الشركة الوطنية للخدمات البترولية (ش.م.ك.) مقفلة

NATIONAL PETROLEUM SERVICES Co. (K.S.C) Closed

NAPESCO

نابيسكو

ANNUAL REPORT

2006

NAPESCO
نابيسكو

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

His Highness
Sheikh Naser Al-Mohammed Al-Ahmed Al-Sabah
Prime Minister

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

Financial statements and independent auditors' report
for the year ended 31 December 2006

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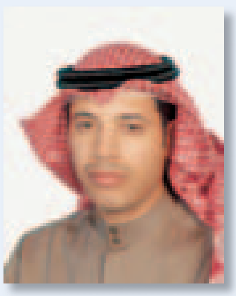
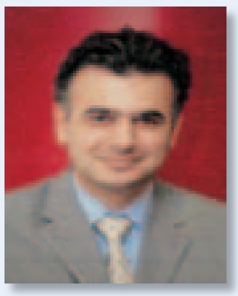
Board of Directors

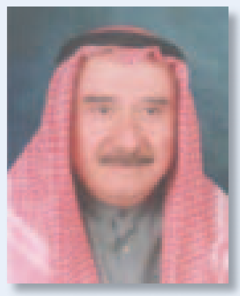
Omran Habib Jawhar Hayat
Chairman



Mazen Madooh
Member

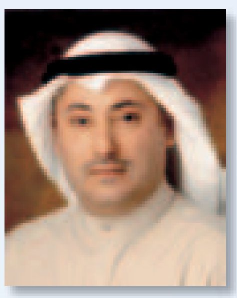


Dr. Adnan Al-Shaheen
Vice of Chairman

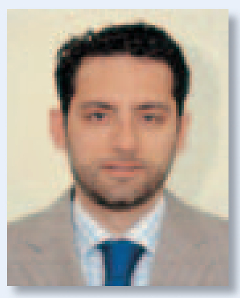


Dr. Abbas M. Marafi
Member

Mohammad Al-Shammari
Member



Munawer Al-Nouri
Member

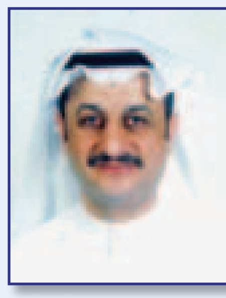


Khalil El-Khoury
Member

Executive Managment

Khalid Al-Saif
Chief Operating Officer

R. S. Bawa
Assistant General Manager
Operations



Hani M. Eid Al-Musallam
Assistant General Manager
Finance & Administration

Mohammed Ali Meghani
Assistant General Manager
Business Development

Speech of Chairman

M/s Shareholders of the National Company for Petroleum Services

The board is pleased to present to its kind shareholders the company's performance for the financial year ending on December 31, 2006, as well as its future aspirations.

The company's revenue increased in 2006 by 24% from Sales and Services to KD 4,986,641, compared with KD 4,003,609 for 2005. Leading to gross profit of KD 3,252,162 which represents an increase of 30% comparing with last year.

Expenses and other charges in 2006 witnessed an increase. The total expenses and other charges were KD 2,698,618, an increase of nearly 36% more than last year. The increase in these items is attributed to various reasons, the most important of which is the company's investment in business development. The expansion of the company's business has led to an increase in the number of employees by 23% compared with the previous year. This has resulted in an increase in employee costs as well as other general expenses.

Year 2006 has also witnessed an increase in the non-current assets (fixed assets), which reached KD 5,956,611, an increase of more than 100% compared to last year. As a result, the depreciation expenses have arised by 54%. Non-current asset increase is attributed to the expansion of company locally and regionally. local business as well as projected regional expansion.

The above financial results also reflect an increase deployed during 2006 to meet the expansion of the company. In addition, Napesco is concentrating on having a solid base through its strategic plans and the investment in both operations and personnel

2006 was a fruitful year. In addition to the clear increase in the company's revenue, the company's business was enhanced with all the major clients, which has resulted in an increase in company's market share in oil field and environmental services. Revenues are expected to grow in future as a result of the company's largest contract ever with Kuwait Oil company.

The most two significant events this year are the commencement of work on deep wells for KOC, which is considered as an added accomplishment to the company's track record in its future business pursuit locally and regionally and the second event is an award of the first contract for the company out side the boundries of Kuwait for providing environmental services for Al-Khafji Joint Operations in the Kingdom of Saudi Arabia.

The company signed a contract with the German company AVA Econ for the supply of an industrial and petroleum wastes treatment system, which shall be commissioned by the end of 2007. With this system, NAPESCO is expected to be in a lead position with greater experience in environmental outside the boundaries and Industrial waste management services.

As planned, the company has performed organizational re-structuring, implemented a comprehensive Enterprise Resource Management System, expanded the company's facilities, modernized equipment, implemented quality control systems, and achieved an increase in the business volume and expansion of the client base at a local level.

The company exerts great efforts for the purpose of achieving regional expansion in 2007. Pre-qualification process is underway for expansion of the business in the Kingdom of Saudi Arabia. We will continue to strive towards finding the right investment opportunities for oilfield and environmental services.

At the end, I wish to thank the board of directors for their positive contribution and their unlimited support for serving the company as well as its shareholders. I would also like to thank the executive management for their continued efforts to serve the interest of the company and its shareholders and their commitment to the improvement and development of the company's businesses in order to reach the desired goals regarding being a pioneer in the field of petroleum and environmental services on the local and regional levels, with God's Will.

Omran Habib Jawhar Hayat
Chairman

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: 3262222 Fax: 3261122
Website	: www.napesco.com
Authorized capital	: KD 5,300,000
Paid up	: KD 5,225,352
Nominal value of the share	: 100 Fils
Legal adviser	: Khaled Abdullah Al-Ayyoub Office Al-Souq Al-Kabir Building, Fahed Al-Salem Street, Block B, 9th Floor P.O.Box 1714 Safat 13018 Kuwait Telephone: 2466592 / 2464321 Fax: 2466591 / 2434711
Auditor	: MOORE STEPHENS Al-Nisf & Partners P.O.Box 25578 Safat 13116 Kuwait Telephone: 2426999 - Fax: 2401666 ALDAR International Accountants and Consultants P.O.Box 25597, Safat , 13116, Kuwait Tel.: +965 2461 490 Fax: +965 2461 493 Email: aldar_intl@hotmail.com

في مجالات التسميت والصيانة وتنظيف وتحفيز الآبار

«نابسكو» بصدد توقيع عقدين مع العمليات المشتركة في ديسمبير المقبل

الرئيس التشغيلي كشف عن قدرة واستعداد الشركة لمعالجة البحير...

...الد السيف لـ «الوطن»: أرباح «نابيسكو» هذا ا... ...يجاباً بعقدها مع «نفط الكويت» البالغ 28 م...

...شركة تبدأ العام المقبل تشغيل متنقلـ... ...معالجة المخلفات الصناعية والنفطية يجري تصنيعها...

بصفتها الوكيل الحصري لـ «إف بي سي» البلجيكية

«نابسكو» تفوز بعقد مع «البترول الوطنية» بـ 1.2 مليون دينار لاستبدال أنظمة الإطفاء

اعلنت الشركة الوطنية للخدمات البترولية «نابسكو» عن ترسية عقد اعمال استشارية لتحضير مستندات لتغيير نظام الاطفاء الحالي وذلك مع شركة البترول الوطنية حيث كان يعمل الاطفاء بنظام غاز الهالون اذ ستعمل «نابسكو» بصفتها وكيلا عن شركة FPC البلجيكية باستبداله بنظام متكامل لمكافحة الحريق في كل من المصافي الثلاث التابعة للبترول الوطنية.

واوضحت الشركة ان نسبتها في هذا العقد تبلغ 5 في المئة من القيمة الاجمالية للعقد التي تصل نسبته الاجمالية الى 1.250.680 دينارا كويتيا. تجدر الاشارة الى ان نابسكو ستقوم بتنفيذ بعض اعمال هذا العقد كمقاول من...

نابيسكو تفوز بعقد مع «البترول الوطنية»

450.187 ديناراً أرباح الشركة في 9 أشهر

عمران حيات لـ «الوطن»: نتائج الربع الثالث لـ «نابيسكو» لا تتضمن أرباح عقد نفط الكويت

كتب: سيد بغدادي

عمران حيات

اكد رئيس مجلس الادارة في الشركة الوطنية للخدمات البترولية «نابيسكو» عمران حيات ان النتائج المالية التي اقرها مجلس ادارة الشركة امس عن البيانات المالية المرحلية للشركة للفترة المنتهية في الثلاثين من سبتمبر لعام 2006 لا تعكس اي ارباح من العقد الجديد الموقع بين الشركة الوطنية للخدمات البترولية «نابيسكو» وشركة نفط الكويت لان بداية العقد تبدأ من تاريخ الاول من اكتوبر الماضي 2006 وهذا التاريخ غير داخل ضمن النتائج المالية للفترة المالية التي اعتمدها مجلس ادارة الشركة.

واوضح حيات في تصريح خاص لـ «الوطن» ان هناك تحسنا طفيفا جدا على معدلات الارباح للفترة الحالية مقارنة بالفترة نفسها في السنة الماضية.

ونوه حيات بان مجلس ادارة الشركة ينتظر انعكاسات توقيع العقد الجديد في الربع الاخير من هذا العام، اضافة الى اثر العقد في النتائج المالية خلال السنوات المقبلة في مدة تنفيذ العقد البالغة 4 سنوات.

يذكر ان سوق الكويت للاوراق المالية قد اعلن امس ان مجلس ادارة الشركة الوطنية للخدمات البترولية «نابيسكو» اعتمد البيانات المالية المرحلية للشركة للفترات المنتهية في الثلاثين من سبتمبر 2006 وهي 450.187 دينارا بربحية سهم 8179 فلسا وقد انخفض ربح فترة الاشهر التسعة المنتهية في الثلاثين من سبتمبر 2006 محققا بمبلغ قدره 100.339 دينار

Financial statements and independent auditors' report
for the year ended 31 December 2006

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MOORE STEPHENS
PUBLIC ACCOUNTANTS
AL NISF & PARTNERS

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The Shareholders'

National Petroleum Services Company K.S.C. (Closed)
State of Kuwait

Independent auditors' report

We have audited the accompanying balance sheet of National Petroleum Services Company K.S.C. ("the Company") as at 31 December 2006, and the related statement of income, statement of changes in shareholders' equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other regulatory matters

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the financial statements include the information required by the Kuwait Commercial Companies Law of 1960, as amended, and the Company's articles and memorandum of association. In our opinion, proper books of account have been kept by the Company, an inventory count was carried out in accordance with 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 2006, of the Kuwait Commercial Companies Law of 1960, as amended, or of the Company's articles and memorandum of association that would materially affect the Company's activities or its financial position.

Qais Al Nisf	**Ahmed M.Al-Rasheed**
Licence No. 38 "A"	**Licence No. 39 "A"**
Of Moore Stephens Al Nisf & Partners	**Of Al-Dar International – DFK International**
Member firm of Moore Stephens International	

Kuwait: 14 February 2007

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Balance sheet

as at 31 December 2006

	Note	2006 KD	2005 KD
ASSETS			
Non current assets			
Property, plant and equipment	3	5,956,611	2,949,700
Inventories	4	1,716,256	868,403
Account receivables	5	1,225,166	820,146
Investments at fair value through statement of income	6	889,966	841,514
Prepayments and other receivables	7	1,168,306	301,439
Cash and cash equivalents	8	2,138,567	447,804
Total current assets		7,138,261	3,279,306
Total assets		**13,094,872**	**6,229,006**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital	9	5,225,352	3,600,000
Share premium	10	3,310,705	60,000
Statutory reserve	11	388,000	312,356
Voluntary reserve	12	388,000	312,356
Treasury shares	14	(737,056)	(332,729)
Retained earnings		748,659	704,814
Total shareholders' equity		9,323,660	4,656,797
Non current portion of term loan	15	2,375,000	585,196
Provision for employees' indemnity		250,548	193,815
Total non-current liabilities		2,625,548	779,011
Current portion of term loan	15	625,000	125,000
Account payables and other credit balances	16	520,664	668,198
Total current liabilities		1,145,664	793,198
Total liabilities		3,771,212	1,572,209
Total shareholders' equity and liabilities		**13,094,872**	**6,229,006**

The accompanying notes form an integral part of these financial statements.

Omran Habib Hassan Jawhar Hayat
Chairman

Statement of income

for the year ended 31 December 2006

	Note	2006 KD	2005 KD
Income			
Sales and service revenue		4,986,641	4,003,609
Cost of sales and service revenue		(1,734,479)	(1,511,929)
Gross profit		3,252,162	2,491,680
Unrealized (loss) / gain on investments at fair value through statement of income		(52,486)	205,518
Realized gain / (loss) on investments at fair value through statement of income		2,295	(15,400)
Interest income		126,984	2,870
Other income		87,331	37,830
Total income		3,416,286	2,722,498
Expenses and other charges			
General and administrative expenses	*17*	2,560,430	1,922,102
Finance costs		99,416	25,647
Contribution to Kuwait Foundation for Advancement of Services (KFAS)		6,827	6,973
National labor support tax		17,945	16,908
Directors' remuneration		14,000	14,000
Total expenses and other charges		2,698,618	1,985,630
Net profit for the year		**717,668**	**736,868**
Earnings per share (fils)	*18*	14.04	16.02

The accompanying notes form an integral part of these financial statements.

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Statement of changes in shareholders' equity

for the year ended 31 December 2006

	Share capital KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	Treasury shares KD	Retained earnings KD	Total KD
Balance at 1 January 2005	3,000,000	60,000	234,881	234,881	-	872,896	4,402,658
Net profit for 2005	-	-	-	-	-	736,868	736,868
Bonus shares issued during the year	600,000	-	-	-	-	(600,000)	-
Dividend paid for 2004	-	-	-	-	-	(150,000)	(150,000)
Transfer to reserves	-	-	77,475	77,475	-	(154,950)	-
Treasury shares purchased during the year	-	-	-	-	(332,729)	-	(332,729)
Balance at 31 December 2005	3,600,000	60,000	312,356	312,356	(332,729)	704,814	4,656,797
Increase in share capital (see note 9)	1,625,352	3,250,705	-	-	-	-	4,876,057
Net profit for the year	-	-	-	-	-	717,668	717,668
Dividend paid for 2005	-	-	-	-	-	(522,535)	(522,535)
Transfer to reserves	-	-	75,644	75,644	-	(151,288)	-
Treasury shares purchased during the year	-	-	-	-	(404,327)	-	(404,327)
Balance at 31 December 2006	5,225,352	3,310,705	388,000	388,000	(737,056)	748,659	9,323,660

The accompanying notes form an integral part of these financial statements.

Statement of cash flows

for the year ended 31 December 2006

	Note	2006 KD	2005 KD
Cash flows from operating activities			
Net profit for the year		717,668	736,868
Adjustments for:			
Unrealized loss / (gain) on investments at fair value through statement of income		52,486	(205,518)
Realized (gain) / loss on investments at fair value through statement of income		(2,295)	15,400
Gain on sale of property, plant and equipment		(980)	(2,926)
Depreciation		555,331	360,528
Assets written off		7,011	-
Provision for inventories		12,000	12,000
Provision for employees' end of service benefits		81,138	74,482
National labor support tax		17,945	16,908
Contribution to KFAS		6,827	6,973
Operating profit before working capital changes		1,447,131	1,014,715
Increase in inventories		(859,853)	(192,266)
(Increase) / decrease in accounts receivable		(405,020)	71,472
Increase in prepayments and other receivables		(866,867)	(104,604)
(Decrease) / increase in accounts payable and other payable balances		(148,425)	359,321
Payments for employees' end of service indemnity		(24,405)	(13,097)
Payment for National labor support tax		(16,908)	(20,719)
Payments for KFAS		(6,973)	(8,584)
Net cash(used in) / from operating activities		(881,320)	1,106,238
Cash flows from investing activities			
Purchase of property, plant and equipment		(3,571,854)	(1,542,477)
Sale proceeds on disposal of property, plant and equipment		3,581	5,070
Purchase of investments at fair value through statement of income		(185,937)	(1,062,295)
Sale proceeds on disposal of investments at fair value through statement of income		87,294	667,085
Net cash used in investing activities		(3,666,916)	(1,932,617)
Cash flows from financing activities			
Proceeds from rights issue		4,876,057	-
Term loan received		2,289,804	710,196
Purchase of treasury shares		(404,327)	(332,729)
Dividend paid during the year		(522,535)	(150,000)
Net cash from financing activities		6,238,999	227,467
Net increase / (decrease) in cash and cash equivalents		1,690,763	(598,912)
Cash and cash equivalents at beginning of the year		447,804	1,046,716
Cash and cash equivalents at end of the year	8	2,138,567	447,804

The accompanying notes form an integral part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2006

1. Incorporation and activities

National Petroleum Services Company K.S.C. (Closed) ("the 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 Company's share was listed on the Kuwait Stock Exchange on 18 October 2003.

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

The 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 financial statements were authorized for issue by the Board of Directors on [ ]. The shareholders' of the Company have the power to amend these financial statements at the Annual General Assembly.

2. Significant accounting policies

a) Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and the requirements of the Kuwaiti Commercial Companies Law of 1960, as amended, Ministerial Order No 18 of 1990, and the Company's memorandum and articles of association.

b) Basis of preparation

The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of investments at fair value through income statement.

The accounting policies set out below have been applied consistently, except for IFRS, which were revised as part of the improvements project of the IASB and the newly introduced IFRS's applicable for the annual periods beginning on or after 1 January 2006. The Company adopted all the revised IFRS and the newly introduced IFRSs applicable for the annual periods commencing on or after 1 January 2006. The adoption of these standards did not have any affect on the financial position of the Company and wherever required additional disclosures have been provided.

The preparation of financial statements in conformity with IFRS's requires management to make judgements, estimates and assumptions that may affect the amounts reported in these financial statements. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

c) Property, plant and equipment

Property, plant and equipment, except capital work in progress are stated at cost less accumulated depreciation and impairment losses [see accounting policy 2(n)]. Capital work in progress is carried at cost less impairment losses [see accounting policy 2(n)]. Expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the statement of income as an expense as incurred.

Depreciation is charged to the statement of income on a straight-line basis over the estimated useful economic lives of property, plant and equipment as follows:

	Years
Buildings	20
Plant and machinery	10
Furniture, fixtures and computers	5
Motor vehicles	5

d) 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.

e) Account receivables

Account receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method less provision for impairment losses [see accounting policy 2 (n)].

f) Investments at fair value through income statement

(i) Classification

Investments at fair value through statement of income are those that the Company has acquired principally for the purpose of short term profit making.

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Notes to the financial statements

for the period from 10 November 2004 to 31 December 2006

f) Investments at fair value through income statement (cont.)

(ii) Recognition and de-recognition

The Company recognizes financial assets at fair value through statement of income when the Company becomes party to the contractual provision of the instrument.

A financial asset is de-recognised either when the right to receive cash flows have expired or the Company has transferred substantially all the risks and rewards of ownership or when it has neither transferred nor retained substantially all the risks and rewards and when it no longer has control over the asset or a proportion of the asset.

(iii) Measurement

Financial assets carried at fair value through statement of income are initially recognised at fair value and transaction costs are expensed in the statement of income. Subsequent to initial recognition, all financial instruments are measured at fair value. As an exception, any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliable measured is stated at cost, including transaction costs, less impairment losses (see accounting policy 2(n)), if any. If a reliable measure of fair value becomes available subsequently, the instrument is measured at fair value.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current offer prices. If a quoted market price is not available on a recognised stock exchange or from a broker/dealer for non-exchange-traded investments, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

(v) Gains and losses on subsequent measurement

Gains or losses arising from changes in fair value of investments at fair value through statement of income are recognised in the statement of income.

(vi) Trade date accounting

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the entity commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

g) 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 balance sheet date, and approximates the present value of the final obligation.

h) Interest bearing borrowings

Interest bearing borrowings are recognized initially at fair value less directly attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

i) Provisions

A provision is recognized in the balance sheet when the Company 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 pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

j) Revenue recognition

Revenue from the sale of goods is recognized in the statement of income when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible sale return.

In relation to the rendering of services, revenue is recognized in the statement of income in proportion to the stage of completion of the transaction at the balance sheet 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.

Interest income is recognized in the statement of income as it accrues, taking into account the effective yield of the asset or an applicable floating rate.

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

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Notes to the financial statements

for the year ended 31 December 2006

k) Foreign currencies

The financial statements are presented in Kuwaiti Dinars ("KD") which is the Company's functional and presentation currency. Foreign currency transactions are recorded in Kuwaiti Dinars at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Kuwaiti Dinars at the rate of exchange prevailing on the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Non-monetary assets and liabilities denominated in foreign currency, which are stated at historical cost or amortised cost are recorded at the exchange rate ruling at the date of transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Kuwaiti Dinars at the foreign exchange rates ruling at the dates that the values were determined.

l) Account payables and other credit balances

Account payables and other credit balances are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

m) Finance costs

Finance costs comprise interest payable on borrowings calculated using the effective interest method.

n) Impairment

Property, plant and equipment and account receivables are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated as follows:

Property, plant and equipment

An impairment loss is recognized whenever the carrying amount of the asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of income.

The recoverable amount of an asset is the greater of its net selling price 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 the current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed to the extent that the asset carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

Account receivables

A provision for impairment of receivables established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the advances are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

o) Treasury shares

Treasury shares consist of the Company's own shares that have been issued, subsequently reacquired by the Company and not yet reissued, sold or cancelled. No gain or loss is recognized in income statement 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 (gain on sale of treasury shares) which is not distributable. Any realized losses are charged to the same account to the extent of the credit balance on that account.

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 the gain on sale of treasury shares 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.

p) Segment reporting

A segment is a distinguishable component of the Company that is engaged in providing products or services, business segment or providing products or services within a particular economic environment, geographical segment, where it is subject to risks and rewards that are different from other segments.

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Notes to the financial statements

for the year ended 31 December 2006

3. Property, plant and equipment

	Building KD	*Plant & machinery* KD	*Furniture, fixtures and computers* KD	*Vehicles* KD	*Capital work in progress* KD	*Total* KD
Cost						
Balance at 1 January 2006	439,376	4,123,436	270,860	212,562	248,061	5,294,295
Additions	-	1,871,111	66,574	61,125	1,573,044	3,571,854
Transfers	-	628,610	-	-	(628,610)	-
Disposals	-	(8,948)	(74,492)	(11,000)	-	(94,440)
Balance at 31 December 2006	439,376	6,614,209	262,942	262,687	1,192,495	8,771,709
Depreciation						
Balance at 1 January 2006	203,110	1,867,407	152,816	121,262	-	2,344,595
Depreciation	21,998	455,244	42,807	35,282	-	555,331
Adjustment for disposals	-	(7,980)	(65,848)	(11,000)	-	(84,828)
Balance at 31 December 2006	225,108	2,314,671	129,775	145,544	-	2,815,098
Carrying value						
At 31 December 2006	214,268	4,299,538	133,167	117,143	1,192,495	5,956,611
At 31 December 2005	236,266	2,256,029	118,044	91,300	248,061	2,949,700

The Company's buildings are erected on land leased from the Government of Kuwait which will expire on 31 July 2008 and is renewable for a further period of five years.

4. Inventories

	2006 KD	2005 KD
Cement	36,742	42,083
Chemicals	1,227,083	467,790
Spares and tools	487,931	382,030
	1,751,756	891,903
Provision for slow moving inventories	(35,500)	(23,500)
	1,716,256	868,403

5. Account receivables

	2006 KD	2005 KD
Trade receivables	1,180,103	775,083
Al-Khorayef Company (see note 22)	65,063	65,063
	1,245,166	840,146
Provision for doubtful debts	(20,000)	(20,000)
	1,225,166	820,146

6. Investments at fair value through statement of income

	2006 KD	2005 KD
Quoted securities	647,611	631,659
Unquoted securities	242,355	209,855
	889,966	841,514

7. Prepayments and other receivables

	2006 KD	2005 KD
Advances for property, plant and equipment	1,115,049	250,251
Prepayments	29,559	22,904
Deposits	6,640	10,339
Staff receivable	17,058	17,945
	1,168,306	301,439

Notes to the financial statements

for the year ended 31 December 2006

8. Cash and cash equivalents

	2006 KD	2005 KD
Cash in hand	12,000	12,000
Cash at bank	642,865	435,804
Fixed deposits	1,483,702	-
	2,138,567	447,804

Fixed deposits mature within three months from the balance sheet date having an effective interest rate ranging between 5.375% and 6.5% per annum.

9. Share capital

In the ordinary and extra-ordinary general assembly held on 30 November 2005, the shareholders decided to increase the share capital of the Company from KD 3,600,000 to KD 7,000,000 by issuing additional 34,000,000 shares as follows:

- 17,000,000 shares by rights issue at a price of 300 fils each (including premium of 200 fils per share) for the shareholders who were holding the shares of the Company as on 30 November 2005.

- 17,000,000 shares to new shareholders at an issue price of 500 fils each (including premium of 400 fils per share).

The subscribers who were holding the shares of the Company as on 30 November 2005 subscribed to 16,253,524 shares out of the 17,000,000 shares offered by the Company as rights issue. The new shareholders did not subscribe for any shares offered to them under the rights issue. The issue was closed on 8 February 2006.

During the year, the authorised share capital of the Company was reduced from KD 7,000,000 (70,000,000 shares of 100 fils each) to KD 5,300,000 (53,000,000 shares of 100 fils each) by the shareholders in the Annual General Meeting held on 31 May 2006.

At 31 December 2006, the issued and paid up capital of the Company comprises 52,253,524 ordinary shares of 100 fils each (31 December 2005: 36,000,000 shares of 100 fils each).

10. Share premium

The share premium account has increased on account of share premium received from the rights issue (see note 9 above).
The share premium account is not available for distribution.

Notes to the financial statements

for the year ended 31 December 2006

11. Statutory reserve

In accordance with the Kuwait Commercial Companies' Law of 1960, as amended and the Company's articles and memorandum of association, 10% of the net profit for the year, before contribution to KFAS, 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.

12. Voluntary reserve

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

13. Proposed dividend and bonus shares

The Board of Directors, in the meeting held on 28 February 2006, proposed a cash dividend of 10% (10 fils per share) of paid up share capital and issue of bonus shares of 10% (1 bonus shares for every 10 shares held). However, in the Annual General Meeting held on 31 May 2006 the shareholders have approved only cash dividend of 10% of the share capital.

For the year ended 31 December 2006 the Board of Directors have proposed a cash dividend of 10% (10 fils per share).

This is subject to approval by the shareholders in the Annual General Meeting.

14. Treasury shares

During the year, the Company bought 970,000 (2005: 620,000) treasury shares at a total price of KD 404,327 (2005: KD: 332,729).

	2006	**2005**
Number of own shares	1,590,000	620,000
Percentage of issued shares	3.04%	1.72%
Cost (KD)	737,056	332,729
Market value (KD)	612,150	300,700

15. Term loan

The Company has obtained a term loan facility in the aggregate amount of KD 3,000,000 from The Industrial Bank of Kuwait K.S.C. ("IBK") at an interest rate of 3.5% per annum, to finance the expansion plan. The loan is repayable in 24 equal quarterly installments of KD 125,000 each, commencing from 31 December 2006. The term loan is secured against the total assets of the Company.

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Notes to the financial statements

for the year ended 31 December 2006

15. Term loan (cont.)

As at 31 December 2006, the Company had utilized the full loan facility (31 December 2005: 710,196).

16. Account payables

	2006 KD	2005 KD
Trade creditors	250,225	482,717
Accrued leave payable	54,227	36,240
Accrued expenses	189,725	106,622
National labor support tax payable	17,945	16,908
KFAS contribution payable	6,827	6,973
Other payables	1,715	18,738
	520,664	668,198

17. General and administrative expenses

	2006 KD	2005 KD
Employee cost	1,784,244	1,353,196
Business promotion expenses	71,062	66,800
Depreciation	555,331	360,528
Other expenses	149,793	141,578
	2,560,430	1,922,102

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.

	2006	2005
Net profit for the year (KD)	717,668	736,868
Weighted average number of issued and paid up shares of the Company (Nos.)	51,101,853	45,999,067
Earnings per share (fils)	14.04	16.02

The weighted average number of shares for calculating earnings per share of prior periods has been adjusted to reflect the bonus element in right shares issued in 2006.

19. Related party transactions

Related parties comprise of directors, key management personnel, shareholders and companies of which the Company is principle owner or over which they are able to exercise significant influence. The transactions with related parties are subject to approval of the shareholders at the general assembly.

There were no significant related party transactions during the year ended 31 December 2006.

20. Financial instruments

The Company in the normal course of business uses various types of financial instruments. Information on financial risks and fair value of these financial instruments is set out below:

a) 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. Financial instruments, which potentially subject the Company to interest rate risk, consist primarily of time deposits and term loan with / from banks.

b) Credit risk

The Company is exposed to credit risk in respect of losses that would have to be recognised if counterparties fail to perform as contracted. The Company's exposure to credit risk is primarily in respect of time deposits with banks and account receivables. As at balance sheet date, the Company's maximum exposure to credit risk is equal to the carrying amount of the above assets disclosed in the balance sheet.

c) Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. Financial instruments, which potentially subject the Company to market risk, consist principally of investment at fair value through statement of income, investments available for sale and investment in an associate. The Company manages this risk by diversifying its investments and monitoring market movements.

d) Foreign exchange risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Majority of the Company's assets, liabilities, income and expenses are in Kuwaiti Dinars and therefore foreign exchange risk is minimal.

	2006	2005
US Dollar	1,014,080	1,823,268
EURO	2,624	798
UAE Dirhams	-	1,349,500

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Notes to the financial statements

for the year ended 31 December 2006

20. Financial instruments (cont.)

e) Fair value of financial assets and liabilities

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Underlying the definition of fair value is the presumption that the Company 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. As at the balance sheet date, the fair value of the Company's financial assets were not materially different from their carrying values.

21. Contingent liabilities

	2006 KD	2005 KD
Letters of credit /bills for acceptance	634,069	2,564,953
Letters of guarantee	194,004	228,361
	828,073	2,793,314

22. Contingent asset

The Company was an agent of Al Khorayef Trading Company ("Al Khorayef") in Kuwait. During 1998, Al Khorayef terminated the agency agreement with the Company. The Company has filed a claim of KD 1,612,221 against Al Khorayef claiming compensation for breach of contract and amounts due to the Company (see note 5).

The Court of First Instance awarded judgment in favour of the Company for a total compensation of KD 313,289 (including KD 65,063 of receivable) on 4 November 2002 to be paid by Al Khorayef. Both the parties have filed an appeal against the decision. The Court of Appeal had given a preliminary ruling directing the Expert Committee ("the Committee") of the Ministry of Justice to study the matter.

The Committee had submitted its report which was challenged by both parties. The Court appointed another committee on 29 May 2005 to investigate the dispute. Based on the Committee's report, the Court of Appeal has given its verdict on 4 June 2006 awarding a compensation of KD 1,024,468 in favour of the Company against which Al Khorayef has filed an appeal. However, pursuant to the judgment, the assets of Al Khorayef have been attached and are held by Kuwait Oil Company.

The ultimate outcome of the above case and the amount of compensation claim, if any, that the Company may receive cannot presently be determined.

23. Comparative figures

Certain comparative figures have been re-classified / re-grouped to conform to current year's classification.

24. Segmental information

The Company's internal organizational and management structure and its system of internal financial reporting are based neither on individual products nor on geography. However for the purpose of segment reporting, the Company's management has chosen business segments as the Company's primary reporting format. In presenting information on the basis of business segments, segment revenue is based on the nature of services provided by the Company. Segment assets and liabilities are based on the nature of services provided by the Company and are related to the segment revenue and expenses.

Financial information about business segments for the year ended 31 December 2006 are set out below:

	Oil field services KD	**Industrial products and services KD**	**Total KD**
Segment revenue	4,505,929	480,712	4,986,641
Segment expenses	(3,995,705)	(437,392)	(4,433,097)
Segment result	510,224	43,320	553,544
Unallocated income			214,523
Unallocated expenses			(50,399)
Net profit for the year			**717,668**
Segment assets	9,141,412	3,953,460	**13,094,872**
Segment liabilities	2,105,101	1,666,111	**3,771,212**

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

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for the year ended 31 December 2006

24. Segmental information (cont.)

Financial information about business segments for the year ended 31 December 2005 are set out below:

	Oil field services KD	Industrial products and services KD	Total KD
Segment revenue	3,273,893	729,716	4,003,609
Segment expenses	(2,779,858)	(384,785)	(3,164,643)
Segment result	494,035	344,931	838,966
Unallocated income			230,818
Unallocated expenses			(332,916)
Net profit for the year			**736,868**
Segment assets	5,948,165	280,841	**6,229,006**
Segment liabilities	890,131	682,078	**1,572,209**

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