



Annual Report 2014

Energy House Holding Co.



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Company Information

The Energy House Holding Company K.S.C.P. (“Energy House” or “Company”) previously known as AREF Energy Holding Co. K.S.C.C. 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. Energy House was formed in September 2007 as a subsidiary of AREF Investment Group (AIG). Development Enterprises Holding Co. K.S.C. (Closed) (“DEH”) (fully owned by Kuwait Finance House) is the parent company by virtue of its acquisition in August 2012 and holding 95.77% equity interest in the Company. Energy House spearheads DEH’s objectives in the strategically energy business sector.

The ultimate parent company, Kuwait Finance House (“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.

Our Business

Energy House is a Sharia compliant investment holding company, playing an active investor role into the medium to long-term holding horizons. The company adheres to a clear investment philosophy with defined geographical scope 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

Regional leader and most trusted Sharia compliant investment holding company in energy sector.

Mission

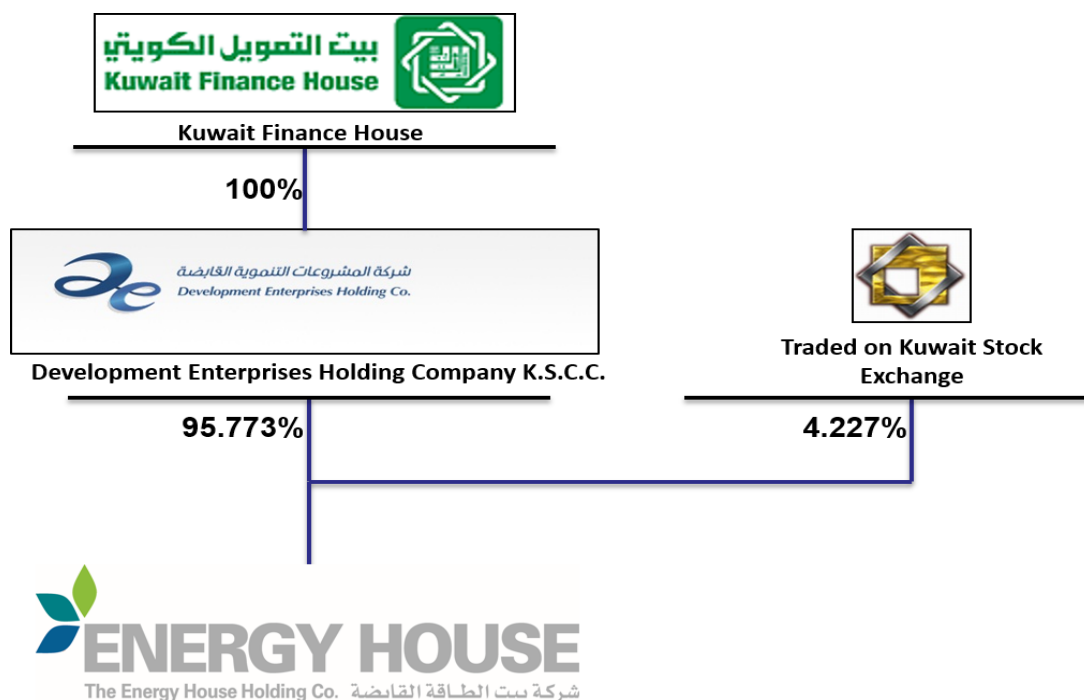
Capitalize on our regional and global experience to develop, acquire and manage investments in Energy Sector that have potential for value creation, growth, and optimum risk exposure to enhance our stakeholders' interest.

Shared Values

We adhere to a clear set of values, which involves creating economic value by addressing society's needs and challenges, that will drive our operating principles, business ambitions and the way we are working to achieve economic success.



Shareholding Structure



Corporate Structure





Our Geographical Presence & Investment Distribution



Board of Directors

Mr. Sa'ad A. Al-Shuwaib

Chairman

Sa'ad A. Al-Shuwaib holds Master's Degree in Mechanical Engineering from University of Wisconsin, USA.

Mr. Al-Shuwaib has over 33 years of experience in the Oil and Gas Industry.

From 1978 up to 2001, Mr. Al-Shuwaib worked for Petrochemical Industry Company (PIC).

In 1999, he was selected as a Vice President and Executive Assistant to Managing Director of Administration and Projects affairs and, Chairman of Equate Petrochemicals Company.

In 2001, he was nominated as a Chairman and Managing Director of PIC. In 2007, Mr. Al-Shuwaib moved to Kuwait Petroleum Corporation (KPC) as Deputy Chairman and Chief Executive Officer of KPC.

**Khalid Al-Sumaiti**

Vice Chairman

Mr. Al-Sumaiti holds a BS in Geology from Kuwait University, and joined Kuwait Oil Company in 1978. His experience was developed in geosciences, and includes extensive contributions to the Kuwait upstream business

Since 1978 and up to Dec 2012 Mr. Al-Sumaiti worked at Kuwait Oil Company for over 34 years of experience in the Oil and Gas Industry.

In 2005, he occupied the position of Deputy Managing Director (North Kuwait). Then in 2007 he nominated as Deputy Managing Director (Exploration & Prod. Dev.), Kuwait Oil Company.

Mr. Al-Sumaiti was an active member in several committees such as Incidents Investigation Evaluation Committee across KPC, Leadership Committee in KOC, he was also a board member in Kuwait National Petroleum Corporation and in Kuwait foreign petroleum exploration company.

Musaed T. Al Emairi

Board Member

Musaed T. Al Emairi holds a Master's Degree in Business Administration from the University of New Haven, USA, 1982 and a BS in Marketing from the Kuwait University, Kuwait 1979.

Mr. Alemairi is specialized in the fields of Marketing and Business Management having exposure to various businesses and industries in addition to some academic positions in education field.

Mr. Alemairi joined Kuwait Petroleum Corp in the year 1984 and held the position of the General Manager of Kuwait Petroleum Corp's Tokyo Branch while keeping his involvement in international marketing of Kuwait's hydrocarbons until 1998. When he moved on to work with The Independent Petroleum Group "a leading privately run oil trader", Mr. Alemairi held the responsibility of marketing which covers petroleum trading, shipping, technical support.

Presently, he runs his own private business in Kuwait and abroad and actively participates in various private organizations as a board and administrative committee's member.

**Jamal A. Al-Nouri**

Board Member

Jamal A. Al-Nouri holds a BSc in Industrial Engineering and Operational Research Syracuse University N.Y, USA.

Mr. Al-Nouri has over 30 years of experience in the Oil sector. He handled a numerous position at Kuwait Petroleum Corporation. In 2007, Mr. Al-Nouri nominated as Managing Director Planning at Kuwait Petroleum Corporation. In 2004, held the position of Managing Director International Marketing.

He was selected for several Board Membership in Oil & Gas including:

- From 2004 up to 2007 in Kuwait Petroleum Corporation
- From 2007 up to 2011 in Kuwait Oil Company

Currently, Mr. Al-Nouri is the General Manager of Shiekh Abdullah Al-Nouri Society.

Hussein Esmail Mohammed Esmail

Board Member

BSC Chemical Engineering, University of Wisconsin

After graduating in 1977, Hussain joined Kuwait Oil Company (KOC) Refining Sector which was later transferred to Kuwait National Petroleum Company (KNPC). Following senior management positions in refineries in Kuwait, he was appointed chairman and managing director of Kuwait Petroleum International (KPI) in 2007.

Hussain led the KPI team in planning and implementing the \$9 billion Vietnam Refinery & Petrochemical Project (NSRP), a multinational joint venture. He also led KPI's continuing efforts to develop a refinery and petrochemical plant in China, in joint venture with SINOPEC. In the retail sector, he directed KPI's merger of its operations in Denmark and Sweden, and the team that acquired Shell's retail assets in Italy.

He was a board member of KNPC, PIC and KPI subsidiary companies in Europe and Asia, as well as chairman of the NSRP Members' Council.



Chairman's Message

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 The Energy House Holding Company, I welcome and thank you for attending to present a general overview on the market outlook along with the Company's performance in 2014.

We are pleased to present to you the seventh annual report of The Energy House Holding Company K.S.C.P. which reviews main developments and achievements of the Company during the year 2014. The report also brings out the operating results for year ended 31 December 2014 and explores the future prospects with the continuing challenges in the global economic scenario and its impact on local and international markets.

Energy House is supported by a strong ownership structure; the primary shareholder is Development Enterprises Holding Co. K.S.C. (Closed) ("DEH"), which is a 100% owned subsidiary of Kuwait Finance House ("KFH"). Energy House has long-term investments in the energy sector with focus on upstream services, Engineering Procurement and Contracting (EPC), and exploration and production (E&P) assets in MENA/GCC region.

With the current fluctuations in oil price, overall outlook remains negative in 2015 due to lower demand and oversupply. However, the Organization of the Petroleum Exporting Countries (OPEC) has indicated that the world economic growth for 2014 and 2015 remains unchanged at 3.2% and 3.6% respectively. For 2015, they have estimated that world oil demand is expected to increase by 1.12mb/day, with total world oil demand expected to reach 92.26mb/day. Non-OPEC oil supply is expected to increase by 1.36mb/day to 57.31mb/day and OPEC Natural gas liquid (NGL) and non-conventional liquids are estimated to increase by 0.20mb/day to 6.03mb/day.

According to Arab Petroleum Investments Corporation (APICORP) brief, the energy capital investments for the 5-year period 2015-19 is estimated at USD 755 billion in



MENA region. The review indicates that a little more than three-quarters of these investment are in seven Arab countries and Saudi Arabia continues to top the ranking. Due to lingering socio-political turmoil and prevailing geo-political constraints, investment remains below potential. The three major issues that continue to confront project sponsors are rising costs, scarcity of natural gas supply and funding limitations and of the three, the latter remains the most critical.

The financial statements of Energy House for 2014 is represented by taking necessary precautions and prudent steps in impairments that contributed in strengthening the statement of financial position, however this has an impact on the income statement by recording net losses attributable to shareholders' of the Company of KD 1.76 Million (loss per share of 2.35 fils), mainly non-cash. The total assets of the Company has reduced marginally by 1.5% to KD 76.68 Million and significant decline in total liabilities by 24.2% to KD 7.89 Million. The net assets of the Company is KD 62.7 Million, which translates in book value of 84 fils per share.

Energy House continues to pursue its strategic focus into the energy sector and in businesses that are in medium to high growth stages. The financial and operational performance for the year ended 31 December 2014 clearly indicates that the Company is on a growth path and shall sustain its position in the energy investments holding segment. There is a gradual strengthening of Company's growth focused investment portfolio.

It is also important to highlight the concerted efforts of the Company to grow and to improve the efficient conduct of its business. The Company is business focused in EPC contracting, upstream services and Exploration and Production (E&P). Energy House objective is to divest from certain existing investments since management believes that growth prospects in EPC, E&P and upstream service business are immense in MENA region.

Energy House objective is to remain invested in companies which are well-integrated, efficiently operated and yielding positive cash flows.



In conclusion, I would like to extend my thanks, deep appreciation and gratitude to the members of the Board of Directors, Sharia advisor, the Executive management for their support and efforts, employees of the Company for their hard work and to all the shareholders' of Energy House Holding Co., who have shown confidence and continued support to our initiatives that seek to achieve the best results and continuous progress.

May Allah's peace, blessings and mercy be upon you.

Sa'ad A. Al-Shuwaib



Management Report

The management report reflects the Company's performance during the fiscal year 2014 and analysis of the financial position as at 31 December 2014. The analysis is based on the audited financial statements for the fiscal year 2014.

The main focus during the year under review was to maintain portfolio quality and gradual strengthening of Energy House's growth focused investment portfolio 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. We are pleased to report that all major investments had shown improved performance during 2014. We were also able to manage company investments in Sudan efficiently and took initiatives to turn their performance around, although Sudan still posed challenges due to the harsh market and socio-political issues existing in the nation.

Energy House result for 2014 reflects losses of KD 1.761 Million attributable to its shareholders. The company is striving to divest from underperforming entities and further utilize the proceeds in investing in cash generating entities in the energy sector.

Financial Indicators

	2014 KD	2013 KD
Revenues	13,371,050	16,808,009
Cost of revenue	(10,649,064)	(12,831,572)
Gross Profit	2,721,986	3,976,437
Other income	1,702,310	5,273,264
Other expenses	(5,812,422)	(7,638,484)
Consolidated Net (loss)/profit	(1,388,126)	1,611,217
Net (Loss)/profit attributable to shareholders of the Company	(1,760,826)	1,135,846
Total Assets	76,682,806	77,885,263
Shareholders' Equity	62,716,129	62,585,442
(Loss)/earning per share (Fils)	(2.35)	1.51

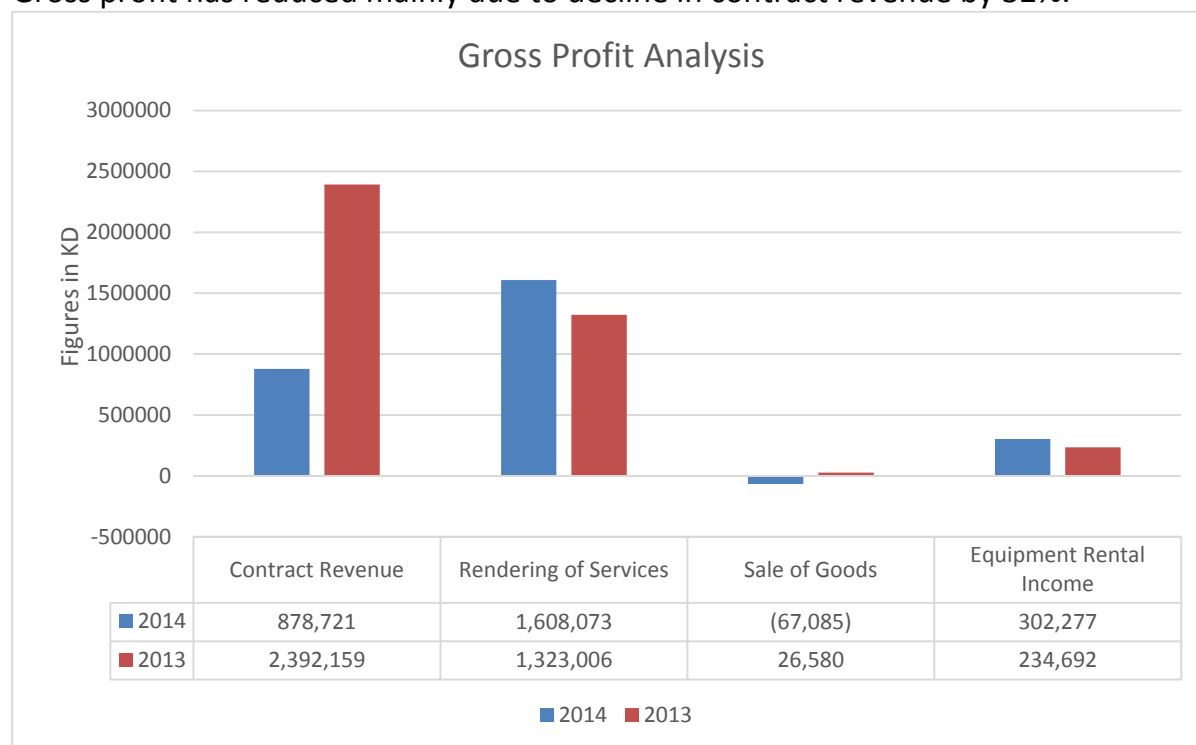


The provision for Board of Directors remuneration for the year 2014 is KD 25,000 and is subject to approval of the Annual General Assembly of the Shareholders.

The above results are attributed to the equity holders of Energy House and includes share of operational profits or losses of company's subsidiaries and share of results of its associates.

Gross Profit

Gross profit has reduced mainly due to decline in contract revenue by 32%.

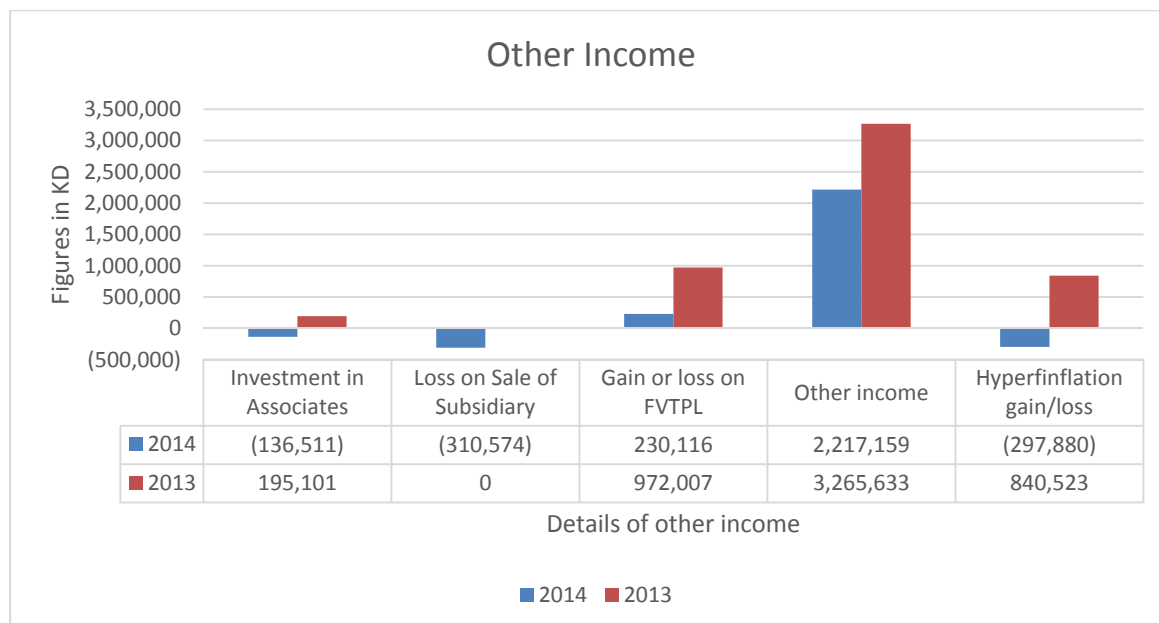


Other Income

Other income for 2014 is KD 1.702 Million (2013: KD 5.273 Million). Other income of KD 2.4 Million is mainly represented by gain on sale of leasehold property, gain on fair value of a Shaira compliant fund, foreign exchange gain, receipt of pre-acquisition dividends and rental income from investment property. This is offset by total losses of KD 0.7 Million represented by loss on sale of a subsidiary, share of results in associates and hyperinflation loss.

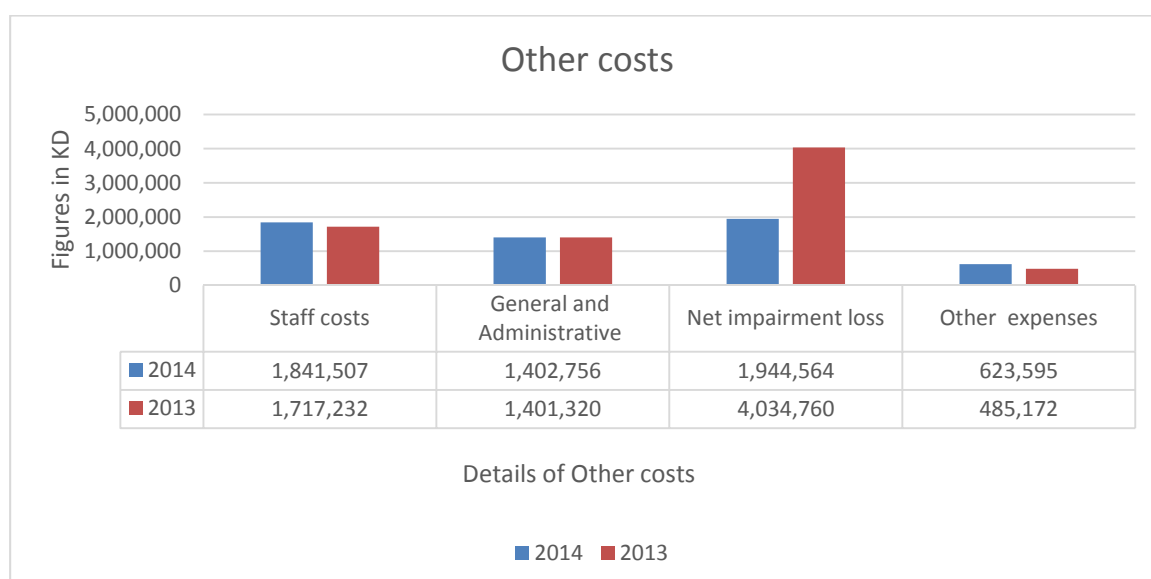


Higher income in 2013 was mainly due to foreign exchange gain, fair value gain on investment property, share of profits in associates and hyperinflation gain.



Other Costs

Other costs for 2014 is KD 5.812 Million (2013: KD 7.638 Million) and the costs is represented by staff costs of KD 1.8 Million, General & administrative costs of KD 1.4 Million, net impairment loss of KD 1.9 Million and taxation on foreign entities of KD 0.5 Million. However, it is much lower than last year mainly due to higher impairment losses of KD 4 Million in 2013.



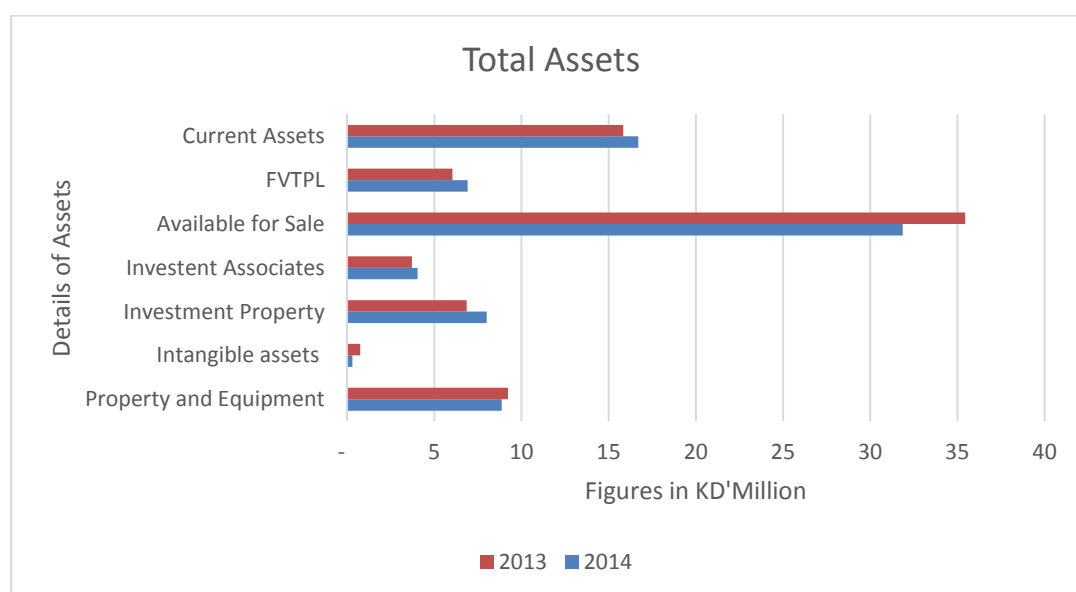


Total Assets

Total assets of KD 76.683 Million (2013: KD 77.885 Million) mainly comprise Available for Sale investments of KD 31.8 Million in Kuwait Energy Company Plc, Jersey ("Kuwait Energy") and Saudi Makamin Company for Oil and Gas Services, Saudi Arabia ("Makamin").

Kuwait Energy is one of the successful independent exploration and production (E&P) operating from the Middle East with superior access to significant Middle Eastern asset opportunities. However, based on the available cash flow projections, an impairment of KD 3.6 Million was considered during the year.

The allocation of assets for past two years is as follows:

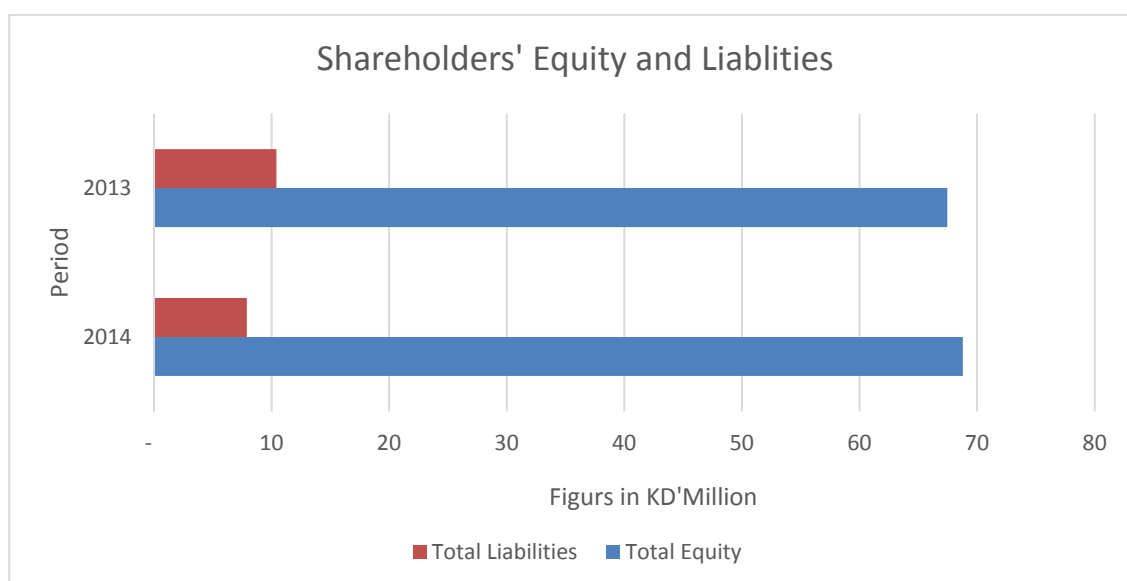


Shareholders' Equity and liabilities

Total equity is KD 68.792 Million (2013: KD 67.465 Million), representing 89.7% (2013: 86.6%) of total capital employed. The overall reduction of liabilities during 2014 is mainly on account of settlement of KD 1.526 towards outstanding murabaha.



The shareholders equity and liabilities, are illustrated as follows:





Sharia'a Report

For the Year ended 31 Dec 2014



التاريخ: 10 فبراير 2015

السادة / مساهمي شركة بيت الطاقة القابضة
شركة مساهمة كويتية عامة

تحية طيبة وبعد ،،،

الموضوع: تقرير هيئة الفتوى والرقابة الشرعية

بعد اطلاع الهيئة على البيانات المالية والتقرير المقدم من شركة بيت الطاقة القابضة، وبناءً على تقرير المراقب الشرعي، فإن الهيئة تقر بأن أنشطة وأعمال الشركة خلال السنة المالية المنتهية في 31 ديسمبر 2014 موافقة لأحكام الشريعة الإسلامية.

التوقيع	أعضاء الهيئة
	1- د. سعد السعيد
	2- د. أنور شبيب
	3- د. علي السعيد



Audited financial statements

For the Year ended 31 Dec 2014

**THE ENERGY HOUSE HOLDING
COMPANY K.S.C.P.
AND SUBSIDIARIES**

**Consolidated Financial Statements and Independent
Auditors' report for the year ended 31 December 2014**

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

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BOUBYAN Auditing Office
محاسبون قانونيون - مستشارون ماليون

Boubyan Auditing Office
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Kuwait
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Independent auditors' report

**To the Shareholders of
The Energy House Holding Company K.S.C.P.
State of Kuwait**

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The Energy House Holding Company K.S.C.P. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statements of profit or loss, comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

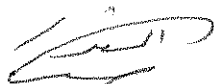
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2014, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

We further report that we have obtained the information and explanations that we required for the purpose of our audit and that the consolidated financial statements include the information required by the Companies Law No. 25 of 2012, as amended, and its Executive Regulations and the Company's Articles and Memorandum of Association. In our opinion, proper books of account have been kept by the Company, an inventory count was carried out in accordance with recognised procedures and the accounting information given in the Board of Directors' report agrees with the books of account. We have not become aware of any contravention, during the year ended 31 December 2014, of the Companies Law No. 25 of 2012, as amended, and its Executive Regulations or of the Company's Articles and Memorandum of Association, that might have had a material effect on the Company's activities or on its consolidated financial position.



Safi A. Al-Mutawa
License No. 138 "A"
of KPMG Safi Al-Mutawa & Partners
Member firm of KPMG International



Yahia Abdullah Al-Foudri
License No 83 "A"
of Boubyan Auditing Office

Kuwait: 25 January 2015

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

Consolidated statement of financial position

As at 31 December 2014

	Notes	31 December 2014 KD	31 December 2013 KD
ASSETS			
Non-current assets			
Property and equipment	4	8,864,202	9,229,509
Intangible assets and goodwill	5	306,882	751,551
Investment property	6	8,001,328	6,860,446
Investment in associates	7	4,041,115	3,718,951
Financial assets available for sale	8	31,863,404	35,444,249
Financial assets at fair value through profit or loss	9	6,910,008	6,043,473
		<u>59,986,939</u>	<u>62,048,179</u>
Current assets			
Inventories		1,704,222	1,685,321
Accounts receivable and other assets	10	9,280,938	7,904,730
Bank balances, cash and term deposits	11	5,710,707	6,247,033
		<u>16,695,867</u>	<u>15,837,084</u>
Total assets		<u>76,682,806</u>	<u>77,885,263</u>
EQUITY			
Share capital	12	75,000,000	75,000,000
Share premium	12	193,550	193,550
Statutory reserve	12	472,723	472,723
Voluntary reserve	12	314,957	314,957
Other reserves	12	(812,986)	(488,728)
Foreign currency translation reserve		(903,050)	(1,526,838)
Fair value reserve		28,115	28,115
Accumulated losses		(11,577,180)	(11,408,337)
Equity attributable to shareholders of the Company		<u>62,716,129</u>	<u>62,585,442</u>
Non-controlling interests	13	6,075,685	4,879,584
Total equity		<u>68,791,814</u>	<u>67,465,026</u>
LIABILITIES			
Non-current liabilities			
Finance lease liabilities		-	18,742
Provision for staff indemnity		628,938	503,105
		<u>628,938</u>	<u>521,847</u>
Current liabilities			
Accounts payable and other liabilities	14	7,187,257	8,151,594
Finance lease liabilities		74,797	220,805
Murabaha payables	15	-	1,525,991
		<u>7,262,054</u>	<u>9,898,390</u>
Total liabilities		<u>7,890,992</u>	<u>10,420,237</u>
Total equity and liabilities		<u>76,682,806</u>	<u>77,885,263</u>

Saad Ali Al Shuwaib
Chairman

Musaed T. Al Emairi
Board Member

The accompanying notes set out on pages 8 to 50 form an integral part of these consolidated financial statements.

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

Consolidated statement of profit or loss
For the year ended 31 December 2014

	Notes	2014 KD	2013 KD
Revenue			
Contract revenue		7,650,486	11,250,701
Rendering of services		5,177,337	4,971,203
Sale of goods		70,588	155,506
Equipment rental income		472,639	430,599
		<u>13,371,050</u>	<u>16,808,009</u>
Cost of revenue			
Contract costs		(6,771,765)	(8,858,542)
Cost of rendering of services		(3,569,264)	(3,648,197)
Cost of sale of goods		(137,673)	(128,926)
Cost of renting equipment		(170,362)	(195,907)
		<u>(10,649,064)</u>	<u>(12,831,572)</u>
Gross profit		<u>2,721,986</u>	<u>3,976,437</u>
Other income	17	1,085,345	905,702
Loss on sale of a subsidiary	13	(310,574)	-
Unrealised gain on financial assets at fair value through profit or loss	9	146,721	988,011
Realized loss on sale of financial assets at fair value through profit or loss		-	(16,004)
Gain on deemed disposal of financial assets at fair value through profit or loss	9	83,395	-
Rental income from investment property	6	368,759	351,421
Fair valuation gain on investment property	6	-	945,774
Staff costs		(1,841,507)	(1,717,232)
General and administrative expenses		(1,402,756)	(1,401,320)
Net impairment loss	18	(1,944,564)	(4,034,760)
Foreign exchange gain	19	725,735	1,003,955
Amortization of intangible assets	5	(89,222)	(97,797)
Operating (loss) / profit		<u>(456,682)</u>	<u>904,187</u>
Finance costs		(60,422)	(135,886)
Finance income		37,320	58,781
Gain on deemed disposal of associate	7	5,241	10,822
Share of results from associates	7	(141,752)	184,279
Monetary (loss) / gain from hyperinflation	24	(297,880)	840,523
(Loss) / profit for the year before taxation		<u>(914,175)</u>	<u>1,862,706</u>
Taxation on foreign operations		(448,951)	(214,677)
(Loss) / profit for the year before provision for contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), National Labor Support Tax ("NLST"), Zakat and Board of Directors' remuneration		<u>(1,363,126)</u>	<u>1,648,029</u>
Provision for contribution to KFAS, NLST and Zakat	20	-	(11,812)
(Loss) / profit for the year before Board of Directors' remuneration		<u>(1,363,126)</u>	<u>1,636,217</u>
Board of Directors' remuneration		(25,000)	(25,000)
Net (loss) / profit for the year		<u>(1,388,126)</u>	<u>1,611,217</u>
Attributable to:			
Shareholders of the Company		(1,760,826)	1,135,846
Non-controlling interests	13	372,700	475,371
		<u>(1,388,126)</u>	<u>1,611,217</u>
Basic and diluted (loss) / earning per share attributable to shareholders of the Company (fils)	21	<u>(2.35)</u>	<u>1.51</u>

The accompanying notes set out on pages 8 to 50 form an integral part of these consolidated financial statements.

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

Consolidated statement of comprehensive income

For the year ended at 31 December 2014

	2014 KD	2013 KD
Net (loss) / profit for the year	<u>(1,388,126)</u>	<u>1,611,217</u>
Other comprehensive income		
<i>Items that are or may be reclassified subsequently to the consolidated statement of profit or loss</i>		
Foreign currency translation reserve recycled to the consolidated statement of profit or loss	(32,309)	-
Share of foreign currency translation reserve of associates	(106,299)	(365,183)
Exchange differences arising on translation of foreign operations	955,777	(2,785,207)
Change in fair value of financial assets available for sale	-	3,756
<i>Total items that are or may be reclassified subsequently to the consolidated statement of profit or loss</i>	<u>817,169</u>	<u>(3,146,634)</u>
Total other comprehensive income / (loss) for the year	<u>817,169</u>	<u>(3,146,634)</u>
Total comprehensive loss for the year	<u>(570,957)</u>	<u>(1,535,417)</u>
Attributable to:		
Shareholders of the Company	(1,137,038)	(987,539)
Non-controlling interests	566,081	(547,878)
	<u>(570,957)</u>	<u>(1,535,417)</u>

The accompanying notes set out on pages 8 to 50 form an integral part of these consolidated financial statements.

**THE ENREGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

Consolidated statement of cash flows

For the year ended 31 December 2014

	Notes	2014 KD	2013 KD
Cash flows from operating activities			
Net (loss) / profit for the year		(1,388,126)	1,611,217
<i>Adjustments for:</i>			
Rental income from investment property	6	(368,759)	(351,421)
Fair valuation gain on investment property	6	-	(945,774)
Share of results of associates	7	141,752	(184,279)
Gain on disposal of property and equipment		(503,095)	(434,370)
Depreciation and amortization	4 & 5	1,049,695	1,288,576
Net impairment loss	18	1,944,564	4,034,760
Unrealised gain on financial assets at fair value through profit or loss	9	(146,721)	(988,011)
Realized loss on sale of financial assets at fair value through profit or loss		-	16,004
Gain on deemed disposal of financial assets at fair value through profit or loss	9	(83,395)	-
Loss on sale of a subsidiary	13	310,574	-
Gains on deemed disposal of associate	7	(5,241)	(10,822)
Monetary loss / (gain) from hyperinflation	24	297,880	(840,523)
Taxation		448,951	226,489
Finance costs		60,422	135,886
Provision for staff indemnity		141,852	111,957
		<u>1,900,353</u>	<u>3,669,689</u>
<i>Changes in:</i>			
Inventories		446,073	(139,580)
Accounts receivable and other assets		537,430	964,600
Accounts payable and other liabilities		(1,352,319)	(4,048,919)
Cash from operations		<u>1,531,537</u>	<u>445,790</u>
Provision for staff indemnity paid		(13,645)	(21,018)
Taxes paid		(10,975)	-
Net cash generated from operating activities		<u>1,506,917</u>	<u>424,772</u>
Cash flows from investing activities			
Net movement in restricted bank balances and deposits		461,965	169,766
Investment in wakala deposits		-	(1,050,000)
Withdrawal from wakala deposits		-	1,303,900
Acquisition of additional interest in subsidiary	13	-	(34,332)
Purchase of investments at fair value through profit or loss	9	(420,145)	(27,997)
Proceeds from sale of investments at fair value through profit or loss			15,204
Purchase of property and equipment		(1,074,508)	(1,919,487)
Proceeds from disposal of property and equipment		716,096	520,373
Dividend income received from associates		30,339	-
Rental income received		368,759	351,421
Net cash generated from / (used in) investing activities		<u>82,506</u>	<u>(671,152)</u>
Cash flows from financing activities			
Finance costs paid		(60,422)	(239,198)
Net movement in murabaha payables		(1,509,991)	(1,000,000)
Net movement finance lease liabilities		(153,659)	(329,006)
Net cash used in financing activities		<u>(1,724,072)</u>	<u>(1,568,204)</u>
Effect of foreign currency translation		60,288	(121,995)
Net decrease in cash and cash equivalents		<u>(74,361)</u>	<u>(1,936,579)</u>
Cash and cash equivalents at beginning of the year		3,365,726	5,302,305
Cash and cash equivalents at end of the year	11	<u>3,291,365</u>	<u>3,365,726</u>

The accompanying notes set out on pages 8 to 50 form an integral part of these consolidated financial statements.

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

Consolidated statement of changes in equity
For the year ended 31 December 2014

	Share capital KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	Other reserves KD	Foreign currency translation reserve KD	Fair value reserve KD	Accumulated losses KD	Equity attributable to shareholders of the Company KD	Non-controlling interests KD	Total equity KD
Balance at 1 January 2014	75,000,000	193,550	472,723	314,957	(488,728)	(1,526,838)	28,115	(11,408,337)	62,585,442	4,879,584	67,465,026
Net loss for the year	-	-	-	-	-	-	-	(1,760,826)	(1,760,826)	372,700	(1,388,126)
Other comprehensive income for the year	-	-	-	-	-	623,788	-	-	623,788	193,381	817,169
Total comprehensive loss for the year	-	-	-	-	-	623,788	-	(1,760,826)	(1,137,038)	566,081	(570,957)
Movement due to disposal of a subsidiary (note 13)	-	-	-	-	-	-	-	-	-	(580,050)	(580,050)
Deemed disposal of a subsidiary (note 13)	-	-	-	-	(324,258)	-	-	-	(324,258)	324,258	-
Hyperinflation adjustment (note 24)	-	-	-	-	-	-	-	1,591,983	1,591,983	885,812	2,477,795
Balance at 31 December 2014	75,000,000	193,550	472,723	314,957	(812,986)	(903,050)	28,115	(11,577,180)	62,716,129	6,075,685	68,791,814
Balance at 1 January 2013	75,000,000	193,550	472,723	314,957	(232,633)	598,961	25,701	(14,371,425)	62,001,834	4,154,652	66,156,486
Net profit for the year	-	-	-	-	-	-	-	1,135,846	1,135,846	475,371	1,611,217
Other comprehensive (loss) / income for the year	-	-	-	-	-	(2,125,799)	2,414	-	(2,123,385)	(1,023,249)	(3,146,634)
Total comprehensive loss for the year	-	-	-	-	-	(2,125,799)	2,414	1,135,846	(987,539)	(547,878)	(1,535,417)
Acquisition of additional interest in subsidiary (note 13)	-	-	-	-	(256,095)	-	-	-	(256,095)	256,095	-
Hyperinflation adjustment (note 24)	-	-	-	-	-	-	-	1,827,242	1,827,242	1,016,715	2,843,957
Balance at 31 December 2013	75,000,000	193,550	472,723	314,957	(488,728)	(1,526,838)	28,115	(11,408,337)	62,585,442	4,879,584	67,465,026

The accompanying notes set out on pages 8 to 50 form an integral part of these consolidated financial statements.

THE ENERGY HOUSE HOLDING COMPANY K.S.C.P. AND SUBSIDIARIES

Notes to the consolidated financial statements *For the year ended 31 December 2014*

1. Incorporation and activities

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

The principal activities of the Company are as follows:

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

The above activities of the Company and its subsidiaries (together "the Group") are organized in business units as explained in note 22.

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

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

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

The Annual General Assembly of the Company held on 26 March 2014, approved the following:

- consolidated financial statements of the Group for the year ended 31 December 2013; and
- no dividends for the year ended 31 December 2013.

These consolidated financial statements were approved for issue by the Board of Directors of the Company on 19 January 2015 and are subject to the approval of the Annual General Assembly of the shareholders.

2. Basis of preparation and significant accounting policies

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

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

Notes to the consolidated financial statements
For the year ended 31 December 2014

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

a) Basis of preparation

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

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

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

b) Statement of compliance

The consolidated financial statements have been prepared in accordance with the IFRS promulgated by the International Accounting Standards Board ("IASB"), interpretations issued by the International Financial Reporting Committee of the IASB, the requirements of the Companies Law No. 25 of 2012, as amended, and its Executive Regulations and the Company's Articles and Memorandum of Association and Ministerial Order No. 18 of 1990.

c) Revised and newly issued IFRS adopted by the Group

The Group has adopted the following revised and newly issued IFRS effective for annual periods beginning on or after 1 January 2014:

IFRS 10, IFRS 12 and IAS 27

Amendments were made to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interest in Other Entities and IAS 27 Separate Financial Statements to:

- provide 'investment entities' (as defined) an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 Financial Instruments or IAS 39 Financial Instruments: Recognition and Measurement;
- require additional disclosure about why the entity is considered an investment entity, details of the entity's unconsolidated subsidiaries, and the nature of relationship and certain transactions between the investment entity and its subsidiaries; and
- require an investment entity to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements (or to only provide separate financial statements if all subsidiaries are unconsolidated).

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

Notes to the consolidated financial statements

For the year ended 31 December 2014

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

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

IAS 32 Offsetting Financial Assets and Financial Liabilities

These amendments clarify the meaning of “currently has a legally enforceable right to set-off” and the criteria for non-simultaneous settlement mechanisms.

IAS 36 Impairment of Assets

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosures of the recoverable amounts for the assets or CGUs for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively and accordingly are considered while making disclosures for impairment of non-financial assets in the consolidated financial statements for the year ended 31 December 2014 and would continue to be considered for future disclosures.

IFRIC 21 Levies

IFRIC 21 addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37 ‘Provisions’. The interpretation addresses what the obligating event is that gives rise to pay a levy, and when should a liability be recognised.

The management anticipates that the above amendments have no significant financial impact on the consolidated financial statements of the Group.

d) Standards and interpretations not yet effective or adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

IFRS 11 (Amendments) – Accounting for Acquisitions of Interests in Joint Operations

The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business; the amendments place the focus firmly on the definition of a business, because this is key to determining whether the acquisitions accounted for as a business combination or as the acquisition of a collection of assets. The amendments are applied to annual financial statements beginning on or after 1 January 2016.

IAS 16 (Amendments) – Clarification of Acceptable Methods of Depreciation

The amendments explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset.

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

Notes to the consolidated financial statements
For the year ended 31 December 2014

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

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

IAS 38 (Amendments) – Clarification of Acceptable Methods of Amortisation

The amendments introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are “highly correlated”, or when the intangible asset is expressed as a measure of revenue

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 specifies how and when an entity recognises revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. The standard was issued in May 2014 and applies to annual financial statements beginning on or after 1 January 2017. The Group is in the process of assessing the impact on the financial statement.

IFRS 9 – Financial Instruments

IFRS 9, ‘Financial Instruments’, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity’s own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9’s full impact. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

e) Basis of consolidation

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

Subsidiaries

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

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

Notes to the consolidated financial statements
For the year ended 31 December 2014

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

e) Basis of consolidation (continued)

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

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

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

Loss of control

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

Business combinations

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

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

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

Notes to the consolidated financial statements

For the year ended 31 December 2014

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

e) Basis of consolidation (continued)

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

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

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

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

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

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

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

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

Acquisitions of non-controlling interests

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

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

Notes to the consolidated financial statements
For the year ended 31 December 2014

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

e) Basis of consolidation (continued)

Investment in associates

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

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

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

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

f) Foreign currency

Foreign currency transactions

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

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

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

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

Notes to the consolidated financial statements
For the year ended 31 December 2014

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

f) Foreign currency (continued)

Hyperinflationary economy

The financial statements of subsidiary companies whose functional currency is the currency of a hyperinflationary economy are adjusted for inflation in accordance with the procedures described in note 24 prior to their translation to Kuwaiti Dinars. Once restated, all items of the financial statements are converted to Kuwaiti Dinars using the closing exchange rate. Amounts shown for prior years for comparative purposes are not restated at consolidation level as the presentation currency of the Group is not of a hyperinflationary economy. On consolidation, the effect of price changes in the prior periods on the financial statements of the subsidiary has been recognized directly in the consolidated statement of changes in equity.

To determine the existence of hyperinflation, the Group assesses the qualitative characteristics of the economic environment of the country, such as the trends in inflation rates over the previous three years.

The financial statements of subsidiaries whose functional currency is the currency of a hyperinflationary economy are adjusted to reflect the changes in purchasing power of the local currency, such that all items in the statement of financial position not expressed in current terms (non-monetary items) are restated by applying a general price index at the reporting date and all income and expenses are restated quarterly by applying appropriate conversion factors as defined in note 24.

Foreign operations

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

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

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

Notes to the consolidated financial statements
For the year ended 31 December 2014

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

f) Foreign currency (continued)

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

g) Financial instruments

i) *Non-derivative financial assets*

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

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

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

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

Loans and receivables

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

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

Cash and cash equivalents

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

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

Notes to the consolidated financial statements
For the year ended 31 December 2014

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

g) Financial instruments (continued)

Available for sale financial assets

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

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

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

Financial assets at fair value through profit or loss

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

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

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

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

ii) *Non-derivative financial liabilities*

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

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

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

Notes to the consolidated financial statements
For the year ended 31 December 2014

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

g) Financial instruments (continued)

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

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

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

Trade payables

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

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

Offsetting

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

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

h) Inventories

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

**THE ENERGY HOUSE HOLDING COMPANY K.S.C.P.
AND SUBSIDIARIES**

Notes to the consolidated financial statements
For the year ended 31 December 2014

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

i) Property and equipment

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

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

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

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

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

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

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

j) Leases

Leased assets

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

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

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

j) Leases (continued)

Lease payments

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

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

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

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

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

k) Intangible assets

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

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

l) Investment properties

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

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

l) Investment properties (continued)

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

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

m) Provisions

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

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

n) Impairment

i) *Non-derivative financial assets*

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

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

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

n) Impairment (continued)

Financial assets measured at amortised cost

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

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

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

Available for sale financial assets

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

ii) *Non financial assets*

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

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

n) Impairment (continued)

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

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

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

o) Term debt

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

p) Provision for staff indemnity

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

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

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

q) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

The specific revenue recognition criteria applied to significant elements of revenue is set out below:

Construction contracts

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

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

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

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

Sale of goods

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

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

q) Revenue recognition (continued)

Rendering of services

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

Rental income

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

Dividend income

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

Sales of equipment

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

r) Taxation

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

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

s) Zakat, KFAS and NLST

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

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

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

t) Finance costs

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

u) Contingencies

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

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

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical judgements in applying accounting policies

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

Impairment of inventories

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

Classification of investments

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

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

Measurement of fair values

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

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

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

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on inputs used in the valuation techniques (note 27).

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

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

Impairment of investments

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

Finance lease

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

Estimated cost on uncompleted contracts

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

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

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 Group's management to determine the level at which reasonable estimates can be reached.

Key sources of estimation uncertainty

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

Impairment of receivables

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

Fair value of unquoted equity investments

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

Impairment of goodwill

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

Impairment of property and equipment and intangible assets

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

Impairment of non-financial assets and useful lives

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

The Group's management determines the useful lives and the related depreciation and amortisation charge. The depreciation and amortisation charge for the year will change significantly if actual life is different from the estimated useful life of the asset.

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4. Property and equipment

	Land	Buildings and leasehold properties	Furniture, fixtures and office equipment	Motor vehicles and equipment	Capital work-in progress	Total
Cost	KD	KD	KD	KD	KD	KD
Balance at 1 January 2013	1,230,000	1,120,458	291,907	10,182,888	66,798	12,892,051
Additions	-	5,687	26,890	1,841,078	45,832	1,919,487
Disposals	-	-	(371)	(547,904)	-	(548,275)
Currency translation effects	-	(188,703)	(8,274)	(2,233,933)	(14,972)	(2,445,882)
Balance at 31 December 2013	1,230,000	937,442	310,152	9,242,129	97,658	11,817,381
Additions	-	110,423	51,642	863,246	49,197	1,074,508
Transfers	-	45,832	-	-	(45,832)	-
Disposals	-	(256,251)	(78)	-	(22,665)	(278,994)
Assets related to a disposed-off subsidiary (note 13)	-	(174,617)	(15,509)	(916,669)	(26,532)	(1,133,327)
Currency translation effects	-	34,509	3,113	398,071	1,780	437,473
Balance at 31 December 2014	1,230,000	697,338	349,320	9,586,777	53,606	11,917,041
Accumulated depreciation						
Balance at 1 January 2013	-	285,614	121,524	6,069,009	-	6,476,147
Charge for the year	-	63,891	70,497	1,012,175	-	1,146,563
Related to disposals	-	-	(43)	(462,229)	-	(462,272)
Currency translation effects	-	(38,404)	(3,982)	(1,980,829)	-	(2,023,215)
Balance at 31 December 2013	-	311,101	187,996	4,638,126	-	5,137,223
Charge for the year	-	53,284	72,893	797,174	-	923,351
Related to disposals	-	(65,993)	-	-	-	(65,993)
Accumulated depreciation related to a disposed-off subsidiary (note 13)	-	(30,816)	(7,289)	(312,394)	-	(350,499)
Currency translation effects	-	9,723	2,145	279,727	-	291,595
Balance at 31 December 2014	-	277,299	255,745	5,402,633	-	5,935,677

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4. Property and equipment (continued)

	Land KD	Buildings and leasehold properties KD	Furniture, fixtures and office equipment KD	Motor vehicles and equipment KD	Capital work-in progress KD	Total KD
Carrying amounts:						
At 31 December 2013 (before adjustment)	1,230,000	626,341	122,156	4,604,003	97,658	6,680,158
Impact of hyperinflation (note 24)						
Effect on depreciation	-	(3,945)	(409)	(39,862)	-	(44,216)
Change in carrying value	-	505,672	17,572	2,015,537	54,786	2,593,567
Hyperinflation at 31 December 2013	-	501,727	17,163	1,975,675	54,786	2,549,351
Adjusted balance at 31 December 2013	1,230,000	1,128,068	139,319	6,579,678	152,444	9,229,509
At 31 December 2014 (before adjustment)	1,230,000	420,039	93,575	4,184,144	53,606	5,981,364
Impact of hyperinflation (note 24)						
Opening hyperinflation at 1 January 2014	-	501,727	17,163	1,975,675	54,786	2,549,351
Effect on depreciation	-	(4,399)	(498)	(32,225)	-	(37,122)
Change in carrying value	-	(24,944)	8,211	345,714	41,628	370,609
Hyperinflation at 31 December 2014	-	472,384	24,876	2,289,164	96,414	2,882,838
Adjusted balance at 31 December 2014	1,230,000	892,423	118,451	6,473,308	150,020	8,864,202

Land is in Kuwait with a market value as at 31 December 2014 of KD 2,000,000 (2013: KD 1,750,000). Notwithstanding the contractual term of lease, management considers that, based on market experience, the lease is renewable indefinitely, at similar nominal rates of rent and with no premium payable for renewal of the lease. Consequently as is common practice in the State of Kuwait, these leases have been accounted for as freehold land.

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

	2014 KD	2013 KD
Cost of revenue	839,032	1,070,769
General and administration expenses	121,441	120,010
	<u>960,473</u>	<u>1,190,779</u>

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5. Intangible assets and goodwill

	Goodwill	Other intangible assets	Total
	KD	KD	KD
Cost			
As at January 2013	370,381	1,590,206	1,960,587
Currency translation effects	966	-	966
Balance at 31 December 2013	371,347	1,590,206	1,961,553
Sale of a subsidiary (note 13)	(368,003)	-	(368,003)
Currency translation effects	12,556	-	12,556
Balance at 31 December 2014	15,900	1,590,206	1,606,106
Accumulated amortisation			
Balance at 1 January 2013	-	1,112,205	1,112,205
Charge for the year	-	97,797	97,797
Balance at 31 December 2013	-	1,210,002	1,210,002
Charge for the year	-	89,222	89,222
Balance at 31 December 2014	-	1,299,224	1,299,224
Carrying amounts			
At 31 December 2013	371,347	380,204	751,551
At 31 December 2014	15,900	290,982	306,882

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

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

6. Investment property

	2014 KD	2013 KD
Balance at 1 January	6,860,446	7,676,967
Fair valuation gain on investment property	-	945,774
Currency translation effects	235,611	(1,720,700)
Effect of hyperinflation on fair valuation (note 24)	905,271	(41,595)
Balance at 31 December	8,001,328	6,860,446

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6. Investment property (continued)

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

	2014 KD	2013 KD
Rental income	<u>368,759</u>	<u>351,421</u>

The hierarchy for determining and disclosing the fair value of investment property by valuation technique is presented in note 27.

7. Investment in associates

Movement of investment in associates is as follows:

	2014 KD	2013 KD
Balance at 1 January	3,718,951	3,660,103
Share of results	(141,752)	184,279
Impairment (note 18)	-	(1,323,904)
Dividends received	(30,339)	-
Gain on deemed disposal	5,241	10,822
Currency translation effects	27,968	1,187,651
Effect of hyperinflation (note 24)	461,046	-
Balance at 31 December	<u>4,041,115</u>	<u>3,718,951</u>

Investment in associates represents the following:

Name of associates	Country	Percentage of ownership		2014 KD	2013 KD
		2014 %	2013 %		
Synfuels International, INC.	USA	23.38	23.56	1,083,068	1,177,176
Kitara OFIL Limited	Mauritius	36.36	36.36	1,158,770	1,233,660
Al Dindir Petroleum International Company Limited	Sudan	50.00	50.00	1,799,277	1,308,115
				<u>4,041,115</u>	<u>3,718,951</u>

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

	Total assets	Total liabilities	Income	Expenses	Profit / (loss)
	KD	KD	KD	KD	KD
2014					
Synfuels International, INC.	753,654	707,774	860,236	(331,309)	528,927
Kitara OFIL Limited	3,236,790	49,852	145,241	(125,130)	20,111
Al Dindir Petroleum International Company Limited	2,934,736	258,276	41,277	(70,145)	(28,868)

7. Investment in associates (continued)

	Total assets	Total liabilities	Income	Expenses	(Loss) / profit
	KD	KD	KD	KD	KD
2013					
Synfuels International, INC.	293,029	578,678	54,722	(787,334)	(732,612)
Resources Development Group	-	-	-	(95,312)	(95,312)
Kitara OFIL Limited	3,395,356	2,453	522,478	(5,715)	516,763
Al Dindir Petroleum International Company Limited	2,838,644	222,414	1,018,294	(34,252)	984,042

All associates are unquoted companies.

8. Financial assets available for sale

	2014 KD	2013 KD
Quoted equity securities	347,804	328,649
Unquoted equity securities	31,515,600	35,115,600
	<u>31,863,404</u>	<u>35,444,249</u>

Unquoted equity securities amounting to KD 31,515,600 (2013: KD 35,115,600) are carried at cost less impairment. During the year, based on the available information and cash flow projections, certain financial assets available for sale were impaired by KD 3,600,000 (note 18).

9. Financial assets at fair value through profit or loss

	2014 KD	2013 KD
Investment in an unquoted fund	<u>6,910,008</u>	<u>6,043,473</u>

The hierarchy for determining and disclosing the fair values of financial instruments by valuation technique is presented in note 27.

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The movement is as follows:

	2014 KD	2013 KD
Balance at 1 January	6,043,473	5,048,469
Additions	420,145	27,879
Disposals	-	(31,175)
Gain on deemed disposal	83,395	-
Unrealized gains	146,721	988,011
Effect of foreign currency translation	216,274	10,289
Balance at 31 December	<u>6,910,008</u>	<u>6,043,473</u>

10. Accounts receivable and other assets

	2014 KD	2013 KD
Trade receivable	4,938,796	4,771,032
Retention receivables	1,671,582	1,892,112
Receivable on sale of a subsidiary (note 13)	628,825	-
Advances and prepayments	844,301	715,467
Due from related parties (note 16)	11,898	14,781
Other receivables	<u>1,185,536</u>	<u>511,338</u>
	<u>9,280,938</u>	<u>7,904,730</u>

Movement in the allowance for doubtful debts is as follows:

	2014 KD	2013 KD
Balance at beginning of the year	3,976,351	5,210,517
Charge for the year	-	1,390,202
Utilized during the year	(399,440)	-
Disposal of a subsidiary	(49,201)	-
Reversal during the year (note 18)	(1,655,436)	-
Effect of foreign currency translation	72,475	(2,624,368)
Balance at end of the year	<u>1,944,749</u>	<u>3,976,351</u>

Retention is stated net of impairment of KD 793,400 (2013: 793,400). Amounts due from related parties are stated net of impairment of KD 1,415,115 (2013: 1,415,115).

Other receivables are stated net of impairment of KD 1,750,616 (2013: KD 1,750,616).

During the year, the Group has reversed an impairment of KD 1,655,436 provided previously against receivables of one of the subsidiaries. The amount was received during the current year.

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The ageing of trade receivables net of impairment is as follows:

	2014 KD	2013 KD
Neither past due nor impaired	3,952,790	4,476,893
Past due for 1 to 30 days	-	38,306
Past due for 31 to 90 days	-	60,094
Past due for more than 90 days	986,006	195,739
Total	4,938,796	4,771,032

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

11. Bank balances, cash and term deposits

	2014 KD	2013 KD
Bank balances and cash	3,910,707	3,397,033
Wakala deposits	1,800,000	2,850,000
Bank balances and cash in the consolidated statement of financial position	5,710,707	6,247,033
Restricted bank balances and wakala deposits	(2,419,342)	(1,831,307)
Wakala deposits with original maturity over three months	-	(1,050,000)
Cash and cash equivalents in the consolidated statement of cash flows	3,291,365	3,365,726

Wakala deposits with original maturity of more than 3 months include KD 1,800,000 (2013: KD 1,800,000) representing margin deposits held as security against the letters of guarantee.

Restricted bank balances represent margin deposits that are held as security against letters of guarantee (note 23).

12. Equity

a) Share capital

The authorised, issued and fully paid up share capital as at 31 December 2014 consists of 750,000 thousand shares (2013: 750,000 thousand shares) of 100 fils each contributed in cash.

b) Share premium

The share premium account is not available for distribution.

c) Statutory reserve

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

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

No transfer has been made for the years ended 31 December 2014 and 2013 due to accumulated losses.

12. Equity (continued)

d) Voluntary reserve

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

No transfer has been made for the years ended 31 December 2014 and 2013 due to accumulated losses.

e) Other reserves

Other reserves comprises of amounts credited to equity on acquisitions of non-controlling interests which are accounted for as transactions with shareholders in their capacity as owners (note 13).

f) Board of Directors' remuneration

The provision for the Board of Directors' remuneration has been made according to Article 229 of the Companies' Law no. 25 of 2012, as amended and its Executive Regulations. The proposed Board of Directors remuneration is subject to the approval of the parent company's shareholders' annual general assembly.

13. Subsidiaries and non-controlling interests

Subsidiaries of the Group are as follows:

Name of subsidiary	Country of operation	Effective interest	
		2014	2013
Khalifa Daij Al Dabbous and Brothers Company W.L.L. ("KDDB")	Kuwait	90.00%	90.00%
Higleig Petroleum Services and Investment Company Ltd. ("Higleig")	Sudan	64.25%	64.25%
AlMeshari Heavy Equipment Trading L.L.C. ("Al-Meshari")	UAE	-	51.00%
	Cayman		
AREF Energy Global Ltd.	Island	100.00%	100.00%
Nordic Intervention Services LLC ("NIS")	UAE	100.00%	100.00%
Nordic Energy FZC ("NES")	UAE	92.50%	93.75%
	Cayman		
AREF Energy International Ltd ("AEIL")	Island	100.00%	100.00%

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13. Subsidiaries and non-controlling interests (continued)

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

31 December 2014	KDDB KD	Higleig KD	Al-Meshari KD	NES KD
Non-current assets	1,773,518	13,485,203	-	3,729,867
Current assets	3,642,192	7,278,037	-	2,189,577
Non-current liabilities	(269,156)	(134,462)	-	-
Current liabilities	(1,599,338)	(5,426,896)	-	(2,102,240)
Net assets	3,547,216	15,201,882	-	3,817,204
Carrying amount of NCI	354,722	5,434,673	-	286,290
Revenue	6,230,268	2,916,285	543,227	3,681,270
Profit	152,684	1,518,027	40,366	553,446
Total comprehensive income	152,684	1,518,027	40,366	553,446
Profit allocated to NCI	15,268	296,426	19,779	41,227
Other comprehensive income allocated to NCI	-	169,770	14,662	8,949
31 December 2013				
Non-current assets	1,704,255	11,980,164	814,928	3,175,473
Current assets	4,040,590	6,347,013	576,442	1,731,147
Non-current liabilities	(194,563)	(114,298)	(42,125)	(4,513,397)
Current liabilities	(2,155,751)	(6,792,838)	(235,759)	(1,803,490)
Net assets	3,394,531	11,420,041	1,113,486	(1,410,267)
Carrying amount of NCI	339,453	4,082,665	545,608	(88,142)
Revenue	8,073,106	5,757,291	599,048	3,529,364
Profit / (loss)	514,423	1,188,044	(4,174)	178,025
Other comprehensive loss	-	(490,583)	-	-
Total comprehensive income / (loss)	514,423	697,461	(4,174)	178,025
Profit / (loss) allocated to NCI	51,442	424,726	(2,045)	1,248
Other comprehensive loss allocated to NCI	-	(1,023,249)	-	-

In December 2014, the Group sold its equity interest in Al-Meshari for a consideration of KD 628,825. The carrying value of the equity interest at the date of sale was KD 939,399 including a goodwill of KD 368,003. Accordingly, the Group recognised a loss on sale of the subsidiary amounting to KD 310,574.

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13. Subsidiaries and non-controlling interests (continued)

During the year, the Group entered into an agreement to convert the shareholder loan of USD 15 million (KD 4,231,500), provided by the Group to Nordic Energy FZC ("NES") to equity. Following the agreement, the Group owns 92.5% equity interest in NES (2013: 93.75%).

Since the above transaction did not result in loss of control to the Group, the resulting loss of KD 324,258 has been disclosed under "other reserves" in the condensed consolidated statement of changes in equity.

In 2013, the Group acquired additional 6.25% interest in Nordic Energy FZC ("NES") which resulted in an increase in ownership from 87.5% to 93.75%. As a result of this transaction, the Group recognised a decrease / increase in other reserves and non-controlling interests amounting to KD 144,106 respectively during the year ended 31 December 2013.

In 2013, the Group contributed KD 2 million in Khalifa Daij Al-Dabbous Brothers Company W.L.L. ("KDDB"), a subsidiary, as capital increase which resulted in additional interest of 10% in KDDB and an increase in ownership from 80% to 90%. As a result of this transaction, the Group recognised a decrease / increase in other reserves and non-controlling interests amounting to KD 111,989 respectively during the year ended 31 December 2013.

14. Accounts payable and other liabilities

	2014 KD	2013 KD
Trade payables	3,276,198	4,095,158
Advances received from customers	747,780	1,119,614
Due to related parties (note 16)	58,194	147,453
Accruals	2,030,372	1,351,265
Dividend payable	533,119	965,418
Other payables	541,594	472,686
	<u>7,187,257</u>	<u>8,151,594</u>

15. Murabaha payables

	2014 KD	2013 KD
Unsecured murabaha	-	16,000
Secured murabaha	-	1,509,991
	<u>-</u>	<u>1,525,991</u>

Murabaha facilities were obtained from a related party (note 16) and were secured against deposits amounting to KD 250,000 by the Company and KD 500,000 by the Parent Company (31 December 2013: secured against deposits amounted to KD 1,050,000 by the Company and KD 500,000 by the Parent Company). During the year, the Group fully repaid the Murabaha payables.

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16. Related party transactions

Related parties represent major shareholders, Directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management. Transactions between the Company and its subsidiaries which are related parties to the Company have been eliminated on consolidation and are not disclosed in this note. Transactions with related parties are as follows:

		As at 31 December	
		2014	2013
		KD	KD
a) Balances included in the consolidated statement of financial position			
<i>The Ultimate Parent Company</i>			
Bank balances, cash and term deposits		786,153	495,888
Murabaha payables secured against financial assets		-	1,509,991
<i>Entities related to the shareholders</i>			
Accounts receivables and other assets		11,898	14,781
Accounts payable and other liabilities		58,194	147,453
		Year ended 31 December	
		2014	2013
		KD	KD
b) Transactions included in the consolidated statement of profit or loss			
<i>The Ultimate Parent Company</i>			
Finance income		2,080	28,420
Murabaha finance cost		33,271	65,278
		Year ended 31 December	
		2014	2013
		KD	KD
c) Compensation of key management personnel:			
Short term benefits		498,090	523,318
Termination benefits		44,647	41,025
		542,737	564,343

In addition to the Board of Directors remuneration, Audit Committee and Executive Committee remunerations of KD 9,000 and KD 6,000 respectively (2013: KD 6,000 and KD 8,000 respectively) have been provided.

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

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17. Other income

This mainly represents gain on sale of leasehold property and pre-acquisition dividends received from one of the subsidiaries.

18. Net impairment loss

	2014	2013
	KD	KD
(Reversal of) / impairment of receivables (note 10)	(1,655,436)	2,710,856
Impairment of investment in associate (note 7)	-	1,323,904
Impairment of financial asset available for sale (note 8)	3,600,000	-
	<u>1,944,564</u>	<u>4,034,760</u>

19. Foreign exchange gain

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

20. Provision for contribution to KFAS, NLST and Zakat

	2014	2013
	KD	KD
NLST	-	8,437
Zakat	-	3,375
	<u>-</u>	<u>11,812</u>

21. Basic and diluted (loss) / earning per share

(Loss) / earning per share attributable to shareholders of the Company is computed by dividing the (loss) / profit for the year attributable to shareholders of the Company by the weighted average number of shares outstanding during the year as follows:

	2014	2013
(Loss) / profit for the year attributable to shareholders of the Company (KD)	(1,760,826)	1,135,846
Weighted average number of outstanding shares	750,000,000	750,000,000
Basic and diluted (loss) / earning per share attributable to shareholders of the Company (fils)	(2.35)	1.51

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22. Segment information

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

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

Others : Investment and other related services.

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

22. Segmental information (continued)

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

	Energy KD	Others KD	Total KD
31 December 2014			
Segment revenues	<u>12,827,823</u>	<u>543,227</u>	<u>13,371,050</u>
(Loss) / profit	<u>(1,428,492)</u>	<u>40,366</u>	<u>(1,388,126)</u>
Depreciation and amortization	<u>965,678</u>	<u>84,017</u>	<u>1,049,695</u>
Impairment loss	<u>1,894,107</u>	<u>50,457</u>	<u>1,944,564</u>
Segment assets	<u>64,640,363</u>	<u>8,001,328</u>	<u>72,641,691</u>
Investment in associates	<u>4,041,115</u>	<u>-</u>	<u>4,041,115</u>
Total assets	<u>68,681,478</u>	<u>8,001,328</u>	<u>76,682,806</u>
Total liabilities	<u>7,890,992</u>	<u>-</u>	<u>7,890,992</u>
Capital expenditures	<u>1,074,508</u>	<u>-</u>	<u>1,074,508</u>
31 December 2013			
Segment revenues	<u>16,223,409</u>	<u>584,600</u>	<u>16,808,009</u>
Profit / (loss)	<u>1,615,391</u>	<u>(4,174)</u>	<u>1,611,217</u>
Depreciation and amortization	<u>1,143,352</u>	<u>145,224</u>	<u>1,288,576</u>
Impairment losses	<u>4,034,760</u>	<u>-</u>	<u>4,034,760</u>
Segment assets	<u>65,914,496</u>	<u>8,251,816</u>	<u>74,166,312</u>
Investment in associates	<u>3,718,951</u>	<u>-</u>	<u>3,718,951</u>
Total assets	<u>69,633,447</u>	<u>8,251,816</u>	<u>77,885,263</u>
Total liabilities	<u>10,263,188</u>	<u>157,049</u>	<u>10,420,237</u>
Capital expenditures	<u>1,919,487</u>	<u>-</u>	<u>1,919,487</u>

Segment assets under the energy and others segment includes goodwill of KD 15,900 and KD Nil respectively (2013: KD 15,380 and KD 355,967).

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22. Segmental information (continued)

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

	Kuwait KD	MENA KD	Outside MENA KD	Total KD
31 December 2014				
Segment revenues	<u>6,230,268</u>	<u>7,140,782</u>	<u>-</u>	<u>13,371,050</u>
Non-current assets	<u>2,086,824</u>	<u>21,101,911</u>	<u>36,798,204</u>	<u>59,986,939</u>
31 December 2013				
Segment revenues	<u>8,037,756</u>	<u>8,770,253</u>	<u>-</u>	<u>16,808,009</u>
Non-current assets	<u>2,483,776</u>	<u>23,183,754</u>	<u>36,380,649</u>	<u>62,048,179</u>

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

23. Commitments and contingent liabilities

	2014 KD	2013 KD
a) Capital commitments		
Commitment towards contribution of fund expenses	62,623	217,333
Financial assets available for sale	<u>6,993,000</u>	<u>6,777,000</u>
	<u>7,055,623</u>	<u>6,994,333</u>
b) Contingent liabilities		
Letters of guarantee	<u>2,419,342</u>	<u>1,603,110</u>

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

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24. Hyperinflation adjustment

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

	Index	Conversion factor
31 December 2014	428.300	1.151
31 December 2013	314.826	1.198
31 December 2012	262.793	1.444
31 December 2011	181.944	1.189
31 December 2010	153.043	1

The above mentioned restatement is affected as follows:

- i. Financial statements prepared in the currency of a hyperinflationary economy are stated after applying the measuring unit current at statement of financial position date and corresponding figures for the previous period are stated on the same basis. Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at the statement of financial position date. Monetary items are money held and items to be recovered or paid in money;
- ii. Non-monetary assets and liabilities that are not carried at amounts current at the statement of financial position date and components of shareholders' equity are restated by applying the relevant conversion factors;
- iii. Comparative financial statements are restated using general inflation indices in terms of the measuring unit current at the statement of financial position date. Investment property and available for sale investments are indexed based on recent fair valuations. The resulting adjustments are taken directly to the consolidated statement of changes in equity;
- iv. All items in the income statement are restated by applying the relevant quarterly average or year-end conversion factors; and
- v. The effect on the net monetary position of the Group is included in the consolidated statement of profit or loss as a monetary gain or loss from hyperinflation.

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

The hyperinflation adjustment of KD 2,477,795 (2013: KD 2,843,957) in the books of Higleig, up to 31 December 2014, has been adjusted directly in the consolidated statement of changes in equity.

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25. Financial instruments and risk management

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

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

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

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

Market risk

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

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

i. Foreign currency exchange risk

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

	2014	2013
	KD	KD
	Equivalent	Equivalent
US Dollar	13,430,853	8,239,538
Sudanese Pounds	9,767,209	6,648,514
UAE Dirham	767,730	1,002,439

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

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25. Financial instruments and risk management (continued)

Market risk

Foreign currency sensitivity analysis

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

	2014		2013	
	Effect on profit KD	Effect on equity KD	Effect on profit KD	Effect on equity KD
US Dollar	64,012	1,343,085	21,427	823,954
Sudanese Pounds	-	976,721	-	664,851
UAE Dirham	67,575	76,773	-	100,244

ii. Profit rate risk management

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

iii. Equity price risk

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

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

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25. Financial instruments and risk management (continued)

Credit risk management

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

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

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

i. Exposure to credit risk

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

	Carrying amount	
	2014 KD	2013 KD
Bank balances	5,688,027	6,215,047
Accounts receivable and other assets	8,436,637	7,189,263
	<u>14,124,664</u>	<u>13,404,310</u>

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

	Carrying amount	
	2014 KD	2013 KD
Kuwait	5,919,320	6,641,924
MENA (other than Kuwait)	8,142,721	6,545,053
Outside MENA	62,623	217,333
	<u>14,124,664</u>	<u>13,404,310</u>

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25. Financial instruments and risk management (continued)

Credit risk management (continued)

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

	Carrying amount	
	2014	2013
	KD	KD
Banks and other financial institutions	5,688,027	6,215,047
Construction and real estate	2,013,400	6,027,469
Others	6,423,237	1,161,794
	<u>14,124,664</u>	<u>13,404,310</u>

Credit quality of financial assets

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

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

Liquidity risk management

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

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

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25. Financial instruments and risk management (continued)

Liquidity risk management (continued)

At 31 December 2014	On demand KD	Less than 1 year KD	More than 1 year KD	Total KD	Weighted average effective profit rate %
Financial liabilities					
Finance lease liabilities	-	74,797	-	74,797	
Accounts payable and other liabilities	-	6,289,015	150,462	6,439,477	
	-	6,363,812	150,462	6,514,274	
Commitments					
Commitment towards contribution of fund expenses	-	62,623	-	62,623	
Financial assets available for sale	-	-	6,993,000	6,993,000	
	-	62,623	6,993,000	7,055,623	
At 31 December 2013					
Financial liabilities					
Murabaha payable	16,000	1,543,263	-	1,559,263	4.53
Finance lease liabilities	-	228,372	19,031	247,403	
Accounts payable and other liabilities	-	6,066,561	965,418	7,031,979	
	16,000	7,838,196	984,449	8,838,645	
Commitments					
Commitment towards contribution of fund expenses	-	217,333	-	217,333	
Financial assets available for sale	-	-	6,777,000	6,777,000	
	-	217,333	6,777,000	6,994,333	

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26. Operational risk

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

27. Fair values

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

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

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

The fair value of investment property is determined based on the valuation performed as at 31 December 2014 by accredited independent valuator who is the industry specialists in valuing this type of investment property.

Fair value measurements recognised in the consolidated statement of financial position

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

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

31 December 2014	Level 1 KD	Level 2 KD	Total fair value KD
Financial assets at fair value through profit or loss:			
Investment in an unquoted fund	-	6,910,008	6,910,008
Financial assets available for sale:			
Quoted equity securities	347,804	-	347,804
Investment property	-	8,001,328	8,001,328
	<u>347,804</u>	<u>14,911,336</u>	<u>15,259,140</u>

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27. Fair values (continued)

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

There were no transfers between levels during the years ended 31 December 2014 and 31 December 2013.

28. Capital management

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

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

The gearing ratios at the reporting date are as follows:

	2014 KD	2013 KD
Profit bearing murabaha payables	-	1,509,991
Deferred finance costs	-	33,271
Finance lease liabilities	<u>74,797</u>	<u>239,547</u>
Net debt	74,797	1,782,809
Equity attributable to shareholders of the Company	62,716,129	62,585,442
Gearing ratio	0.1%	2.8%

The Company is not subject to any minimum capital requirements other than the requirements of Capital Market Authority and the Company Law No. 25 of 2012, as amended, and its Executive Regulations.