Annual Report 2011

NAPESCO

نـابيسكـو

National Petroleum Services Company K.S.C. (Closed)

www.napesco.com

His Highness
Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah
Amir of the State of Kuwait

His Highness
Sheikh Nawaf Al-Ahmed Al-Jaber Al-Sabah
Crown Prince

His Highness
Sheikh Jaber Al-Mubarak Al-Sabah
Prime Minister

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Board of Directors

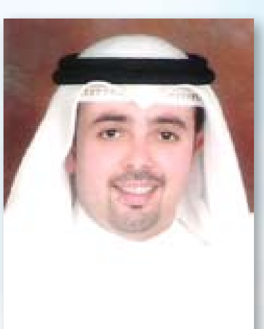
Omran Habib Jawhar Hayat
Chairman

Khalid Hamdan Al-Saif
Managing Director

Mohammad Mahdi Al Shammari
Deputy of Chairman

Munawer Anwar Al-Nouri
Member

Hani Mohammed Eid Mosallam
Member



Muhaimen Ali Behbehani
Member

Radwan Mohammed Jamal
Member

CHAIRMAN'S STATEMENT

Dear Shareholders of the National Petroleum Services Company.

I am pleased to announce our financial results for the year 2011 and to report continuing success across all of our business activities.

The year 2011 was exceptional. Against the backdrop of both political and economic change and uncertainty; and by the grace of Allah we have delivered significant increases in revenue and profitability.

Moving forward the Company will continue to pursue increasing the volume of its business through ongoing strategic planning, human resources development and operational excellence while offering our Clients premium services and value added solutions. We will continue to evaluate opportunities for geographical expansion into foreign markets that offer attractive investment return and whereby we can leverage our established and proven expertise in oilfield and environmental services.

Our achievements realized in 2011 include the following:

The Company's Commercial Division achieved a number of notable successes that contributed to our increase in revenue and profitability. These include the signing of a Soil Investigation Contract with KOC for a period of three years. Additionally, several projects in the Health, Safety and Environment sector were secured with multinational Companies and the Kuwait Ministry of Electricity and Water. The Company was also awarded ISO 17025:2005 accreditation for our Environmental Laboratory, a significant achievement and the first such accreditation granted to a national Company in the private sector. We believe that this achievement will result in an increase in future related business and revenues for the Company.

In Iraq, the Company completed necessary infrastructure to provide services on an on-going basis. Our first oilfield services project for the Rumaila Operating Organization (ROO), a BP led consortium was completed in October and was by the grace of Allah an outstanding success.

The Company became qualified for Well Testing Services with Kuwait Oil Company and is currently pursuing opportunities that will commercially establish this new business line in the later part of 2012. As part of our Stimulation Services offering we have purchased new high pressure – high flow rate pumping equipment that will allow us to participate in a portion of the stimulation market that has been previously and exclusively dominated by the international Service Providers. We anticipate being operational in this segment of the stimulation market during the second half of 2012.

Several MOUs were signed with international Companies that have secured contracts with KOC for

Soil Remediation Services. We look forward to the execution of these projects in cooperation with these partner Companies.

At the request of one our main Clients, the Company initiated and completed development work on a proprietary Thermal Cement System that is required for the production of Heavy Oil. We anticipate this unique Cement System will be commercialized in the second quarter of 2012.

Company's Financial Statements for year ending 31/12/2011.

The Company generated revenue from sales and services amounting to KD 16,377,366 for the year 2011 as compared to KD 10,558,225 for the year 2010, an increase of 55%.

As previously mentioned the Commercial Division contributed a significant portion of this increase which amounted to KD 7,776,000 for the year 2011 as compared to KD 3,032,000 in 2010.

A net profit of KD 2,338,400 was achieved in 2011 or 44.55 Fils per share as compared to KD 1,588,570 or 30.27 Fils per share in 2010, an increase of 47%.

By the grace of Allah the Company has not only earned unprecedented profits for the year 2011 but has also continued the growth of the Shareholders Equity, having reached KD 13,393,897 in 2011 as compared to KD 12,114,383 for the year 2010, and increase of 10.6%.

Our Company has maintained a strong position within our industry and we have grown our business by following a well defined strategy and providing high quality services to our Clients with the support and dedication of our qualified, loyal and professional work force. I wish to emphasize that with the grace of Allah, your support and the guidance and goals as set forth by our Board of Directors we will continue to pursue our business activities and future growth with dedication and diligence.

In conclusion, I wish to extend my sincere and profound appreciation to our Shareholders for their support, our Board of Directors who have been instrumental in guiding our organization to success and to our executive management and employees for their selfless efforts and commitment in the performance of their duties.

Omran Habib Johar Hayat

Chairman of Board

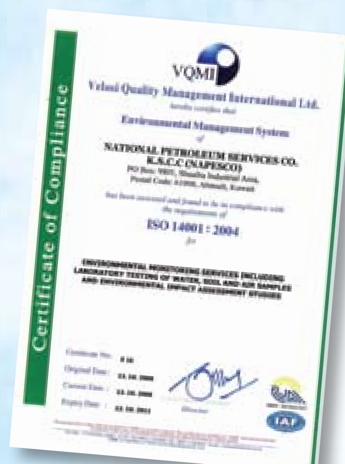
COMPANY OUTLINE

Name of the Company	**: National Petroleum Services Company (K.S.C) Closed**
Commercial Registration No.	**:** 49911 dated 28 March 1993
Date Established:	3rd of January 1993
Date Listed on the K S E	**:** 18th of October 2003
Address	**:** Shuaibah Industrial Area, Block 3, Street 6, Plot 76 P.O. Box 9801 Ahmadi 61008 Kuwait Telephone: 22251000 Fax: 22251010
Website	**:** www.napesco.com
Authorized Capital	**:** KD 5,486,620
Paid Up	**:** KD 5,486,620
Nominal Value of the Share	**:** 100 Fils
Auditor	**: BDO Al-Nisf & Partners** P.O. Box 25578 Safat 13116 Kuwait Telephone: 22426999 Fax: 22401666 **Al-Dar International** **Accountants and Consultants** P.O. Box 25597, Safat, 13116, Kuwait Tel.: 22461 490 Fax: 22461 493

QUALITY MANAGEMENT SYSTEM CERTIFICATES


International Accreditation Service
CERTIFICATE OF ACCREDITATION
This is to signify that
NATIONAL PETROLEUM SERVICES COMPANY
P.O. BOX 9801
AHMADI 61008, KUWAIT
Testing Laboratory TL-490


VQMI
Velosi Quality Management International Ltd.
Quality Management System
NATIONAL PETROLEUM SERVICES COMPANY (K.S.C.C) (NAPESCO)
ISO 9001 : 2000
Certificate of Compliance


VQMI
Velosi Quality Management International Ltd.
Environmental Management System
NATIONAL PETROLEUM SERVICES CO. K.S.C.C (NAPESCO)
ISO 14001 : 2004
Certificate of Compliance

HEALTH, SAFTY AND ENVIRONMENT AWARD


SILVER AWARD
CATEGORY : OIL & GAS
Granted to
M/s. National Petroleum Services Co.
Kuwait
AMERICAN SOCIETY OF SAFETY ENGINEERS - KUWAIT CHAPTER

PRINCIPAL COMPANIES

Company Name	Country of Origin	Services
CHOLAMANDALAM MS RISK SERVICES	India	SAFETY & RISK CONSULTANCY
FLOWSERVE LIMITORQUE	U.S.A.	ELECTRIC ACTUATORS, MOTORISED VALVES
FPC (FIRE PROTECTION CONSULTANT) MIDDLE EAST	Belgium	FIRE ENGINEERING CONSULTANCY
FILTERS S.R.L	ITALY	PROCESS FILTERS
N.V GOUDA VUURVAST	The Netherlands	REFRACTORIES, INSULATION MATERIALS
CHINA OIL HBP SCIENCE & TECHNOLOGY CORPORATION LTD.	China	PRODUCTION TEST SEPARATORS, PROCESS EQUIPMENTS
SNIFFERS N.V.	Belgium	LEAK DETECTION AND REPAIRING AND EMISSION MONITORING
PL ENGINEERING LIMITED	India	DESIGN & ENGINEERING
RODLESS PUMPS INC.	China	PROGRESS CAVITY RODLESS PUMPS
FUSION PETROLEUM TECHNOLOGIES INC.	USA	INTEGRATED GEOLOGICAL GEOPHYSICAL AND ENGINEERING SERVICES
SEISMIC MICRO TECHNOLOGY	USA	SMT SOFTWARE PRODUCTES /SALES

BUSINESS PARTNERS

Company Name	Country of Origin	Activity / Product
ECON INDUSTRIES GMBH	Germany	THERMAL DESORPTION TECHNOLOGY AND SEPARATION SYSTEMS
ENVIRON	United Kingdom	ENVIRONMENTAL, HEALTH CONSULTANCY AND SOIL REMEDIATION
PETROLEUM PIPE COMPANY- MIDDLE EAST	Dubai	OCTG, TUBING, LINE PIPES
SHANGDONG MOLONG	China	OCTG, TUBING
MEKE DENIZ TEMIZILIGI LTD.SERVICES	Turkey	OIL SPILL CONTROL AND MANAGEMENT
SRI RAMACHANDRA MEDICAL COLLEGE & RESEARCH INSTITUTE	India	OCCUPATIONAL HEALTH, INDUSTRIAL HYGIENE
SITA REMEDIATION	Belgium	SOIL REMEDIATION
WRS COMPASS	U.S.A	SOIL TREATMENT SERVICES
WITTEMANN	U.S.A	CO2 RECOVERY SYSTEMS
GLOBAL CALL NETWORK	Narway	INDUSTRIAL PRODUCTS AND SERVICES
PAJAK ENGINEERING LTD.	Canada	OIL FIELD PROJECT MANAGEMENT AND WELL SITE SUPERVISION
MUTTRAH OIL FIELD SUPPLY AND SERVICES (MOSS)LLC.	Oman	OIL FIELD SERVICES AND SUPPLY
Arabian Eastern Group FZE, Dubai	U.A.E	PRODUCTS ELECTRO MECHANICAL

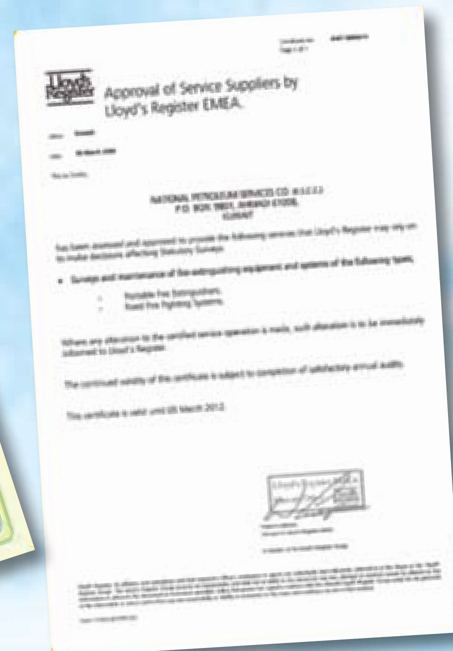
PREQUALIFIED ACTIVITIES

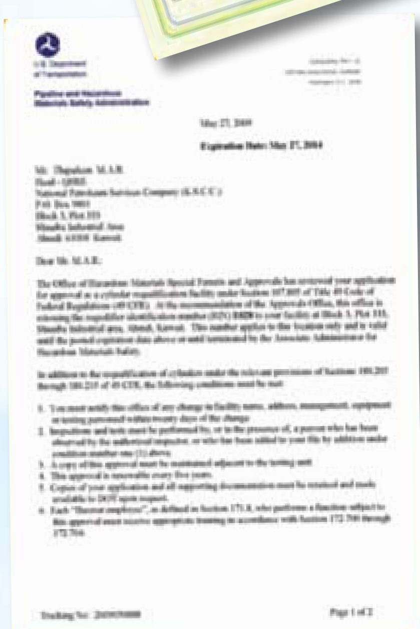
Company Name	Type of Work
Kuwait Oil Company	CEMENTING SERVICES COILD TUBING,NITROGEN AND SIMULATION SERVICES ENVIRONMENTAL CONSULTANCY HEALTH CONSULTANCY SERVICES SAFETY CONSULTANCY SERVICES WASTE MANAGEMENT SERVICES COMPREHENSIVE MAINTENANCE OF FIRE FIGHTING SYSTEMS DESIGN & ENGINEERING SERVICES TUBULAR CLEANING SERVICES SUPPLY OF TUBING CASING AND ACCESSORIES
Kuwait Petroleum Corporation	TRAINING SERVICES PROVIDER
Kuwait National Petroleum Company	ENVIRONMENTAL SERVICES ENVIRONMENTAL IMPACT ASSESSMENT STUDY ONLINE LABORATORY MAINTENANCE SERVICES SUPPLY, INSTALL , COMM & MAINT OF FIRE EXTINGUISHING SYSTEMS LEAK DETECTION & REPAIRING SERVICES OIL SPILL CONTROL AND MANAGEMENT SAFETY CONSULTANCY SERVICES HALON PHASE OUT CONSULTANCY
Joint Operations - Wafra	OILY VISCOUS LIQUID TREATMENT FIRE ALARM & FIRE FIGHTING SYSTEM CONSULTANCY ENVIRONMENTAL CONSULTANCY & MONITORING DESIGN & ENGINEERING SERVICES ANALYTICAL LABORATORY SERVICES
Joint Operations - Khafji Saudi Arabia	ASBESTOS CONSULTANCY ENVIRONMENTAL CONSULTANCY INDOOR AIR QUALITY SERVICES STACK EMISSION MONITORING SERVICES SEISMIC DATA INTERPRETATION & QUALITY CONTROL
Saudi Arabian Chevron	ENVIRONMENTAL CONSULTANCY & MONITORING
Kuwait Fire Department (KFD)	HALON MANAGEMENT SERVICES
Ministry of Environment & Climat Affairs (Oman)	WASTE MANAGEMENT SERVICES HAZARDOUS WASTE MANAGEMENT ENVIRONMENTAL CONSULTANCY

ENDORSEMENTS

Environment Public Authority	ENVIRONMENTAL CONSULTANCY EIA STUDIES MERCURY CONTAMINATED SOIL TREATMENT HALON MANAGEMENT SERVICES
U.S- Department Of Transportation	PRESSURIZED CYLINDER RETESTER>S IDENTIFICATION NUMBER
DNV	SURVEY AND MAINTENANCE OF FIRE EXTINGUISHERS & SYSTEMS
Lloyods Register	SURVEY AND MAINTENANCE OF FIRE EXTINGUISHERS & SYSTEMS
ISO 14001 : 2004	ENVIRONMENTAL MONITORING SERVICES INCLUDING LABORATORY TESTING OF WATER, SOIL AND AIR SAMPLES AND EIA
ISO 9001 : 2000	PROVISION OF OIL FILED SERVICES INCLUDING DESIGN FOR OIL WELL CEMENTING
ISO 17025 : 2005	ENVIRONMENTAL LAB

APPROVALS & ENDORSEMENTS





BDO
AL NISF & PARTNERS
P.O. Box 25578 Safat 13116 Kuwait
Al-Shaheed Tower, 4th Floor
Khalid Ben Al-Waleed Street, Sharq, Kuwait
Telephone: 22426999
Fax: 22401666

Al-Dar International
Accountants and Consultants
P.O. Box 25597, Safat, 13116, Kuwait
Tel.: +965 22461 490
Fax: +965 22461 493
Email: aldar_of@hotmail.com

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL PERTOLEUM SERVICES COMPANY K.S.C. (CLOSED)

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of National Petroleum Services Company K.S.C. (Closed) ("the Parent Company") and its subsidiary (together referred to as "the Group") which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate 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 consolidated financial position of the Group as at 31 December 2011, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the consolidated financial statements include the information required by the Kuwait Commercial Companies Law of 1960, and the Parent Company's articles and memorandum of association, as amended. In our opinion, proper books of account have been kept by the Parent Company, the inventory was duly carried out in accordance with recognized procedures and the accounting information given in the board of directors' report agrees with the books of account. We have not become aware of any contravention, during the year ended 31 December 2011, of the Kuwait Commercial Companies Law of 1960, or of the Parent Company's articles and memorandum of association, as amended that would materially affect the Group's activities or its financial position.

Qais M. Al-Nisf	**Ahmed M. Al-Rasheed**
Licence No. 38 - A	Licence No. 39 - A
BDO Al Nisf & Partners	Al-Dar International – DFK International

Kuwait: 20 February 2012

Consolidated statement of financial position As at 31 December 2011

	Notes	2011 KD	2010 KD
Assets			
Non current assets			
Property, plant and equipment	4	7,792,971	8,290,674
Available for sale investments		176,647	187,753
		7,969,618	8,478,427
Current assets			
Inventories	5	1,544,191	1,419,607
Trade receivables	6	2,305,405	2,596,118
Other receivables		332,945	408,724
Financial assets at fair value through profit or loss	7	1,632,351	1,873,029
Cash and cash equivalents	8	3,880,436	1,542,429
		9,695,328	7,839,907
Total assets		17,664,946	16,318,334
Equity and liabilities			
Equity			
Share capital	9	5,486,620	5,486,620
Share premium	10	3,310,705	3,310,705
Statutory reserve	11	1,217,647	969,966
Voluntary reserve	12	1,217,647	969,966
Treasury shares	13	(868,811)	(868,811)
Fair value reserve		15,844	24,997
Retained earnings		3,014,245	2,220,940
Total equity		13,393,897	12,114,383
Non-current liabilities			
Non-current portion of term loans	14	-	375,000
Provision for employees' indemnity		569,696	451,557
		569,696	826,557
Current liabilities			
Current portion of term loans	14	1,569,571	1,451,505
Advances received		-	433,110
Trade and other payables	15	2,131,782	1,492,779
		3,701,353	3,377,394
Total liabilities		4,271,049	4,203,951
Total equity and liabilities		17,664,946	16,318,334

The notes on pages 22 to 43 form an integral part of these consolidated financial statements.

Omran Habib Hassan Jawhar Hayat
Chairman

Consolidated statement of income For the year ended 31 December 2011

	Notes	2011 KD	2010 KD
Sales and service revenue		16,377,366	10,558,225
Cost of sales and services		(12,862,941)	(8,119,921)
Gross profit		3,514,425	2,438,304
Unrealized (loss) gain on financial assets at fair value through profit or loss		(20,924)	34,810
Realized gain on sale of financial assets at fair value through profit or loss		17,169	5,220
Impairment loss on available for sale investments		(1,953)	(17,127)
Interest income		11,806	63,685
Other income		124,556	204,572
General and administrative expenses	16	(1,092,933)	(917,652)
Finance costs		(75,339)	(114,679)
Profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST), Zakat and Directors' remuneration		2,476,807	1,697,133
Contribution to KFAS		(21,749)	(15,438)
NLST		(60,165)	(43,661)
Zakat		(24,493)	(17,464)
Directors' remuneration		(32,000)	(32,000)
Profit for the year	17	2,338,400	1,588,570
Earnings per share (fils)	18	44.55	30.27

The notes on pages 22 to 43 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income **For the year ended 31 December 2011**

	2011	2010
	KD	KD
Profit for the year	2,338,400	1,588,570
Other comprehensive income		
Change in the fair value of available for sale investments	(11,106)	(5,006)
Impairment loss on available for sale investment	1,953	17,127
Other comprehensive (loss) income for the year	(9,153)	12,121
Total comprehensive income for the year	2,329,247	1,600,691

The notes on pages 22 to 43 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity For the year ended 31 December 2011

	Share capital	Share premium	Statutory reserve	Voluntary reserve	Treasury shares	Fair value reserve	Retained earnings	Total equity
	KD	KD	KD	KD	KD	KD	KD	KD
Balance at 1 January 2010	5,486,620	3,310,705	800,253	800,253	(868,811)	12,876	2,283,964	11,825,860
Profit for the year	-	-	-	-	-	-	1,588,570	1,588,570
Other comprehensive income	-	-	-	-	-	12,121	-	12,121
Total comprehensive income for the year	-	-	-	-	-	12,121	1,588,570	1,600,691
Dividends paid	-	-	-	-	-	-	(1,312,168)	(1,312,168)
Transfer to reserves	-	-	169,713	169,713	-	-	(339,426)	-
Balance at 31 December 2010	5,486,620	3,310,705	969,966	969,966	(868,811)	24,997	2,220,940	12,114,383
Profit for the year	-	-	-	-	-	-	2,338,400	2,338,400
Other comprehensive loss	-	-	-	-	-	(9,153)	-	(9,153)
Total comprehensive (loss) income for the year	-	-	-	-	-	(9,153)	2,338,400	2,329,247
Dividends paid	-	-	-	-	-	-	(1,049,733)	(1,049,733)
Transfer to reserves	-	-	247,681	247,681	-	-	(495,362)	-
Balance at 31 December 2011	5,486,620	3,310,705	1,217,647	1,217,647	(868,811)	15,844	3,014,245	13,393,897

The notes on pages 22 to 43 a form an integral part of these consolidated financial statements.

Consolidated statement of cash flows For the year ended 31 December 2011

	Note	2011 KD	2010 KD
OPERATING ACTIVITIES			
Profit for the year		2,338,400	1,588,570
Adjustments for:			
Depreciation		1,214,582	1,238,138
Finance costs		75,339	114,679
Gain on disposal of property, plant and equipment		(14,057)	(2,963)
Provision for employees' indemnity		155,787	86,649
Allowance for doubtful debts		20,000	-
Impairment of available for sale investments		1,953	17,127
Unrealized loss (gain) on financial assets at fair value through profit or loss		20,924	(34,810)
Realized gain on financial assets at fair value through profit or loss		(17,169)	(5,220)
		3,795,759	3,002,170
Movements in working capital:			
Inventories		(124,584)	333,271
Trade receivables		269,649	(1,245,845)
Other receivables		75,779	(75,945)
Advances received		(433,110)	(1,313,175)
Trade other payables		724,871	843,333
Cash generated from operations		4,308,364	1,543,809
Payments for KFAS		(15,438)	(20,663)
Payment for NLST		(44,495)	(58,176)
Payment for Zakat		(16,451)	(23,271)
Payments for employees' indemnity		(37,648)	(45,173)
Net cash from operating activities		4,194,332	1,396,526
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(746,758)	(1,025,568)
Proceeds from disposal of property, plant and equipment		43,936	22,993
Net movement in investments at fair value through profit or loss		236,923	(91,030)
Time deposits		-	3,150,000
Net movement in available for sale investments		-	103,956
Net cash (used in) from investing activities		(465,899)	2,160,351
FINANCING ACTIVITIES			
Term loan received		1,318,066	-
Term loan repaid		(1,575,000)	(1,700,000)
Finance cost paid		(83,759)	(114,679)
Dividends paid		(1,049,733)	(1,307,626)
Net cash used in financing activities		(1,390,426)	(3,122,305)
Net increase in cash and cash equivalents		2,338,007	434,572
Cash and cash equivalents at beginning of the year		1,542,429	1,107,857
Cash and cash equivalents at end of the year	8	3,880,436	1,542,429

The notes on pages 22 to 43 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements
For the year ended 31 December 2011

1. GENERAL INFORMATION

National Petroleum Services Company K.S.C. (Closed) ("the Parent Company") is a closed Kuwaiti shareholding Company incorporated on 1 January 1993, in accordance with the provisions of Commercial Companies Law of 1960, as amended and its articles and memorandum of association. The Parent Company's shares were listed on the Kuwait Stock Exchange on 18 October 2003.

The Parent Company is engaged in carrying out cementing, coil tubing, pumping, stimulation and other miscellaneous associated services relating to drilling operations.

The consolidated financial statements for the year ended 31 December 2011, comprise the Parent Company and its wholly owned subsidiary, Napesco International Petroleum Services Company W.L.L (together referred to as "the Group").

The Parent Company is domiciled in Kuwait and the address of its registered office and principal place of business is Plot no 3, building no 76, Shuaiba, Kuwait.

The consolidated financial statements of National Petroleum Services Company K.S.C. (Closed) were authorized for issue by the Board of Directors on 20 February 2012. The shareholders' of the parent Company have the power to amend these consolidated financial statements at the Annual General Assembly.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

2.1 *Standards and Interpretations adopted by the Group*

The following new and revised Standards and Interpretations have been adopted by the Group for the annual period beginning 1 January 2011:

IAS 1 Presentation of Financial Statements (Amendment)

The amendment clarifies that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 24 Related Party Disclosures (Revised)

The amendment clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

Notes to the consolidated financial statements
For the year ended 31 December 2011

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (continued)

2.1 Standards and Interpretations in issue but not yet effective and not early adopted by the Group

• Amendments to IFRS 7,*Disclosures Transfers of Financial Assets*	Effective for annual periods beginning on or after 1 July 2011
• IFRS 9 *Financial Instruments*	Effective for annual periods beginning on or after 1 January 2013
• IFRS 10 *Consolidated Financial Statements*	Effective for annual periods beginning on or after 1 January 2013
• IFRS 12 *Disclosure of Interests in Other Entities*	Effective for annual periods beginning on or after 1 January 2013
• IFRS 13 *Fair Value Measurement*	Effective for annual periods beginning on or after 1 January 2013
• Amendments to IAS 1, Presentation of Items of Other Comprehensive Income	Effective for annual periods beginning on or after 1 July 2012
• IAS 19 (as revised in 2011) Employee Benefits	Effective for annual periods beginning on or after 1 January 2013
• IAS 27 (as revised in 2011) Separate Financial Statements	Effective for annual periods beginning on or after 1 January 2013
• IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures	Effective for annual periods beginning on or after 1 January 2013

Management anticipates that the adoption of these new and revised Standards once they become effective in future periods will not have a material financial impact on these consolidated financial statements of the Group in the period of initial application.

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and amended in October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2013.

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. The standard 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 yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2013.

Notes to the consolidated financial statements
For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB), IFRIC interpretations as issued by the International Financial Reporting Interpretations Committee (IFRIC) and Commercial Companies Law of 1960, as amended.

3.2 Basis of preparation

These consolidated financial statements have been prepared under the historical cost convention except for the measurement at fair value of investments at fair value through profit or loss and certain available for sale investments. The principal accounting policies are set out below.

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

3.3 Basis of consolidation

These consolidated financial statements comprise the financial statements Parent Company and its wholly owned subsidiary drawn up to 31 December 2011 (see below). The subsidiary's reporting date is 31 December.

Subsidiaries are all entities over which the Parent Company has the power to control the financial and operating policies. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. The financial statements of the subsidiaries are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses.

Intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated in full on consolidation. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of amount of those interests at the date of original business combination and the non-controlling entity's share of changes in equity since the date of the combination. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Notes to the consolidated financial statements
For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Basis of consolidation (Continued)

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs).

Details of the Parent Company's subsidiary is as follows.

Name of subsidiary	Country of incorporation	%Ownership 2011	%Ownership 2010	Principal activity
Napesco International Petroleum Services Company W.L.L.	Kuwait	99%	99%	Drilling and maintenance of petroleum and non petroleum well. Treatment of waste from petroleum, chemical and medical material

3.4 Property, plant and equipment

Property, plant and equipment except leasehold land are stated at cost less accumulated depreciation and any accumulated impairment losses. Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Depreciation is calculated based on the estimated useful lives of the applicable assets on a straight-line basis commencing when the assets are ready for their intended use. The estimated useful lives, residual values and depreciation methods are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Significant improvements and replacements of assets are capitalised.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in statement of income in the period in which they occur.

3.5 Financial assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Notes to the consolidated financial statements
For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Financial assets (Continued)

Financial assets are classified into the following specified categories: 'cash and cash equivalents', 'financial assets at fair value through profit or loss', 'available for sale investments' and 'trade receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest rate method
The effective interest rate is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and bank balances.

Financial assets at fair value through profit or loss ("FVTPL")
Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if:

(i) it has been acquired principally for the purpose of selling in the near future; or
(ii) it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
(iii) it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

(i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
(ii) the financial asset forms part of a Group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the Grouping is provided internally on that basis; or
(iii) it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in the consolidated statement of income. Fair value is determined in the manner described in note 21.

Available for sale investments
Available for sale investments are initially measured at cost which is the fair value of consideration given. Subsequent to initial recognition, available for sale investments are measured at fair value. For investments traded in organised financial markets, fair value is determined by reference to the last quoted bid price at the close of business on the financial position date.

Notes to the consolidated financial statements
For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Financial assets (Continued)

For investments where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current market value of another instrument which is substantially the same or is based on the expected cash flows or the underlying net asset base of the investment. Investments whose fair value cannot be reliably measured are carried at cost less any impairment loss.

Gains or losses arising from changes in fair value of available for sale investments are recognised directly in other comprehensive income and accumulated in the fair value reserve until the investment is sold, collected, or otherwise disposed of, or until the investment is determined to be impaired at which time the cumulative gain or loss previously recognised in the fair value reserve is reclassified to the consolidated statement of income for the period in which they arise. Foreign exchange gains and losses on monetary assets, are recognised directly in the consolidated statement of income.

Dividends on available for sale equity instruments are recognised in the consolidated statement of income when the Group's right to receive the dividends is established.

Trade receivables
Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the consolidated statement income when there is objective evidence the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective rate computed at initial recognition.

3.6 Inventories
Inventories are stated at the lower of cost or net realizable value after making allowance for any slow moving, obsolete or damaged items. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average cost and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

3.7 Financial liabilities

The Group's financial liabilities include bank borrowings and trade payables.

Trade payables
Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Notes to the consolidated financial statements
For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Financial liabilities (Continued)

Bank borrowings
Interest bearing bank loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Derecognition of financial liabilities
A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

3.8 Provision for employees' indemnity
Provision is made for amounts payable to employees under the Kuwaiti Labour Law and employment contracts. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on the financial position date, and approximates the present value of the final obligation.

3.9 Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Service revenue is recognized in the consolidated statement of income in proportion to the stage of completion of the transaction at the financial position date. The method used determines services performed as a percentage of total services to be performed and applies this percentage to total revenue expected. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Dividend income from investments is recognised when the shareholder's right to receive payment has been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Notes to the consolidated financial statements
For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Foreign currency translation

Transactions in foreign currencies are recorded in KD at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the financial position date. Exchange differences arising on settlement or translation of monetary items are taken to the consolidated statement of income. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Translation differences on non-monetary items such as equity investments which are classified as financial assets at fair value through profit or loss are reported as part of the fair value gain or loss.

3.11 Impairment of tangible assets

At each financial position date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Notes to the consolidated financial statements
For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each financial position date. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been impacted.

For financial assets classified as available for sale investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For trade receivables, objective evidence of impairment could include: (i) significant financial difficulty of the issuer or counterparty; or (ii) default or delinquency in interest or principal payments; or (iii) it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated statement of income.

When an available for sale investment is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

With the exception of available for sale investments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated statement of income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available for sale investments, impairment losses previously recognised through the consolidated statement of income are not reversed through the consolidated statement of income. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income.

Notes to the consolidated financial statements
For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Provisions

A provision is recognized in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.14 Treasury shares

Treasury shares consist of the Group's own shares that have been issued, subsequently reacquired by the Group and not yet reissued, sold or cancelled. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the treasury shares. Consideration paid or received is directly recognized in equity. When the treasury shares are sold, gains are credited to a separate account in shareholders' equity (treasury shares reserve) which is not distributable. Any realized losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings and then to reserves.

Gains realized subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and treasury shares reserve account. 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.

3.15 Dividends

Dividends are recognized as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the shareholders.

3.16 Significant accounting judgments and estimation uncertainty

Accounting judgments

In the process of applying the Group's accounting policies, management has used judgments and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgments and estimates are as follows:

Classification of investments

Management decides on acquisition of an investment whether it should be classified as financial assets at fair value through profit or loss or as available for sale investments.

Classification of investments as financial assets at fair value through profit or loss depends on how management monitor the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of consolidated statement of income in the management accounts, they are classified as financial assets at fair value through profit or loss. All other investments are classified as available for sale.

Notes to the consolidated financial statements
For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Significant accounting judgments and estimation uncertainty (continued)

Impairment of investments

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

Estimation uncertainty

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

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;
- other valuation models.

Useful lives of tangible assets

As described in note 3.4, the Group's reviews the estimated useful lives over which its tangible assets are depreciated. The Group's management is satisfied that the estimates of useful lives are appropriate.

Notes to the consolidated financial statements
For the year ended 31 December 2011

4. PROPERTY, PLANT AND EQUIPMENT

	Building	Plant and Machinery	Furniture, fixtures and computers	Vehicles	Capital work in progress	Total
	KD	KD	KD	KD	KD	KD
Cost						
At 1 January 2010	2,514,184	8,851,272	632,706	314,667	1,487,181	13,800,010
Additions	63,081	841,424	19,235	101,828	-	1,025,568
Transfers	-	1,487,181	-	-	(1,487,181)	-
Disposals	-	(21,247)	-	(91,590)	-	(112,837)
At 31 December 2010	2,577,265	11,158,630	651,941	324,905	-	14,712,741
Additions	22,318	678,660	45,627	153	-	746,758
Disposals	-	(56,023)	-	(9,611)	-	(65,634)
At 31 December 2011	2,599,583	11,781,267	697,568	315,447	-	15,393,865
Accumulated depreciation						
At 1 January 2010	466,495	4,266,098	323,618	220,525	-	5,276,736
Charge for the year	125,374	909,872	138,680	64,213	-	1,238,139
Relating to disposals	-	(7,812)	-	(84,996)	-	(92,808)
At 31 December 2010	591,869	5,168,158	462,298	199,742	-	6,422,067
Charge for the year	125,375	952,429	95,245	41,533	-	1,214,582
Relating to disposals	-	(26,144)	-	(9,611)	-	(35,755)
At 31 December 2011	717,244	6,094,443	557,543	231,664	-	7,600,894
Carrying value						
As at 31 December 2011	1,882,339	5,686,824	140,025	83,783	-	7,792,971
As at 31 December 2010	1,985,396	5,990,472	189,643	125,163	-	8,290,674
Annual depreciation rates	5%	10%	20% - 33.33%	20% - 33.33%		

The Group’s buildings are erected on land leased from the Government of Kuwait.

The Group’s assets are mortgaged against term loans granted by the Industrial Bank of Kuwait K.S.C (see note 14).

Notes to the consolidated financial statements
For the year ended 31 December 2011

5. INVENTORIES

	2011	2010
	KD	KD
Cement and acidizing chemicals	901,434	816,382
Environmental chemicals	40,647	45,430
Spares and tools	602,110	557,795
	1,544,191	1,419,607

6. TRADE RECEIVABLES

	2011	2010
	KD	KD
Trade receivables	2,345,405	2,616,118
Less: allowance for doubtful debts	(40,000)	(20,000)
	2,305,405	2,596,118

At the financial position date, net trade receivables amounting to KD 612,974 (2010: KD 495,883) were past due but not considered to be impaired. The ageing analysis of these receivables is as follows:

Ageing of past due but not impaired

	2011	2010
	KD	KD
90 – 120 days	165,477	193,950
120 – 180 days	350,335	165,812
180 – 365 days	62,962	77,511
Above 365 days	34,200	58,610
Total	612,974	495,883

Accounts receivable that are not past due are considered collectible based on historic experience.

Notes to the consolidated financial statements
For the year ended 31 December 2011

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011	2010
	KD	KD
Quoted securities	21,780	256,125
Unquoted securities	1,610,571	1,616,904
	1,632,351	1,873,029

Financial assets at fair value through profit or loss are managed by a professional manager, under a portfolio management agreement.

8. CASH AND CASH EQUIVALENTS

	2011	2010
	KD	KD
Cash in hand	22,770	14,453
Cash at bank	3,857,666	1,527,976
	3,880,436	1,542,429

9. SHARE CAPITAL

	2011	2010
	KD	KD
Authorised, issued and fully paid: 54,866,204 shares of 100 fils each (2010: 54,866,204 shares of 100 fils each) paid in cash.	5,486,620	5,486,620

10. SHARE PREMIUM

The share premium account is not available for distribution.

11. STATUTORY RESERVE

In accordance with the Kuwait Commercial Companies' Law of 1960 and the Parent Company's articles and memorandum of association, as amended, 10% of the profit for the year is required to be transferred to the statutory reserve until the reserve totals 50% of the paid up share capital. Distribution of the statutory 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.

Notes to the consolidated financial statements
For the year ended 31 December 2011

12. VOLUNTARY RESERVE

As required by the Parent Company's articles and memorandum of association, 10% of the profit for the year is required to be transferred to the voluntary reserve. Such annual transfers can be discontinued by a resolution of the shareholders at the annual general assembly meeting upon recommendation of the board of directors. There are no restrictions on the distribution of this reserve.

13. TREASURY SHARES

	2011	2010
Number of shares	2,379,500	2,379,500
Percentage of issued shares	4.34%	4.34%
Market value (KD)	809,030	785,235

14. TERM LOANS

	2011 KD	2010 KD
Current portion	1,569,571	1,451,505
Non-current portion	-	375,000
	1,569,571	1,826,505

The effective interest rate on term loans is 3.5% (2010 – 3.5%) per annum.
These term loans are from Kuwait Industrial Bank and are secured by property, plant and equipment (Note 4).

15. TRADE AND OTHER PAYABLES

	2011 KD	2010 KD
Trade creditors	666,346	769,285
Accrued leave payable	89,233	62,943
Accrued expenses	1,267,224	585,077
KFAS contribution payable	22,291	15,438
NLST	61,920	42,883
Zakat payable	24,768	17,153
	2,131,782	1,492,779

16. GENERAL AND ADMINISTRATIVE EXPENSES

	2011 KD	2010 KD
Employee cost	625,156	506,814
Consultancy fees	30,504	29,475
Depreciation	129,147	178,106
Other expenses	308,126	203,257
	1,092,933	917,652

Notes to the consolidated financial statements
For the year ended 31 December 2011

17. EMPLOYEE COST AND DEPRECIATION

Employee cost and depreciation charges are included in the consolidated statement of income under the following categories:

	2011	2010
	KD	KD
Employee cost		
Cost of sales and services	2,693,952	1,833,532
General and administrative expenses	625,156	506,815
	3,319,108	2,340,347
Depreciation		
Cost of sales and services	1,085,435	1,060,032
General and administrative expenses	129,147	178,106
	1,214,582	1,238,138

18. EARNINGS PER SHARE

Earnings per share is computed by dividing net income for the year by the weighted average numbers of shares outstanding during the year.

	2011	2010
Net profit for the year (KD)	2,338,400	1,588,570
Weighted average number of issued and paid up shares of the parent Company excluding treasury shares (Nos.)	52,486,704	52,486,704
Earnings per share (fils)	44.55	30.27

19. RELATED PARTY TRANSACTIONS

Related parties consist shareholders, directors and executive officers of the Group, their families and entities controlled, jointly controlled or significantly influenced by such parties. All related party transactions approximate arms length terms and are approved by the Group's management.

The related party transactions during the year are as follows:

	2011	2010
	KD	KD
Compensation of key management personnel		
Short term benefits	170,025	149,500
Employees' indemnity	9,134	4,615
	179,159	154,115

Notes to the consolidated financial statements
For the year ended 31 December 2011
20. SEGMENTAL REPORTING

The Group identifies its operating segments on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to assess its performance.

Information regarding the Group's reportable segments is presented below.
Financial information about the operating segments for the year ended 31 December 2011 is set out below:

	Oil field services	Industrial products and services	Others	Total
	KD	KD	KD	KD
Segment revenue	8,601,771	7,775,595	-	16,377,366
Segment expenses	(5,630,873)	(7,232,068)	-	(12,862,941)
Segment result	2,970,898	543,527	-	3,514,425
Unallocated income				130,654
Unallocated expenses				(1,306,679)
Profit for the year				2,338,400
Segment assets	17,127,378	537,568	-	17,664,946
Segment liabilities	4,271,049	-	-	4,271,049

The Group operates from one location in Kuwait and all its customers are based in Kuwait. The Group's assets are based in Kuwait.

Financial information about operating segments for the year ended 31 December 2010 are set out below:

	Oil field services	Industrial products and services	Others	Total
	KD	KD	KD	KD
Segment revenue	7,405,601	3,129,721	22,903	10,558,225
Segment expenses	(5,679,406)	(2,440,515)	-	(8,119,921)
Segment result	1,726,195	689,206	22,903	2,438,304
Unallocated income				271,024
Unallocated expenses				(1,120,758)
Profit for the year				1,588,570
Segment assets	13,881,155	376,297	2,060,882	16,318,334
Segment liabilities	4,203,951	-	-	4,203,951

Notes to the consolidated financial statements
For the year ended 31 December 2011

21. FINANCIAL INSTRUMENTS

(a) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, through the optimisation of the debt and equity balance so that it can continue to provide returns for shareholders and benefits for other stakeholders and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or debt and or sell assets to reduce debt.

For the purpose of capital risk management, the total capital resources consist of the following components:

	2011	2010
Term loans	1,569,571	1,826,505
Less: cash and cash equivalents	(3,880,436)	(1,542,429)
Net debt	(2,310,865)	284,076
Total equity	13,393,897	12,114,383
Total capital resources	11,083,032	12,398,459
Gearing ratio	-	2.3%

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group credit policy and exposure to credit risk are monitored on an ongoing basis. The Group seeks to avoid undue concentration of risks with individuals or Group of customers in specific locations or business through diversification of activities. It also obtains security when appropriate.

The maximum credit risk exposure arising from default of the counter-party is limited to the carrying amount of cash and cash equivalents, trade receivables.

(c) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings.

The following table demonstrates the sensitivity of the statement of income to reasonably possible changes in interest rates, with all other variables held constant.

Notes to the consolidated financial statements
For the year ended 31 December 2011

21. FINANCIAL INSTRUMENTS (continued)

(c) Interest rate risk (continued)

	Increase / (Decrease) in interest rate	Effect on profit for the year
		KD
2011		
KD 1,569,571	± 50 basis points	±7,848
2010		
KD 1,826,505	± 50 basis points	±9,133

(d) Foreign currency risk management

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the Group does not hedge foreign currency exposure.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the financial position date are as follows:

	Liabilities		Assets	
	2011	**2010**	**2011**	**2010**
	KD	KD	KD	KD
US Dollars	66,421	1,672,951	502,100	459,771
Euro	-	-	1,104	53
	66,421	1,672,951	503,204	459,824

Foreign currency sensitivity analysis
At 31 December 2011, if the foreign currencies had weakened/strengthened by 5% against the KD with all other variables held constant, profit for the year would have been KD 21,839 (2010: KD 60,659 higher/lower mainly due to the foreign exchange gains / (losses) on translation of foreign currency cash and cash equivalents, trade receivables and trade payables.

(e) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 15 is a listing of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

Notes to the consolidated financial statements
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21. FINANCIAL INSTRUMENTS (continued)

(e) Liquidity risk (continued)

The table below analyses the Group's non-derivative financial liabilities based on the remaining period at the consolidated financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 31 December 2011	Less than 1 year	Between 1 and 2 years
	KD	KD
Term loans	1,569,571	-
Trade and other payables	2,131,732	-
Total	3,701,353	-

At 31 December 2010	Less than 1 year	Between 1 and 2 years
	KD	KD
Term loans	1,451,505	375,000
Trade and other payables	1,925,889	-
	3,377,394	375,000

(f) Price risk

Price risk is the risk that the value of financial instruments will fluctuate as a result of changes in equity prices. Financial instruments, which potentially subject the Group to equity price risk, consist principally of financial assets at fair value through profit or loss. The Group manages this risk by diversifying its investments on the basis of the pre-determined asset allocations across various categories, continuous appraisal of market conditions and trends and management estimate of long and short term changes in fair value.

The following table demonstrates the sensitivity of the changes in fair value to reasonably possible changes in equity prices, with all other variables held constant. The effect of decreases in equity prices is expected to be equal and opposite to the effect of the increases shown.

	Change in equity price 2011	Effect on profit 2011	Effect on other comprehensive income 2011	Change in equity price 2010	Effect on profit 2010	Effect on other comprehensive income 2010
	KD	KD	KD	KD	KD	KD
Kuwait	+ 5%	-	1,358	+ 5%	91,740	7,793
GCC	+ 5%	1,089	1,089	+ 5%	1,848	1,595

Notes to the consolidated financial statements
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21. FINANCIAL INSTRUMENTS (continued)

(g) Fair value of financial instruments

a) *Fair value of financial instruments carried at amortised cost*

In the opinion of management, carrying amounts of the financial instruments carried at amortised cost are not materially different from their respective fair values as at the financial position date.

b) *Fair value measurements recognised in the consolidated statement of financial position*

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

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

31 December 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
	KD	KD	KD	KD
Financial assets at fair value through profit or loss				
Quoted equities	21,780	-	-	21,780
Unquoted equities	-	1,610,571	-	1,610,571
Available-for-sale investments				
Quoted equities	34,159	-	-	34,159
Unquoted equities	-	142,488	-	142,488
Total	55,939	1,753,059	-	1,808,998

31 December 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
	KD	KD	KD	KD
Financial assets at fair value through profit or loss				
Quoted equities	256,125	-	-	256,125
Unquoted equities	-	1,616,904	-	1,616,904
Available-for-sale investments				
Quoted equities	33,759	-	-	33,759
Unquoted equities	-	153,994	-	153,994
Total	289,884	1,770,898	-	2,060,782

Notes to the consolidated financial statements
For the year ended 31 December 2011

22. DIVIDENDS

The Annual General Assembly meeting held on 8 April 2011 approved the annual consolidated financial statements for the year ended 31 December 2010 and the distribution of a cash dividend of 20% (2009: 25%).

The board of directors have proposed cash dividend of 25% and bonus shares of 5% of the paid up share capital for the year ended 31 December 2011. This proposal is subject to the approval of the shareholders' General Assembly.

23. CONTINGENT LIABILITIES

	2011	2010
	KD	KD
Letters of credit	696,802	943,071
Letters of guarantee	3,255,883	4,840,180
	3,952,685	5,783,251