



شركة التخصيص القابضة
PRIVATIZATION
HOLDING COMPANY

www.phc.com.kw

2012 Annual Report

Partnership
Teamwork
Synergy
Efficiency
Professionalism
Development
Excellence

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**HH Sheikh Sabah Al-Ahmad
Al-Jaber Al-Sabah**
Amir of the State of Kuwait



**HH Sheikh Nawaf Al-Ahmad
Al-Jaber Al-Sabah**
Crown Prince of the State of Kuwait



Board of Directors



Riyadh S. Edrees
Chairman



Mohammad A. Al-Asfor
Vice Chairman



Dr. Fahed S. Al-Khaled
Board Member



Dr. Meshal Al-Samhan
Board Member



Meshal Habib
Board Member



Chairman's Message

For the Fiscal Year Ended on 31st December 2012

Honorable Shareholders

It gives me great pleasure to welcome you to the Ordinary General Assembly of Privatization Holding Company K.S.C (Closed), and to present the company's Annual Report for the fiscal year ended on 31/12/2012.

Privatization Holding Company realized Net Profits of KWD 4.1 Million, at 5.7 fils/share; compared with KWD 4.2 million for the year end 2011 at 5.7 fils/share; and with total equity KWD 108 Million compared with total equity KWD 103 Million for the year end 2011, a change of KWD 5 million.

Pursuant to its strategic plan for direct investments, the Company continued its focus of maintaining its investments in companies active in the sectors of interest (infrastructure, power, water, and renewable energy), and in investment opportunities in Brownfield and operating projects in the GCC and MENA regions with an emphasis on The State of Kuwait to mitigate regional risks.

At the end of 2012, the breakdown of the company's direct investments was as follows:

- 58% : Kuwait.
- 28% in the rest of MENA.

Such direct investments predominantly covered the following sectors: Services, Power & Utilities and Renewable Energy. And in conformity with its strategy, the company during 2012 having met almost all of its outstanding commitments, embarked upon a selective Exit/Divestiture policy, namely:

- Partial Divestiture of its stake in Kingdom Electricity Company (a company based in Jordan involved in power distribution), to enhance upside returns.
- Partial Divestiture of its stake in First Transportation Co (a company based in Kuwait involved in logistics and transportation), to enhance upside returns.

- Partial Divestiture of its stake in Zouk Solar Opportunities (a company based in Jersey involved in developing PV solar projects in Europe), to enhance upside returns.

Furthermore, the company continued its efforts to position itself to participate in the development projects in Kuwait (primarily within the PPP framework and the Partnership Technical Bureau-PTB) by concluding alliances/teaming consortia with international specialized partners, namely:

- Orascom-Egypt/BESIX-Belgium/Aqualia-Spain, for the largest Waste Water Treatment Plant project in the region –Umm Al-Hayman WWTP.
- CCC-Greece/Euromedica-Greece/Morganti-USA, for the Rehabilitation Hospital privatization project.

And in this regard, the company is in the process of foregoing similar alliances/consortia with other international specialized partners for upcoming PPP/BOT projects in Kuwait; such as Kheiran and Az-Zour Phase 2 IWPP power plants, Kuwait Metro project, Al-Abdalia Thermal/Solar power plant and Kabd Waste to Energy plant.

Additionally, the company concluded agreements with specialized international firms to pursue Consulting and EPC contracts for selected environmental and renewable energy projects in Kuwait.

Looking forward, the Company recognizes its obligations and reaffirms that it shall exert continued efforts to enhance the Company's position in local and international markets , through varied and optimal investment instruments.

In conclusion, I would like to extend my thanks and appreciation to all those who contributed towards enhancing the Company's future path; and also extend our thanks to all the Company's staff for their diligent and continuous efforts for the progress and success of the Company.

May God almighty always guide our way towards serving our country and to crown our efforts with success.

Chairman of the Board
Riyadh S. Edrees





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

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2012




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 Ernst & Young
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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF PRIVATIZATION HOLDING COMPANY K.S.C. (CLOSED)

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Privatization Holding Company K.S.C. (Closed) (the "Parent Company") and its subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating

the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No 25 of 2012, and by the Parent Company's Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No 25 of 2012, nor of the Parent Company's Articles of Association, as amended, have occurred during the year ended 31 December 2012 that might have had a material effect on the business of the Parent Company or on its financial position.



WALEED A. AL OSAIMI

LICENCE NO. 68-A

ERNST & YOUNG

AL AIBAN, AL OSAIMI & PARTNERS



ABDULLATIF M. AL-AIBAN (CPA)

LICENCE NO. 94-A

GRANT THORNTON

AL-QATAMI, AL-AIBAN & PARTNERS



CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2012

	<i>Notes</i>	2012 KD	<i>2011 KD</i>
CONTINUING OPERATIONS			
INCOME			
Realised gain on sale of financial assets at fair value through income statement		84,506	948,695
Unrealised gain (loss) on financial assets at fair value through income statement		97,921	(2,044,059)
Gain on sale of financial assets available-for-sale		683,411	7,025,949
Dividend income		2,115,781	2,520,967
Interest income	4	397,843	122,175
Murabaha income	26	293,786	-
Share of results of associates	10	1,139,437	520,726
Gain (loss) on sale of investment in associates	10	3,362,504	(163,639)
Gain on sale of equity interest in a subsidiary	10 (c)	37,802	-
Foreign exchange (loss) gain		(264,631)	242,309
Revenue from services		5,336,550	6,308,152
Other income		1,123,098	39,238
		14,408,008	15,520,513
EXPENSES			
Cost of services rendered		(3,415,011)	(4,920,646)
Administrative expenses	5	(2,083,885)	(2,001,885)
Portfolio management fees		(102,738)	(127,308)
Finance costs		(2,515,583)	(1,908,867)
Loss on fair value adjustment of investment properties		(463,872)	-
Impairment loss on financial assets available-for-sale	13 (e)	(1,163,560)	(2,009,269)
Amortisation of intangibles	9	(279,663)	(279,663)
		(10,024,312)	(11,247,638)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS BEFORE TAXATION		4,383,696	4,272,875
Taxation	6	(143,454)	(103,547)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		4,240,242	4,169,328
DISCONTINUED OPERATIONS			
Gain on sale of a subsidiary		-	394,485
PROFIT FOR THE YEAR		4,240,242	4,563,813
Attributable to:			
Equity holders of the Parent Company		4,132,550	4,170,109
Non-controlling interests		107,692	393,704
		4,240,242	4,563,813
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY			
	7	5.7 fils	5.7 fils
BASIC AND DILUTED EARNINGS PER SHARE FROM CONTINUING OPERATIONS ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY			
	7	5.7 fils	5.1 fils

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	<i>Notes</i>	2012 KD	2011 KD
Profit for the year		4,240,242	4,563,813
Other comprehensive income			
Change in fair values of financial assets available-for-sale		4,260,673	(15,517,619)
Realised gain on sale of financial assets available-for-sale transferred to consolidated income statement on sale		(683,411)	(7,025,949)
Impairment loss on financial assets available-for-sale transferred to the consolidated income statement	13 (e)	1,163,560	2,009,269
Share of cumulative changes in fair values of associate	10	28,501	(539,128)
Share of foreign currency translation reserve of associates	10	86,699	(134,888)
Other comprehensive income (loss) for the year		4,856,022	(21,208,315)
Total comprehensive income (loss) for the year		9,096,264	(16,644,502)
Attributable to:			
Equity holders of the Parent Company		8,949,750	(17,033,199)
Non-controlling interests		146,514	388,697
		9,096,264	(16,644,502)

The attached notes 1 to 30 form part of these consolidated financial statements.



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	2012 KD	2011 KD
ASSETS			
Non-current assets			
Property, plant and equipment	8	10,105,550	11,352,100
Intangible assets	9	2,290,003	2,816,144
Investment in associates	10	12,772,146	14,865,658
Held-to-maturity investment	11	2,700,000	2,700,000
Murabaha receivable	12	15,097,602	-
Financial assets available-for-sale	13	74,367,146	70,496,564
Investment properties	14	3,917,242	3,131,114
		121,249,689	105,361,580
Current assets			
Due from sale of investment in subsidiaries	15	200,000	74,722,640
Accounts receivable and prepayments	16	23,732,283	12,488,073
Financial assets at fair value through income statement	17	14,971,616	16,182,161
Bank balances and cash	18	11,672,815	19,169,536
		50,576,714	122,562,410
TOTAL ASSETS		171,826,403	227,923,990
EQUITY AND LIABILITIES			
Equity			
Share capital	19	73,828,000	73,828,000
Share premium		24,761,544	24,761,544
Statutory reserve	20	1,061,335	633,735
General reserve	20	1,061,335	633,735
Treasury shares	21	(730,871)	(456,873)
Treasury shares reserve	21	1,591,786	1,316,339
Cumulative changes in fair value		1,519,077	(3,211,426)
Foreign currency translation reserve		3,357	(83,340)
Retained earnings		4,852,363	5,266,413
Equity attributable to equity holders of the Parent Company		107,947,926	102,688,127
Non-controlling interests		697,812	902,793
Total equity		108,645,738	103,590,920
Non-current liabilities			
Term loan	23	15,000,000	-
Employees' end of service benefits		443,232	382,305
		15,443,232	382,305
Current liabilities			
Accounts payable and accruals	22	2,154,112	3,405,882
Bank overdraft	18	5,317,590	7,960,436
Term loans	23	40,265,731	112,584,447
		47,737,433	123,950,765
Total liabilities		63,180,665	124,333,070
TOTAL EQUITY AND LIABILITIES		171,826,403	227,923,990

Riyadh S. A. Edrees
Chairman

Mohammad A. Al-Asfor
Vice Chairman

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

	Attributable to equity holders of the Parent Company											
	Share capital KD	Share premium KD	Statutory reserve KD	General reserve KD	Treasury shares KD	Treasury shares reserve KD	Cumulative changes in fair value KD	Foreign currency translation reserve KD	Retained earnings KD	Sub-total KD	Non-controlling interests KD	Total equity KD
As at 1 January 2012	73,828,000	24,761,544	633,735	633,735	(456,873)	1,316,339	(3,211,426)	(83,340)	5,266,413	102,688,127	902,793	103,590,920
Profit for the year	-	-	-	-	-	-	-	-	4,132,550	4,132,550	107,692	4,240,242
Other comprehensive income	-	-	-	-	-	-	4,730,503	86,697	-	4,817,200	38,822	4,856,022
Total comprehensive income for the year	-	-	-	-	-	-	4,730,503	86,697	4,132,550	8,949,750	146,514	9,096,264
Transfer to reserves	-	-	427,600	427,600	-	-	-	-	(855,200)	-	-	-
Purchase of treasury shares	-	-	-	-	(1,359,895)	-	-	-	-	(1,359,895)	-	(1,359,895)
Sale of treasury shares	-	-	-	-	1,085,897	275,447	-	-	-	1,361,344	-	1,361,344
Non-controlling interest arising on part disposal of indirectly held subsidiary (Note 2.2)	-	-	-	-	-	-	-	-	-	200,000	200,000	200,000
Disposal of indirectly held subsidiary (Note 10 (c))	-	-	-	-	-	-	-	-	-	(320,520)	(320,520)	(320,520)
Dividend (Note 30)	-	-	-	-	-	-	-	-	(3,691,400)	(3,691,400)	(230,975)	(3,922,375)
At 31 December 2012	73,828,000	24,761,544	1,061,335	1,061,335	(730,871)	1,591,786	1,519,077	3,357	4,852,363	107,947,926	697,812	108,645,738
As at 1 January 2011	79,380,000	24,761,544	206,369	206,369	(5,547,736)	1,298,027	17,856,994	51,548	1,951,036	120,164,151	138,370	120,302,521
Profit for the year	-	-	-	-	-	-	-	-	4,170,109	4,170,109	393,704	4,563,813
Other comprehensive loss	-	-	-	-	-	-	(21,068,420)	(134,888)	-	(21,203,308)	(5,007)	(21,208,315)
Total comprehensive (loss) income for the year	-	-	-	-	-	-	(21,068,420)	(134,888)	4,170,109	(17,033,199)	388,697	(16,644,502)
Transfer to reserves	-	-	427,366	427,366	-	-	-	-	(854,732)	-	-	-
Purchase of treasury shares	-	-	-	-	(557,106)	-	-	-	-	(557,106)	-	(557,106)
Sale of treasury shares	-	-	-	-	100,233	14,048	-	-	-	114,281	-	114,281
Cancellation of treasury shares	(5,552,000)	-	-	-	5,547,736	4,264	-	-	-	-	-	-
Non-controlling interest arising on acquisition of indirectly held subsidiary	-	-	-	-	-	-	-	-	-	-	363,726	363,726
Non-controlling interest arising on part disposal of indirectly held subsidiary	-	-	-	-	-	-	-	-	-	160,000	160,000	160,000
Capital contribution by non-controlling interest	-	-	-	-	-	-	-	-	-	32,000	32,000	32,000
Dividend	-	-	-	-	-	-	-	-	-	(180,000)	(180,000)	(180,000)
At 31 December 2011	73,828,000	24,761,544	633,735	633,735	(456,873)	1,316,339	(3,211,426)	(83,340)	5,266,413	102,688,127	902,793	103,590,920

The attached notes 1 to 30 form part of these consolidated financial statements.



CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 KD	2011 KD
OPERATING ACTIVITIES			
Profit for the year from continuing operations		4,240,242	4,169,328
Profit for the year from discontinued operations		-	394,485
Profit for the year		4,240,242	4,563,813
Adjustments for:			
Depreciation	8	844,239	705,028
Amortisation of intangibles	9	279,663	279,663
Provision for employees' end of service benefits		145,968	104,288
Impairment loss on financial assets available-for-sale	13 (e)	1,163,560	2,009,269
Gain on sale of financial assets available-for-sale		(683,411)	(7,025,949)
Loss on fair value adjustment of investment properties	14	463,872	-
Realised gain on sale of financial assets at fair value through income statement		(84,506)	(948,695)
Unrealised (gain) loss on financial assets at fair value through income statement		(97,921)	2,044,059
Dividend income		(2,115,781)	(2,520,967)
Interest income	4	(397,843)	(122,175)
Murabaha income		(293,786)	-
Finance costs		2,515,583	1,908,867
Foreign exchange loss (gain)		264,631	(242,309)
(Gain) loss on sale of investment in associates		(3,362,504)	163,639
Share of results of associates	10	(1,139,437)	(520,726)
Gain on sale of equity interest a subsidiary	10 (c)	(37,802)	(394,485)
Loss on sale of property, plant and equipment		3,163	-
		1,707,930	3,320
Working capital changes:			
Accounts receivable and prepayments		(7,962,881)	(890,305)
Due from sale of investment in subsidiaries	15 (b)	600,000	250,000
Financial assets at fair value through income statement		1,392,972	4,013,488
Accounts payable and accruals		453,680	334,245
Cash flows (used in) from operating activities		(3,808,299)	3,710,748
Taxation paid		(103,547)	(68,860)
Employees' end of service benefits paid		(43,516)	(15,739)
Net cash flows (used in) from operating activities		(3,955,362)	3,626,149
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	8	(1,724,802)	(4,927,491)
Proceeds from sale of property, plant and equipment		227,476	13,671
Purchase of investment in associates	10	-	(4,963,214)
Dividends received from associates	10	1,498,051	275,594
Proceeds from sale of investment in associates		1,800,000	2,804,928
Purchase of held-to-maturity investment		-	(2,700,000)
Net movement in murabaha receivable		(14,992,857)	-
Purchase of financial assets available-for-sale		(8,139,261)	(22,633,434)
Proceeds from sale of financial assets available-for-sale		8,529,352	33,308,623
Purchase of investment property	14	-	(1,420,705)
Murabaha income received		189,041	-
Interest income received		272,049	122,175
Dividend income received		2,115,781	2,520,967
Disposal of indirectly held subsidiary, net of cash disposed	10 (c)	(16,400)	(157,056)
Acquisition of a subsidiary, net of cash acquired		-	(403,018)
Net cash flows (used in) from investing activities		(10,241,570)	1,841,040
FINANCING ACTIVITIES			
Purchase of treasury shares		(1,359,895)	(557,106)
Proceeds from sale of treasury shares		1,361,344	114,281
Term loans obtained		15,113,150	6,850,000
Repayment of term loans		-	(698,251)
Dividend paid		(3,749,795)	(180,000)
Finance costs paid		(2,221,747)	(1,868,890)
Movement in non-controlling interests	2.2	200,000	192,000
Net cash flows from financing activities		9,343,057	3,852,034
NET(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(4,853,875)	9,319,223
Cash and cash equivalents at 1 January		11,209,100	1,889,877
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	18	6,355,225	11,209,100

The attached notes 1 to 30 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

1. CORPORATE INFORMATION

The consolidated financial statements of Privatization Holding Company K.S.C. (Closed) (the "Parent Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the Parent Company's Board of Directors on 28 February 2013. The General Assembly of the Parent Company's shareholders has the power to amend these consolidated financial statements after issuance.

The Parent Company is a Kuwaiti shareholding company registered on 10 October 1994 and is listed on the Kuwait Stock Exchange. Its registered office is located at Sharq, Ahmad Al-Jaber Street, Dar Al-Awadi Tower, 23 Floor, P.O. Box 4323, Safat 13104, Kuwait

The Parent Company is licensed to:

- invest in Kuwaiti and foreign shareholding companies and limited liability companies and to participate in the establishment and management of such entities,
- lend to such entities and act as their guarantor,
- utilization of excess funds in investment in financial portfolios or real estate portfolios through specialised parties inside or outside Kuwait,
- invest in real estate, hold patents and copy rights, and advance loans to associates,
- represent foreign consulting firms in local market.

The Companies Law issued on 26 November 2012 by Decree Law No 25 of 2012 (the "Companies Law"), which was published in the Official Gazette on 29 November 2012, cancelled the Commercial Companies Law No 15 of 1960. According to Article 2 of the Decree, the Group has a period of 6 months from 29 November 2012 to regularise its affairs in accordance with the Companies Law.

2.1 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and applicable requirements of Ministerial Order No 18 of 1990.

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets available-for-sale, investment properties and financial assets at fair value through income statement that have been measured at fair value.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at 31 December 2012.

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

Total comprehensive income within a subsidiary is attributed to the non-controlling interest (NCI) even if that results in a deficit balance.

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

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any NCI
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

2.2 BASIS OF CONSOLIDATION (continued)

- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in the consolidated income statement
- Reclassifies the Parent Company's share of components previously recognised in other comprehensive income to consolidated income statement or retained earnings, as appropriate.

The subsidiaries of the Group are as follows:

<i>Name of the company</i>	<i>Country of incorporation</i>	<i>Principal activity</i>	<i>Equity interest</i>	
			<i>2012</i>	<i>2011</i>
Global Projects Holding Company K.S.C. (Closed) ("GPHC") ^{1 and 2}	Kuwait	Investment	96.0%	96.0%
Specialized Environmental Services Company W.L.L. ("SES") ¹	Kuwait	Investment	99.0%	99.0%
Global Commercial Privatization Company W.L.L. ¹	Kuwait	Import and export	99.0%	99.0%
Global Professional General Trading Company W.L.L.	Kuwait	General trading	62.0%	62.0%
Combined Trust Real Estate Company W.L.L.	Kuwait	Investment and real estate	51.0%	51.0%
Privatisation Agriculture Contracting Company W.L.L. ¹	Kuwait	General trading and contracting	99.0%	99.0%
Global Privatisation for Medical Services Company W.L.L. - incorporated during the year	Kuwait	General trading and contracting	99.0%	-
Global Specialised Electrical Company W.L.L. - incorporated during the year	Kuwait	Electric power generation	99.0%	-
Held through GPHC				
Gas and Oils Field Services Company K.S.C. (Closed) ("GOFSCO")	Kuwait	Oil and gas well related installations	99.7%	99.7%
Held through GOFSCO				
Abyar Gulf Company for General Trading and Contracting W.L.L. ("Abyar") ^{3 and 5}	Kuwait	General trading and contracting	62.0%	82.0%
Eastern United Petroleum Services Company K.S.C. (Closed) ("EUPS") (Note 10.)	Kuwait	Oil and gas activities and maintenance	-	60.7%
Leader Plus General Trading Company W.L.L. ⁴	Kuwait	General trading and contracting	99.0%	99.0%
Amal Ebstam General Trading & Contracting Company W.L.L. ⁴	Kuwait	General trading and contracting	99.0%	99.0%
Grand Oil for Oil Activities Company K.S.C. (Closed) ⁴	Kuwait	Oil and gas sludge cleaning activities	99.0%	99.0%

- ¹ An insignificant holding of shares are held by nominees who have confirmed in writing that the Parent Company has the beneficial ownership interest in the subsidiary through a letter of assignment.
- ² The Parent Company holds 50% and the subsidiary SES holds 46%.
- ³ In April 2012, GOFSCO sold 20% of its equity interest in Abyar for a total consideration of KD 200,000, resulting in no gain or loss.
- ⁴ These companies have not yet commenced their operations.
- ⁵ In accordance with an agreement, the NCI of indirectly held subsidiary Abyar receives 60% of the profit for the year during the period from 1 January 2010 to 31 December 2012.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any NCI in the acquiree. For each business combination, the Group elects whether to measure the NCI in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and included in administrative expenses.

If the business combination is achieved in stages, the previously held equity interest is measured at its acquisition date fair value and any resulting gain or loss is recognised in the consolidated income statement.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of *IAS 39 Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in consolidated income statement or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for NCI over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognised in the consolidated income statement.

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

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

Investment in associates

The Group's investment in its associates is accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in associates is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates (continued)

The Group's share of results of associates is shown on the face of the consolidated income statement and represents profit or loss after tax and NCI in the subsidiaries of the associates.

The financial statements of the associates are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associates. At each reporting date, the Group determines whether there is any objective evidence that the investment in associates is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the impairment loss in the consolidated income statement.

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

Foreign currencies

The Group's consolidated financial statements are presented in Kuwaiti Dinar (KD), which is also the Parent Company's functional currency. For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date. Differences arising on settlement or transaction of monetary items are recognised in the consolidated income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item.

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

Dividend income

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

Interest income

Interest income is recognised using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset to the net carrying amount of the financial asset.

Rendering of services

Revenue from services is recognised as and when services are provided or rendered.

Taxation

National Labour Support Tax (NLST)

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

Kuwait Foundation for the Advancement of Sciences (KFAS)

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

Zakat

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

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment. When significant parts of equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated income statement as incurred.

Leasehold land is not depreciated. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

- | | |
|---------------------------|----------------|
| • Office building | 20 to 30 years |
| • Machinery and equipment | 10 to 20 years |
| • Rental equipment | 3 to 10 years |
| • Furniture and equipment | 4 to 7 years |

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise. Fair values are determined based on an annual evaluation performed by an accredited external, independent valuer.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

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

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

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the consolidated income statement in the year in which the expenditure is incurred.

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

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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

A summary of the policies applied to the Group's intangible assets is as follows:

	Goodwill	Other intangible assets
Useful lives	Indefinite	Finite
Amortisation method used	No amortisation	Amortised on a straight-line basis over a period of 1 to 4 years

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that

are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

Impairment losses are recognised in the consolidated income statement.

For assets excluding goodwill, an assessment is made at each reporting date whether there is an indication that previously recognised impairment losses may no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement.

The following assets have specific characteristics for impairment testing:

Goodwill

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets

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

Financial instruments – initial recognition and subsequent measurement

(i) Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through income statement, loans and receivables, held-to-maturity investments and financial assets available-for-sale, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through income statement.

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

The Group's financial assets include bank balances and cash, accounts receivable, financial assets at fair value through income statement, financial assets available-for-sale and held-to-maturity investment.

Subsequent measurement

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

(i) Financial assets (continued)

Subsequent measurement (continued)

Financial assets at fair value through income statement

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

Financial assets at fair value through income statement are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in consolidated income statement.

The Group evaluates its financial assets held for trading, to determine whether the intention to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify them. The reclassification to loans and receivables, available-for-sale or held-to-maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through income statement using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group does not have any loans receivable. Receivables include accounts receivable and murabaha receivables.

Accounts receivable are stated at original amount less a provision for any uncollectible amount. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Murabaha is an Islamic transaction involving the purchase and immediate sale of an asset at cost plus an agreed profit. The amount due is settled on a deferred payment basis. When the credit risk of the transaction is attributable to a financial institution, the amount due under murabaha contracts is classified as a murabaha investment. Whereas, when the credit risk of transaction is attributable to counterparties other than banks and financial institutions, the amount due is classified as murabaha receivable. Murabaha receivables which arise from the Group's financing on an Islamic basis are classified as murabaha receivables originated by the Group and are carried at the principal amount less provision for credit risks to meet any decline in value. Third party expenses such as legal fees, incurred in granting a murabaha are treated as part of the cost of the transaction and are charged to the consolidated income statement. All murabaha receivables are recognised when the legal right to control the use of the underlying asset is transferred to the customer.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest income in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement.

Financial assets available-for-sale

Financial assets classified as available-for-sale are those investments that are neither classified as held for trading nor designated at fair value through income statement.

After initial measurement, financial assets available-for-sale are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the cumulative changes in fair value until the investment is derecognised, at which time the cumulative gain or loss is recognised in the consolidated income statement, or the investment is determined to be impaired, when the cumulative loss is reclassified from the cumulative changes in fair value to the consolidated income statement.

Financial assets whose fair value cannot be reliably measured are stated as cost less impairment losses, if any.

Reclassification from financial assets available-for-sale to investment in associates is made upon acquisition of significant influence over the investment. Such transfer is made at original cost and any gain or loss previously classified in cumulative changes in fair value reserve is reversed to bring the carrying value to its original cost.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

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

Financial assets available-for-sale

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

The objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

(i) Financial assets (continued)

Impairment of financial assets (continued)

Financial assets available-for-sale (continued)

previously recognised in the consolidated income statement – is removed from other comprehensive income and recognised in the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

(ii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through income statement or loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include term loans, accounts payable and bank overdrafts. At 31 December 2012, the Group did not have any financial liabilities at fair value through income statement.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as described below:

Accounts payable

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

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the consolidated income statement.

Derecognition

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

(iii) Offsetting of financial instruments

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

(iv) Fair value of financial instruments

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

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 29.

Cash and cash equivalents

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

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in treasury share reserve to the extent of the credit balance in that account. Any excess losses are charged to retained earnings then to the general reserve and statutory reserve. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Employees' end of service benefits

The Group provides end of service benefits to its expatriate employees under the Kuwait Labour Law. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

For its national employees, the Group provides end of service benefits under the Kuwait Labour Law after deducting Group's contributions to Public Institution for Social Security calculated as a percentage of the employees' salaries.

2.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES**Changes in accounting policies***IAS 40 Investment Properties*

The Group has reassessed its accounting for investment properties with respect to subsequent measurement. The Group has previously measured investment properties using the cost model as set out in IAS 40.30, whereby after



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

2.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Changes in accounting policies (continued)

IAS 40 Investment Properties (continued)

initial recognition of the assets classified as investment properties, the assets were carried at cost less accumulated depreciation and accumulated impairment losses.

During 2012, the Group determined that it has erroneously adopted the cost model accounting policy for the investment property instead of the fair value model. Accordingly Group has changed its accounting policy for investment properties. After initial recognition, the investment properties are stated at fair value, which reflects the market condition at the reporting date. The error has been rectified and changes have been applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, which resulted in no adjustment of prior year consolidated financial statements.

New and amended standard

The accounting policies adopted are consistent with those of the previous financial year, except for the following amended IFRS effective as of 1 January 2012:

IFRS 7 Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's consolidated financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its consolidated financial statements.

2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are listed below. The Group intends to adopt these standards when they become effective.

IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but *Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In

subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

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

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the Group's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, revaluation of land and buildings) would be presented separately from items that will never be reclassified (for example, net loss or gain on available-for-sale financial assets). The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Group's first annual report after becoming effective.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

Annual Improvements May 2012

IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

These improvements are effective for annual periods beginning on or after 1 January 2013 and will not have an impact on the Group.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the assets or liabilities affected in future periods.

Judgements

Classification of investments

Management decides on acquisition of financial assets whether it should be classified as financial assets at fair value through income statement, financial assets available-for-sale or held-to-maturity investment.

Classification of financial assets at fair value through income statement depends on how management monitors the performance of these investments. The Group classifies financial assets as held for trading if they are acquired primarily for the purpose of short term profit making. When they are not classified as held for trading but have readily available fair values and the changes in fair values are reported as part of consolidated income statement in the management accounts, they are classified as designated upon initial recognition.

The management classifies investments as held-to-maturity if they are non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the management has the positive intention and ability to hold to maturity.

All other financial assets are classified as "financial assets available-for-sale".

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Valuation of unquoted equity investments

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

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- an earnings multiple or industry specific earnings multiple;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. For the investments where this estimation cannot be reliably determined, they are carried at cost less impairment.

Impairment of financial assets available-for-sale

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

Impairment of accounts receivable

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

Impairment of non-financial assets

An impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Revaluation of investment properties

The Group carries its investment properties at fair value, with changes in fair value being recognised in the consolidated income statement. The Group engaged independent valuation specialists to determine fair value as at 31 December 2012.

Useful lives of property, plant and equipment

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

4. INTEREST INCOME

	2012	2011
	KD	KD
Fixed deposits	44,183	46,398
Held-to-maturity investment	136,169	4,438
Advances to related parties	135,297	25,105
Other cash balances	82,194	46,234
	397,843	122,175

5. ADMINISTRATIVE EXPENSES

	2012	2011
	KD	KD
Staff costs	1,391,581	1,430,798
Others	692,304	571,087
	2,083,885	2,001,885

6. TAXATION

	2012	2011
	KD	KD
NLST	77,676	56,369
KFAS	36,501	31,419
Zakat	29,277	15,759
	143,454	103,547

7. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the profit for the year attributable to equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year less treasury shares as follows:

	2012	<i>2011</i>
Profit for the year attributable to the equity holders of the Parent Company (KD)	4,132,550	4,170,109
Weighted average number of shares outstanding during the year	729,947,752	734,697,973
Basic and diluted earnings per share (fils)	5.7	5.7

Basic and diluted loss per share from continuing operations

Profit for the year from continuing operations attributable to the equity holders of the Parent Company (KD)	4,132,550	3,775,624
Weighted average number of shares outstanding during the year	729,947,752	734,697,973
Basic and diluted earnings per share from continuing operations (fils)	5.7	5.1

The weighted average number of shares outstanding during the year is calculated after adjusting for treasury shares as follows:

	2012	<i>2011</i>
Weighted average number of issued and paid up shares	738,280,000	773,569,425
Less: Weighted average number of treasury shares	(8,332,248)	(38,871,452)
Weighted average number of shares for basic and diluted earnings per share	729,947,752	734,697,973



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8. PROPERTY, PLANT AND EQUIPMENT

	<i>Leasehold land</i>	<i>Office building</i>	<i>Machinery and equipment</i>	<i>Rental equipment</i>	<i>Furniture and equipment</i>	<i>Capital work in progress</i>	2012 Total	<i>2011 Total</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	KD	<i>KD</i>
Cost:								
At 1 January	-	233,227	8,394,675	908,023	201,547	2,852,432	12,589,904	6,568,016
Arising on acquisition of subsidiary	-	-	-	-	-	-	-	1,767,580
Derecognition of a subsidiary	-	-	(1,715,267)	(321,820)	(13,459)	-	(2,050,546)	-
Discontinued operations	-	-	-	-	-	-	-	(565,949)
Transfer	-	8,650	2,221,498	157,562	5,120	(2,392,830)	-	-
Additions	824,048	-	694,901	198,292	7,561	-	1,724,802	4,927,491
Disposals	-	-	(259,222)	-	-	-	(259,222)	(107,234)
At 31 December	824,048	241,877	9,336,585	942,057	200,769	459,602	12,004,938	12,589,904
Depreciation:								
At 1 January	-	95,787	614,055	429,766	98,196	-	1,237,804	735,512
Derecognition of a subsidiary	-	-	(94,491)	(54,715)	(4,866)	-	(154,072)	-
Discontinued operations	-	-	-	-	-	-	-	(109,173)
Depreciation charge for the year	-	23,477	505,512	276,944	38,306	-	844,239	705,028
Disposals	-	-	(28,583)	-	-	-	(28,583)	(93,563)
At 31 December	-	119,264	996,493	651,995	131,636	-	1,899,388	1,237,804
Net book value:								
At 31 December	824,048	122,613	8,340,092	290,062	69,133	459,602	10,105,550	11,352,100

9. INTANGIBLE ASSETS

	<i>Goodwill</i>	<i>Other intangible assets</i>	2012 Total	<i>2011 Total</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
Cost:				
At 1 January	2,396,649	1,167,502	3,564,151	4,263,460
Arising on acquisition of subsidiary	-	-	-	246,478
Discontinued operations	(246,478)	-	(246,478)	(945,787)
At 31 December	2,150,171	1,167,502	3,317,673	3,564,151
Amortisation:				
At 1 January	-	748,007	748,007	468,344
Charge for the year	-	279,663	279,663	279,663
At 31 December	-	1,027,670	1,027,670	748,007
Net book value:				
At 31 December	2,150,171	139,832	2,290,003	2,816,144

10. INVESTMENT IN ASSOCIATES

The associates of the Group are as follows:

<i>Name of the company</i>	<i>Country of incorporation</i>	<i>Equity interest 2012</i>	<i>2011</i>	<i>Activities</i>
Kuwait Building Materials Manufacturing Company K.S.C. (Closed)	Kuwait	47.4%	47.4%	Building materials
First Equilease for Equipment and Transportation K.S.C. (Closed) ("FTC") (Formerly Kuwait First Transportation Company K.S.C. (Closed)) (see (a) below)	Kuwait	16.0%	16.0%	Transportation services
Kingdom Electricity Company ("KEC") (see (a) & (b) below) ("KEC")	Jordan	18.0%	30.0%	Energy and industrial projects
Nawand Communications Holding Company B.S.C. (Closed) ("Nawand") (See (a) below)	Kingdom of Bahrain	17.3%	17.3%	Telecom services
SNC-Lavalin Kuwait for General Trading & Contracting Company W.L.L.	Kuwait	30.0%	30.0%	General trading and contracting
Strategia Investment Company K.S.C. (Closed)	Kuwait	32.4%	32.4%	Investments
Eastern United Petroleum Services Company K.S.C. (Closed) ("EUPS") (See (c) below)	Kuwait	48.3%	-	Oil & gas activities

- (a) The investment in FTC, KEC and Nawand have been classified as associates because the Parent Company exercises significant influence over the investee companies through representation on their Board of Directors and participation in their decision making process in relation to their financial and operating policies.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

10. INVESTMENT IN ASSOCIATES (continued)

- (b) On 11 September 2012, the Parent Company disposed of its 12% equity interest in KEC to a related party for a consideration of KD 5,000,000 and recognised a gain of KD 3,362,504 in the consolidated income statement. As a result of this disposal, the Group's equity interest in KEC decreased to 18%. However, the investment in KEC is still classified as associate because the Parent Company exercises significant influence over KEC through representation on its Board of Directors and participation in their decision making process in relation to their financial and operating policies. During the year, the Parent Company has received KD 1,000,000 of the consideration. The remaining amount of the consideration of KD 4,000,000, is expected to be received by 31 May 2013, and is included in accounts receivable and prepayments as of the reporting date. The Parent Company has not transferred the ownership of shares in KEC to the buyer which will be done when the buyer fully settles the consideration.
- (c) On 4 June 2012, the Group disposed of net 12.4% equity interest in EUPS (previously indirectly held subsidiary of the Group with equity interest of 60.7%), for net consideration of KD 190,000, net cash disposed of KD 16,400 and recognised a gain of KD 37,802 in the consolidated income statement. As a result of this disposal, the Group's equity interest in EUPS decreased to 48.3%. Accordingly, the Group derecognised NCI amounting to KD 320,520. From the date of loss of control, EUPS is treated as an associate of the Group and accounted for in accordance with IAS 28 *Investments in Associates*.

The following table illustrates summarised financial information of the Group's investment in its associates:

	2012 KD	2011 KD
Share of associate's statement of financial position:		
Assets	43,424,875	58,676,076
Liabilities	(31,390,478)	(44,403,187)
Equity	12,034,397	14,272,889
Share of associates' revenue and profit:		
Revenue	20,743,719	35,672,746
Profit	1,139,437	520,726

The movement in investment in associates is as follows:

	2012 KD	2011 KD
At 1 January	14,865,658	11,953,337
Additions	-	4,963,214
Transfer from financial assets available-for-sale	-	1,277,924
Transfer from investment in subsidiary (Note 10 (c))	587,396	-
Disposals	(2,437,494)	(2,899,933)
Dividends received	(1,498,051)	(275,594)
Share of results	1,139,437	520,726
Cumulative changes in fair values	28,501	(539,128)
Foreign currency translation adjustment	86,699	(134,888)
At 31 December	12,772,146	14,865,658

The carrying amount of the investment in associates includes goodwill of KD 737,749 (2011: KD 592,769).

Investment in associates include quoted associates with a carrying value of KD 7,148,966 (2011: KD 6,990,283) having a market value of KD 5,978,078 (2011: KD 6,103,216).

11. HELD-TO-MATURITY INVESTMENT

This represents investment in an unquoted bond which carries fixed interest at 5% per annum, which is due in instalments every six months starting from 19 June 2012 and matures on 19 December 2016.

12. MURABAHA RECEIVABLE

Based on a Murabaha Agreement dated 9 August 2012, the Parent Company participated in a murabaha facility through a portfolio manager to an entity (a related party) (Note 26) secured against shares of a listed entity. The murabaha facility carries profit at the rate of 5% per annum and matures in 36 months.

13. FINANCIAL ASSETS AVAILABLE-FOR-SALE

	2012	<i>2011</i>
	KD	<i>KD</i>
Quoted equity securities	56,518,816	50,696,285
Unquoted equity securities	16,687,289	16,849,547
Mutual funds	1,161,041	2,950,732
	74,367,146	70,496,564

- (a) Quoted equity securities includes investments with a carrying value of KD 4,945,891 (2011: KD 5,717,979) managed by related parties (Note 26). At 31 December 2012, the Group also held shares of related parties with a carrying value of KD 23,956,165 (2011: KD 19,194,407) (Note 26).
- (b) Mutual funds includes investments with a carrying value of KD 202,412 (2011: KD 223,614) managed by related parties (Note 26).
- (c) Mutual funds are carried at net asset values provided by the fund managers and portfolio managers.
- (d) Unquoted equity securities are carried at cost, less impairment, if any, due to the unpredictable nature of their future cash flows and lack of other suitable methods for arriving at a reliable fair value of these investments. There is no active market for these financial assets and the Group intends to hold them for the long term. At 31 December 2012, the Group also held shares of related parties with a carrying value of KD 2,290,773 (2011: KD 2,290,773) (Note 26).
- (e) Management has performed a review of financial assets available-for-sale to assess whether impairment has occurred and recorded a total impairment loss of KD 1,163,560 (2011: KD 2,009,269), in the consolidated income statement.
- (f) Previously, the Group reclassified a trading investment with fair value of KD 3,412,981 from the "financial assets at fair value through income statement" to "financial assets available-for-sale" category. As at 31 December 2012, the carrying value of the reclassified trading investment amounted to KD 275,608 (2011: KD 275,608). The Group has recorded total impairment loss of KD 3,137,373 in the previous financial years.
- (g) Financial assets available-for-sale with a carrying value of KD 5,904,527 (2011: KD 5,899,874) are registered in the name of a major shareholder of the Parent Company who has confirmed in writing that it holds those financial assets on behalf of the Parent Company (Note 26 (b)).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

14. INVESTMENT PROPERTIES

	2012	2011
	KD	KD
As at 1 January	3,131,114	-
Additions	-	3,131,114
Received against due from sale of investment in subsidiaries (Note 15 (b))	1,250,000	-
Loss from fair value adjustment	(463,872)	-
At 31 December	3,917,242	3,131,114

The investment property represents a villa in Spain and properties in Egypt.

The investment properties are stated at fair value, which has been determined based on valuations performed by accredited independent valuers as at 31 December 2012.

The real estate properties in Egypt amounting to KD 1,272,459 (2011: Nil) are registered in the name of a key management personnel of the Parent Company who has confirmed in writing that he holds these properties on behalf of the Parent Company (Note 26).

In 2011, the purchase consideration of investment property was settled by exchange of certain financial assets available-for-sale amounting to KD 1,710,409 and cash of KD 1,420,705.

15. DUE FROM SALE OF INVESTMENT IN SUBSIDIARIES

- (a) In 2008, the Parent Company sold one of its wholly owned subsidiaries, Ajwan General Trading and Contracting Company W.L.L. for a total consideration of KD 78,672,640 to a third party. KD 6,000,000 was collected 2010 and during the year the remaining balance of KD 72,672,640 was settled against the term loan from National Bank of Kuwait ("NBK") as the third party has accepted the transfer of NBK term loan (Note 23).
- (b) In March 2011, the Parent Company sold its wholly owned subsidiary, Loloah Privatization for General Trading & Contracting Company W.L.L. ("Loloah"), for a total consideration of KD 2,300,000 which resulted in a gain of KD 394,485. Under the terms of the agreement with the buyer, KD 250,000 was received in 2011 and KD 600,000 was received during the year. The remaining amount of KD 1,250,000 is settled by transfer of title of real estate properties in Egypt (Note 14). The Parent Company has not transferred the ownership of shares in Loloah to the buyer which will be done when the buyer fully settles the amount due.

16. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2012	2011
	KD	KD
Amounts due from related parties (Note 26)	16,733,095	4,382,921
Interest receivable	3,062,248	3,537,760
Prepaid expenses and accrued income	459,442	235,843
Other receivables	3,477,498	4,331,549
	23,732,283	12,488,073

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT

	2012	2011
	KD	KD
Held for trading		
Quoted equity securities	3,610,017	4,508,230
Designated upon initial recognition		
Unquoted equity security	10,672,634	10,672,634
Mutual funds	688,965	1,001,297
	14,971,616	16,182,161

Quoted equity securities include investments with a carrying value of KD 58,628 (2011: KD 49,735) managed by related parties (Note 26). At 31 December 2012, the Parent Company also held shares of related parties with a carrying value of KD 35,000 (2011: Nil) (Note 26).

Mutual funds are carried at net asset values provided by the fund managers and portfolio managers.

Unquoted equity security is registered in the name of a major shareholder of the Parent Company who has confirmed in writing that it holds this security on behalf of the Parent Company (Note 26 (c)).

18. CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following at 31 December:

	2012	2011
	KD	KD
Bank balances and cash	7,085,023	13,998,664
Cash with a portfolio manager	4,587,792	5,170,872
	11,672,815	19,169,536
Bank overdraft	(5,317,590)	(7,960,436)
	6,355,225	11,209,100

Bank balances and cash includes saving accounts and short-term deposits held with reputable local commercial banks which yield an effective interest rate ranging between 0.6% to 1% (2011: 1% to 1.5%) per annum.

Bank overdraft bears an effective interest rate of 2.5% (2011: 2.5%) per annum over Central Bank of Kuwait (CBK) discount rate.

19. SHARE CAPITAL

	2012	2011
	KD	KD
Authorised 793,800,000 (2011: 793,800,000) shares of 100 fils each	79,380,000	79,380,000
Issued and fully paid up in cash 738,280,000 (2011: 738,280,000) shares of 100 fils each	73,828,000	73,828,000



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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20. RESERVES

a) Statutory reserve

In accordance with the Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year attributable to equity holders of the Parent Company before contributions to KFAS, NLST, Zakat and Board of Directors' remuneration has been transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital.

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

b) General reserve

In accordance with the Parent Company's Articles of Association, 10% of the profit for the year attributable to equity holders of the Parent Company before contribution to KFAS, NLST, Zakat and Board of Directors' remuneration has to be transferred to the general reserve. There are no restrictions on distribution of general reserve.

21. TREASURY SHARES AND TREASURY SHARES RESERVE

	2012	2011
Number of shares	9,884,984	8,040,000
Percentage of issued shares	1.34%	1.09%
Cost (KD)	730,871	456,873
Market value (KD)	879,764	522,600

Reserves of the Parent Company equivalent to the cost of the treasury shares have been earmarked as non-distributable.

22. ACCOUNTS PAYABLE AND ACCRUALS

	2012	2011
	KD	KD
Trade payables	450,754	1,883,890
Amounts due to related parties (Note 26)	50,015	88,318
Accrued expenses and other payables	1,653,343	1,433,674
	2,154,112	3,405,882

23. TERM LOANS

On 11 August 2012, the Parent Company obtained a secured term loan of KD 15,000,000 from a local financial institution which is repayable on 10 August 2015. It carries interest at the rate of 5% per annum. The term loan is secured against certain portfolios maintained by the Parent Company with a third party whose value should not be below twice the amount of outstanding loan balance.

Term loans include KD 2,327,360 (2011: KD 75,000,000) obtained by the Parent Company from NBK. This loan is unsecured and bears interest at the rate of 4% (2011: 4%) per annum over the Central Bank of Kuwait ("CBK") discount rate. During the current year, the term loan of KD 72,672,640 was settled against the amount due from sale of subsidiaries (Note 15 (a)) on transfer of term loan by NBK to the third party which is guaranteed by the Parent

Company and Al Khair National for Stocks and Real Estate Company (Note 25).

Term loans amounting to KD 31,088,371 (2011: KD 30,734,447) represents revolving short-term credit facilities from local banks. Any withdrawals are repayable within 90 days of the withdrawal date or renewable for further period of 90 days and are subject to interest rates ranging between 1.5% to 2.5% (2011: 1.75% to 2.5%) per annum over the CBK discount rate or 3 months LIBOR.

Term loans also includes Tawarruq finance amounting to KD 6,850,000 (2011: KD 6,850,000) which was obtained in 2011 from local bank. Tawarruq carries profit at rate of 7.27% (2011: 7.27%) per annum. The amount was repayable in twelve monthly equal installments starting from January 2012. As of the reporting date, the Group has rescheduled all twelve monthly installments due in 2012 to 2013. Subsequent to the reporting date, the Group has also rescheduled the principal installment due in January 2013 and February 2013 to January 2014 and February 2014.

24. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on nature of business and has two reportable operating segments as follows:

- i) Investment segment represents trading in equities including investment in associates and other strategic investments; and
- ii) Other segment represents rendering of non-investment services and general trading and contracting.

Management 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 return on investments. The Group does not have any inter-segment transactions.

	<i>Investment</i>		<i>Other</i>		<i>Total</i>	
	2012 <i>KD</i>	<i>2011</i> <i>KD</i>	2012 <i>KD</i>	<i>2011</i> <i>KD</i>	2012 <i>KD</i>	<i>2011</i> <i>KD</i>
Income	7,980,389	9,120,880	6,427,619	6,399,633	14,408,008	15,520,513
Results						
Depreciation (Note 8)	(33,881)	(32,158)	(810,358)	(672,870)	(844,239)	(705,028)
Amortisation (Note 9)	-	-	(279,663)	(279,663)	(279,663)	(279,663)
Impairment loss on financial assets available for-sale (Note 13)	(1,163,560)	(2,009,269)	-	-	(1,163,560)	(2,009,269)
Share of results of associate (Note 10)	1,139,437	520,726	-	-	1,139,437	520,726
Segment profit	2,965,795	4,047,991	1,274,447	224,884	4,240,242	4,272,875
Assets	148,817,293	205,022,738	23,009,110	22,901,252	171,826,403	227,923,990
Liabilities	54,122,437	114,426,952	9,058,228	9,906,118	63,180,665	124,333,070
Other disclosures:						
Investment in associates	12,772,146	14,865,658	-	-	12,772,146	14,865,658
Additions to property, plant and equipment	4,830	1,179	1,719,972	4,926,312	1,724,802	4,927,491
Additions to investment property	1,250,000	-	-	3,131,114	1,250,000	3,131,114



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

24. SEGMENT INFORMATION (continued)

Geographic information

The Group operates in two geographic regions; Kuwait and Non-Kuwait. The following table shows the distribution of the Group's segment income and non-current assets by region:

Income	2012 KD	2011 KD
Kuwait	9,383,914	12,780,349
Non-Kuwait	5,024,094	2,740,164
	14,408,008	15,520,513

The income information above is based on the location of the assets generating the income.

Non-current assets	2012 KD	2011 KD
Kuwait	93,820,106	73,239,767
Non-Kuwait	27,429,583	32,121,813
	121,249,689	105,361,580

25. COMMITMENTS AND CONTINGENCIES

	2012 KD	2011 KD
Commitments		
Purchase of financial assets available-for-sale	5,468,748	4,050,675
Purchase of property, plant and equipment	-	1,483,855

Contingencies

At the reporting date, the Group has provided performance bank guarantees to a customer and suppliers amounting to KD 2,072,000 (2011: to a customer KD 2,118,000), from which it is anticipated that no material liabilities will arise.

The Parent Company and Al Khair National for Stocks and Real Estate Company have provided a guarantee to NBK against loan of KD 72,672,640 assigned to a third party during the year (Note 23).

26. RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, associates, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

Transactions with related parties in the consolidated financial statements are as follows:

	2012			2011
	<i>Major shareholders</i> KD	<i>Other related parties</i> KD	Total KD	<i>Total</i> KD
Consolidated income statement				
Realised gain on sale of financial assets at fair value through income statement	-	-	-	806,323
Gain on sale of associate (Note 10 (b))		3,362,504	3,362,504	-
Interest income (Note 4)	120,986	14,311	135,297	25,105
Murabaha income	293,786	-	293,786	-
Dividend income	-	819,283	819,283	-
Portfolio management fees	-	6,733	6,733	(3,979)
Impairment losses on financial assets available-for-sale	14,947	2,086	17,033	(10,260)

	2012			2011
	<i>Major shareholders</i> KD	<i>Other related parties</i> KD	Total KD	<i>Total</i> KD
Consolidated statement of financial position				
Murabaha receivable (Note 12)	15,097,602	-	15,097,602	-
Financial assets available-for-sale (Note 13)	472,548	25,774,390	26,246,938	21,485,180
Financial assets at fair value through income statement (Note 17)	-	35,000	35,000	-
Amounts due from related parties (Note 16)	9,360,264	7,372,831	16,733,095	4,382,921
Amounts due to related parties (Note 22)	(3,263)	(46,752)	(50,015)	(88,318)
Cash with portfolio manager (Note 18)	-	3,581	3,581	3,959,882

The amount due from/to related parties are interest free and are receivable/payable on demand except for the amount of KD 4,800,000 (2011: Nil) due from a major shareholder which carries interest at the rate of 5% (2011: Nil) per annum.

Compensation of key management personnel

The remuneration of key management personnel of the Group during the year was as follows:

	2012 KD	2011 KD
Short-term employee benefits	387,997	377,580
End of service benefits	60,205	56,975
	448,202	434,555



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At 31 December 2012

26. RELATED PARTY TRANSACTIONS (continued)

Other information

a) The following financial assets are managed by related parties:

	2012	2011
	KD	KD
Financial assets available-for-sale (Note 13)		
Quoted equity securities	4,945,891	5,717,979
Mutual funds	202,412	223,614
Financial assets carried at fair value through income statement (Note 17)		
Quoted equity securities	58,628	49,735

- b) The unquoted equity securities classified as financial assets available-for-sale with a carrying value of KD 5,904,527 (2011: KD 5,899,874) are registered in the name of a major shareholder of the Parent Company who has confirmed in writing that it holds these unquoted equity securities on behalf of the Parent Company (Note 13).
- c) The unquoted equity security classified as financial assets at fair value through income statement is registered in the name of a major shareholder of the Parent Company who has confirmed in writing that it holds this security on behalf of the Parent Company (Note 17).
- d) The real estate properties in Egypt classified as investment properties are registered in the name of a key management personnel who has confirmed in writing that he holds the investment property on behalf of the Parent Company (Note 14).

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The Board of Directors of the Parent Company is ultimately responsible for the overall risk management approach and for approving the risk strategies and principles. No changes were made in the risk management objectives, policies or processes during the years ended 31 December 2012 and 2011.

27.1 Credit risk

Credit risk is the risk that a counter party will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk principally on its bank balances, held-to-maturity investment, accounts receivable and due from sale of investment in subsidiaries.

The Group has policies and procedures in place to limit the amount of credit exposure to any counter party. The Group limits its credit risk with regard to bank balances by only dealing with reputable banks. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Maximum exposure to credit risk

The Group's exposure to credit risk from bank balances, held-to-maturity investment, accounts receivable and

due from sale of investment in subsidiaries 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 table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position, without taking account of any collateral and other credit enhancements:

	2012	2011
	KD	KD
Bank balances (excluding cash)	11,664,680	19,163,782
Accounts receivable (excluding prepayments)	23,272,841	12,252,230
Due from sale of investment in subsidiaries	200,000	74,722,640
Murabaha receivable	15,097,602	-
Held-to-maturity investment	2,700,000	2,700,000
	52,935,123	108,838,652
Guarantee	72,672,640	-
	125,607,763	108,838,652

Risk concentrations of the maximum exposure to credit risk

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

The Group's financial assets subject to credit risk, before taking into account any collateral held or credit enhancements, can be analysed by the following industry sectors in one geographic region i.e. Kuwait:

	2012	2011
	KD	KD
Banks and financial institutions	11,664,680	19,163,782
Corporate	38,008,195	11,414,470
Others	3,262,248	78,260,400
	52,935,123	108,838,652

The maximum credit risk exposure to a single counter party is KD 15,097,602 (2011: KD 76,210,400).

27.2 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis.



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At 31 December 2012

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

27.2 Liquidity risk (continued)

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

	<i>Less than 3 months KD</i>	<i>3 to 12 months KD</i>	<i>1 to 5 years KD</i>	<i>Total KD</i>
2012				
Accounts payable and accruals	1,534,755	619,357	-	2,154,112
Bank overdraft	5,377,249	-	-	5,377,249
Term loans	27,066,714	14,677,156	17,708,219	59,452,089
	33,978,718	15,296,513	17,708,219	66,983,450
Commitments	5,468,748	-	-	5,468,748
Contingency - guarantee	-	-	72,672,640	72,672,640
	39,447,466	15,296,513	90,380,859	145,124,838
2011				
Accounts payable and accruals	2,048,753	1,357,129	-	3,405,882
Bank overdraft	8,059,669	-	-	8,059,669
Term loans	101,092,593	12,327,636	-	113,420,229
	111,201,015	13,684,765	-	124,885,780
Commitments	4,050,675	-	1,483,855	5,534,530
	115,251,690	13,684,765	1,483,855	130,420,310

27.3 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise of: interest rate risk, currency risk, and other price risk, such as equity price risk.

27.3.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's term loans and bank overdrafts with floating interest rates. The effect on Group's profit due to change in the interest rate by 25 basis points, with all variables held constant is as follows:

	2012 KD	2011 KD
Effect on profit	96,266	93,236

27.3.2 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign currency risk is managed on the basis of limits determined by management and a continuous assessment of the Group's open positions, current and expected exchange rate movements.

The table below indicates the Group's foreign currency exposure at 31 December, as a result of its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of 5% in the KD currency rate against the US Dollar (USD), Jordanian Dinar (JOD) and others (Canadian Dollar, Euro, Indian Rupee, British Pound and United Arab Emirates Dirham), and with all other variables held constant, on the consolidated income statement (due to the fair value of currency sensitive monetary assets and liabilities) and other comprehensive income.

	2012		2011	
	<i>Effect on other comprehensive income</i>		<i>Effect on profit</i>	<i>Effect on other comprehensive income</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
USD	1,082,635	13,623	999,900	19,562
JOD	-	27,798	-	27,561
Others	1,921	660	4,993	1,144

27.3.3 Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of the changes in the level of equity indices and the value of the individual stocks. The Group's quoted investments are primarily listed on the Kuwait Stock Exchange.

The effect on other comprehensive income (as a result of a change in the fair value of financial assets available-for-sale) and profit (as a result of a change in the fair value of financial assets at fair value through income statement) due to 5% change in market indices, with all other variables held constant is as follows:

Market index	2012		2011	
	<i>Effect on other comprehensive income</i>		<i>Effect on profit</i>	<i>Effect on other comprehensive income</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
Kuwait	185,629	2,621,918	108,412	2,328,555

28. CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2012 and 2011.



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28. CAPITAL MANAGEMENT (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, interest bearing loans and borrowings (term loans and bank overdraft), and other liabilities, less bank balances and cash. Capital represents equity attributable to the equity holders of the Parent Company.

	2012	2011
	KD	KD
Interest bearing loans and borrowings	60,583,321	120,544,883
Accounts payable and accruals	2,154,112	3,405,882
Less: Bank balances and cash	(11,672,815)	(19,169,536)
<hr/>		
Net debt	51,064,618	104,781,229
Capital	107,947,926	102,688,127
<hr/>		
Total capital and net debt	159,012,544	207,469,356
<hr/>		
Gearing ratio	32%	51%

29. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount at which an asset, liability or financial instrument could be exchanged or settled between knowledgeable willing parties in an arm's length transaction. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention, or need, to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms. Financial instruments comprise financial assets and financial liabilities.

The estimated fair values of financial instruments, except for unquoted equity securities classified as financial assets available-for-sale (Note 13) approximated their carrying values at the reporting date.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial assets by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

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

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

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

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
2012				
Financial assets available-for-sale	56,518,816	1,161,041	-	57,679,857
Financial assets at fair value through income statement	3,610,017	11,361,599	-	14,971,616
<i>2011</i>				
Financial assets available-for-sale	50,696,285	2,950,732	-	53,647,017
Financial assets at fair value through income statement	4,508,230	11,673,931	-	16,182,161

During the reporting periods ended 31 December 2012 and 2011, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

30. DIVIDENDS

The Board of Directors of the Parent Company have recommended distribution of a cash dividend of 6 fils (2011: 5 fils) per share for the year ended 31 December 2012. Subject to being approved by the Annual General Assembly meeting of the shareholders, the dividend shall be payable to the shareholders registered on record as of the date of the Annual General Assembly meeting.

The Annual General Assembly meeting of the shareholders held on 19 May 2012 approved the distribution of a cash dividend of 5 fils per share for the year ended 31 December 2011 on outstanding shares excluding treasury shares as of the date of the meeting.