mechanical works for the oil sector.

During the year, the Company was successful to procure contracts/work orders with KOC of KD 11 Million for repair/replacement and rehabilitation of flow lines in South and East Kuwait areas. It is expected the acquisition of potential contracts in 2013



Established in 1997, Higlieig Petroleum Services & Investment Co. (HPSIC) is one of largest multi-disciplined EPC contracting and construction companies in Sudan. The company focuses its activities in the field of engineering, procurement and construction and has a total workforce of over 600 employees. HPSIC has the experience and expertise in project management, engineering, procurement and construction in areas like oil and gas, civil, electro-mechanical, roads and bridges and environmental projects. The range of projects executed covers oil pipelines, oil and gas production, collection and processing facilities, airports, bridges, roads, dams, electro-mechanical work, HVAC systems and power transmission lines.



Nordic Energy FZC (Nordic) is a Snubbing & Work-Over, Coiled Tubing and Well Intervention company that was formed in 2006 in the United Arab Emirates by a group of industry experts. Since its inception, Nordic has strategically grown from a small well service company to a company with a fleet of sophisticated thru-tubing tools, Coiled Tubing units and advanced snubbing & work over units. To better supply the customers with oilfield servicing solutions, the company added specialized fishing tools, thru-tubing cutting systems, and scale removal systems to its portfolio. With its unique expertise, Nordic also provided support to drilling operations by supplying equipment and personnel on many well service operations within the oil and gas industry.

Nordic was awarded a contract of USD 17.5 Million in July 2011 with Dragon Oil Company, and is currently operating in Turkmenistan. Upon completion of mobilization period, the project has started successfully since July 2012. Nordic was also successful in extending its services offered in the above contract, which reflects its high standards and quality of deliverables.

The Company upgraded and modified Snubbing and Work Over rigs for USD 2 Million and also developed a more efficient long stroke snubbing unit.

The company has capital restructuring plans including funding of increased capital from AREF Energy in 2013, which will strengthen Nordic's balance sheet. Company is currently considering a number of projects in the GCC region.



Al Meshari Heavy Equipment Trading (MHET) is a general selling and rental service provider in UAE, which was established in 2003.

MHET main line of business is trading and rental of diesel power generators. The company is authorized to engage in general selling and rental services of construction equipment & machinery, handling loading & lifting equipment, pumps, engines, generators and scaffolds. MHET also manufacture soundproof canopies and diesel storage tanks.

During the year, MHET built headquarters including new workshop and storage facility in Dubai, UAE and established a new office in Abu Dhabi to target the oil sector. MHET has projected potential revenue of AED 15 Million in 2013 comprising rental and sales of generators.



Synfuels International Inc. is a privately held company incorporated in 1999 in the State of Texas for the purpose of developing and deploying a worldwide revolutionary technology for the conversion of natural gas to liquid or to ethylene (GTL/GTE).

The technology was invented at the world-renowned Texas A&M Chemical Engineering department. Synfuels Gas-To-Liquid (GTL) or Gas-To-Ethylene (GTE) is a breakthrough innovative green technology developed with an intention to reduce and if possible, to completely prevent the flaring of natural gas into the atmosphere.

The technology has now matured and current efforts are aimed at increasing Synfuels capital by attracting outside investors to fund building a commercial GTE plant in the US.

Talks are underway with Iraqi officials to exploit Synfuels technology in establishing a Gas to Liquid plant in Basra. Although these talks are at a preliminary stage, the Iraqi party has been demonstrating increasing interest and we are hopeful of starting a more developed relationship in this matter in the near future.



Kitara OFIL, Special Purpose Vehicle based in Mauritius is holding 35.4% stake in Oilfield Instrumentation (India) Pvt Ltd (OFIL) and AREF Energy is holding 36.36% stake in Kitara OFIL.

OFIL business started in 2000 as a manufacturer for mud logging units and mud logging services provider. Mud logging is described as real time well site information service to the exploratory drilling industry.

OFIL is the largest mud logging and allied service provider for oil and gas exploration in India. It has extensive experience in all formation wells in India and abroad.

OFIL has in-house Mud Logging Units (MLUs), an expert crew and experience in providing mud-logging services in all forms of oil drilling such as onshore, offshore and deep water among others.

OFIL has also developed several high-end software and instrumentation solutions for companies in the exploration and production sector.

Recently, OFIL forayed in the airborne survey business with an economic interest of 55% in McPhar International based in Singapore and Canada.

AREF Energy had received three dividends and amounts equal to USD 160 thousand (KD 45 thousand) during the year 2012.



During the year, AREF Energy incorporated a wholly owned subsidiary 'AREF Energy International Ltd.', an exempted limited liability company incorporated in Cayman Islands.

This subsidiary has invested in Kerogen Energy Fund ("Fund") through a Limited Partnership Fund- Al Taqa Fund L.P., a fund incorporated in Cayman Islands by Kerogen Al Taqa Capital Limited with total capital contribution commitment of USD 20 Million.

The Fund has an investment strategy of investing in junior oil and gas sector in small to mid-sized upstream companies, focuses on growth and emerging basins and with investment returns of three times multiple of invested capital and gross IRR in excess of 30% on its investments.



In 2005, Kuwait Energy was established in Kuwait with the aim of creating a Middle East based private oil and gas Company.

Kuwait Energy is one of the most successful independent exploration and production operating from the Middle East with key relationships and superior access to significant Middle Eastern asset opportunities.

Kuwait Energy has currently a diverse portfolio of oil and gas assets and is focused on exploration, production and development of oil and gas reserves in the MENA and Eurasia regions with participation interests range from 15% to 100% across exploration and producing assets. As of September 2012, Kuwait Energy has 25 licensed blocks with operatorship in 14 of them.

Kuwait Energy registered 17,520 barrels of oil equivalent per day (Boepd) on a daily average working interest in production in Q3 of 2012 and which is growing on quarterly basis.

Revenue for the first nine-month period for 2012 was USD 174 Million, which is approximately 28% higher than previous period, mainly due to higher production volumes.

As at 31 December 2011, Kuwait Energy is working interest proven and probable reserves (2P) are 235.3 mmboe. Received dividend of 4.5 pence per share in quarter 2 of 2012



Saudi Makamin Oil & Gas Services Company is a Saudi based integrated oil and gas services company established in June 2008 with a capital of SAR 1.2 billion.

Since inception, Makamin has worked with various entities to conduct thorough market analysis and due diligences to guarantee having a solid foundation in order to efficiently accomplish its ambitions.

The company has established a good foot step within Saudi Aramco and begun winning tenders. The company's performance received number of awards from Saudi Aramco.

Total revenue of Makamin in the first nine months of 2012 is Saudi Riyal 78.5 Million and is expected to exceed the total revenue reported in 2011 of Saudi Riyal 84 Million.

Seeking 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 initiatives that seek to achieve the best results and continuous progress.