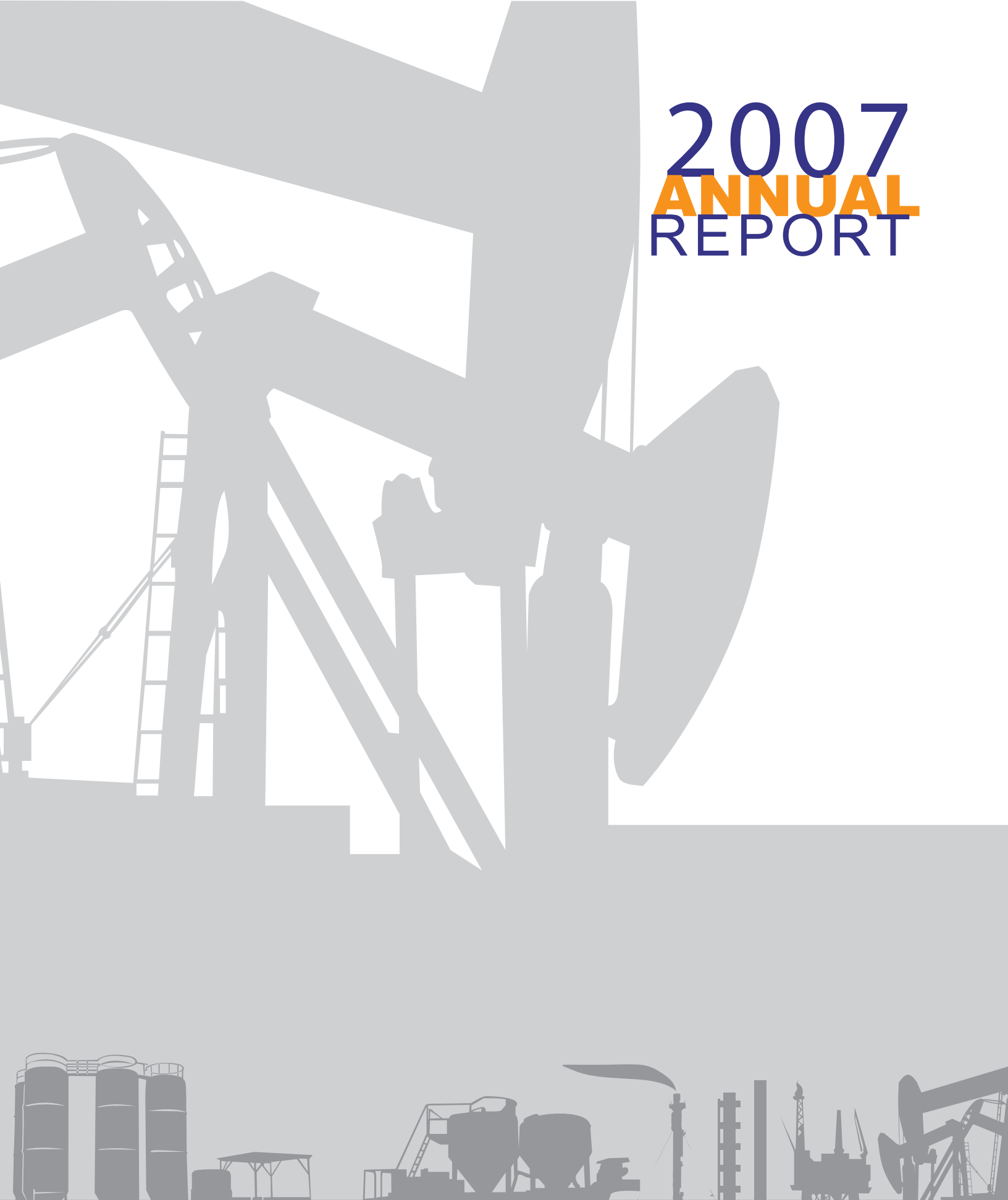


# 2007 ANNUAL REPORT



NATIONAL PETROLEUM SERVICES CO.



ناپيسكو  
NAPESCO



**In The Name of God  
most Gracious.  
Most Merciful**







H. H. Sheikh  
**Sabah Al Ahmad Al Jaber  
Al Sabah**

The Amir of the State of Kuwait



H. H. Sheikh  
**Nawaf Al Ahmad  
Al Jaber Al Sabah**

The Crown Prince  
of the State of Kuwait



H. H. Sheikh  
**Naser Al Mohammad  
Al Ahmad Al Sabah**

The Prime Minister of the  
State of Kuwait



## **Financial statements and independent auditors' report for the year ended 31 December 2007**

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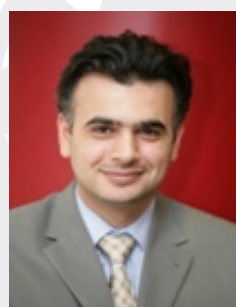
## Board Member



**Omran Habib Jawhar Hayat**  
Chairman



**Khaled Al Saif**  
Managing Director



**Dr. Adnan Al Shaheen**  
Vice of Chairman



**Dr. Abbas M. Marafi**  
Member



**Munawer Al – Nouri**  
Member



**Muhaiman Behbehani**  
Member



**Mohammad Al-Shammari**  
Member



## Executive Management



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



**Mohammed Ali Meghani**  
Assistant General Manager  
Business Development



**R. S. Bawa**  
Assistant General Manager  
Operations



## Speech of Chairman



### M/s Shareholders of the National Company for Petroleum Services

On behalf of the Board of Directors of National Petroleum Services Company (NAPESCO), I am very pleased to report the financial and operational results of our Company for the year ending December 31st, 2007. The last year has been a very exciting period in which we have accomplished much and have laid the foundation for future growth.

During 2007, we have achieved outstanding results in comparison to 2006. The company generated total revenue of KD 6,647,744 which represents 33% increase over 2006. The resulting gross margin of 2007 surpassed 2006 gross margin by 55%.

Even with the increasing costs of growing the company's businesses, NAPESCO remarkably achieved a net profit of KD 1,547,037 which is an increase of more than 115% over previous year result. Our 2007 earning per share jumped to 30.54 Fils in comparison to 2006 result of 14.04 Fils.

During 2007, overall shareholder equity peaked at KD 10,375,640 in comparison with KD 9,323,660 for 2006, an increase of 11%. These positive results are mainly attributed to the fact that the company obtained the full trust of its main clients, which reflected clearly on the amount of activities that the company executed in the fields of Cementing and Stimulation as well as the company's commencement of deep well services.

I also wish to highlight the positive role of the Environmental Services provided by the company for various sectors, in continuation to our strategy of complementing our Oil Field Services with integrated and sustainable Environmental Services.

Looking forward, we will continuously seek increasing our market share locally within all sectors of services, in addition to aggressively pursuing entry into new markets outside the state of Kuwait.

I summarize the major challenges that we shall be facing within the upcoming period as follows:

- Our success in providing services to deep well drilling operations.

This is an important aspect of our business that is essential for expanding outside Kuwait and for which we have committed numerous resources.

- Commence feasible operations of our Industrial Waste Management and Treatment system and establish NAPESCO as a leader in this field.
- Seek entry into new markets through expanding the company's operations outside the State of Kuwait. We are in the final stages of establishing subsidiary company with limited liability in order to represent us in any subsequent external contracts.
- Diversify our portfolio of services to include Management and Business consulting services as well as providing much needed specialized resources in the Petroleum and Environmental fields to our clients.



We shall continue to select our operational investment opportunities carefully to ensure maximum returns and sustained profitability.

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 goal of becoming a pioneer in the field of oil field and environmental services at the local and regional levels, with God's will.

Omran Habib Jawhar Hayat

## Company Outline



**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](http://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](mailto:aldar_intl@hotmail.com)

# **Financial statements and independent auditors' report**

**For the year ended 31 December 2007**





## MOORE STEPHENS

PUBLIC ACCOUNTANTS

AL NISF & PARTNERS

P. O. Box 25578, Safat 13116, Kuwait  
Al Shaheed Tower, 4th Floor  
Khaled Ben Al-Waleed Street, Sharq, Kuwait

Tel +965 2426 999  
Fax +965 2401 666



### 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

## Financial statements and independent auditors' report For the year ended 31 December 2007

### INDEPENDENT AUDITORS' REPORT TO THE Shareholders OF NATIONAL PETRO- LEUM SERVICES Company K.S.C. (CLOSED

#### *Report on the financial statements*

We have audited the accompanying financial statements of National Petroleum Services Company K.S.C. (Closed) ("the company") which comprise the balance sheet as at 31 December 2007, and the related statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### *Management's responsibility for the financial statements*

The company's 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.

#### *Auditors' 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 auditors' 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 company'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 company'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 at 31 December 2007, and of its financial performance and its 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 financial statements include the information required by the Kuwait Commercial Companies Law of 1960, and the company's articles and memorandum of association as amended. 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 2007, of the Kuwait Commercial Companies Law of 1960, or of the company's articles and memorandum of association as amended that would materially affect the company's activities or its financial position.




**Qais M. Al-Nisf**

Licence No. 38 - A

Moore Stephens Al Nisf & Partners

Member firm of Moore Stephens International



**Ahmed M. Al-Rasheed**

Licence No. 39 - A

Of Al-Dar International – DFK International

**Kuwait: 12 February 2008**

## Balance sheet

As at 31 December 2007

	Notes	2007 KD	2006 KD
<b>Assets</b>			
<b>Non current assets</b>			
Property, plant and equipment	3	7,577,733	5,956,611
<b>Current assets</b>			
Inventories	4	1,646,061	1,716,256
Accounts receivable	5	2,238,943	1,225,166
Investments at fair value through statement of income	6	1,206,197	889,966
Prepayments and other receivables	7	1,566,288	1,168,306
Cash and cash equivalents	8	2,256,457	2,138,567
		8,913,946	7,138,261
<b>Total assets</b>		<b>16,491,679</b>	<b>13,094,872</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	9	5,225,352	5,225,352
Share premium	10	3,310,705	3,310,705
Statutory reserve	11	550,277	388,000
Voluntary reserve	12	550,277	388,000
Treasury shares	13	(737,056)	(737,056)
Retained earnings		1,476,085	748,659
<b>Total equity</b>		<b>10,375,640</b>	<b>9,323,660</b>
<b>Non-current liabilities</b>			
Non-current portion of term loan	14	1,875,000	2,375,000
Provision for employees' indemnity		282,670	250,548
		2,157,670	2,625,548
<b>Current liabilities</b>			
Current portion of term loan	14	500,000	625,000
Advances received		2,678,476	-
Accounts payable and other credit balances	15	779,893	520,664
		3,958,369	1,145,664
<b>Total liabilities</b>		<b>6,116,039</b>	<b>3,771,212</b>
<b>Total equity and liabilities</b>		<b>16,491,679</b>	<b>13,094,872</b>



Omran Habib Hassan Jawhar Hayat  
Chairman

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



**Statement of income****For the year ended 31 December 2007**

		<b>2007</b>	<b>2006</b>
	Notes	<b>KD</b>	<b>KD</b>
Sales and service revenue		6,647,744	4,986,641
Cost of sales and service	19	(4,336,873)	(3,380,067)
<b>Gross profit</b>		<b>2,310,871</b>	<b>1,606,574</b>
Unrealized gain / (loss) on investments at fair value through statement of income		241,851	(52,486)
Realized gain on investments at fair value through statement of income		57,306	2,295
Interest income		114,392	126,984
Other income		56,104	87,331
General and administrative expenses	16	(1,064,541)	(914,842)
Finance costs		(93,218)	(99,416)
<b>Profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST), Zakat and Directors' remuneration</b>		<b>1,622,765</b>	<b>756,440</b>
Contribution to KFAS		(14,605)	(6,827)
NLST		(40,142)	(17,945)
Zakat		(981)	-
Directors' remuneration		(20,000)	(14,000)
<b>Profit for the year</b>		<b>1,547,037</b>	<b>717,668</b>
<b>Earnings per share (fils)</b>	18	<b>30.54</b>	<b>14.04</b>

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

## Statement of changes in equity

### For the year ended 31 December 2007

	Share capital	Share premium	Statutory reserve	Voluntary reserve	Treasury shares	Retained earnings	Total
	KD	KD	KD	KD	KD	KD	KD
<b>Balance at 31 December 2005</b>	3,600,000	60,000	312,356	312,356	(332,729)	704,814	4,656,797
Profit for the year	-	-	-	-	-	717,668	717,668
Total recognized income and expenses for the year	-	-	-	-	-	717,668	717,668
Increase in share capital (see note 9)	1,625,352	3,250,705	-	-	-	-	4,876,057
Dividend paid	-	-	-	-	-	(522,535)	(522,535)
Transfer to reserves	-	-	75,644	75,644	-	(151,288)	-
Treasury shares purchased during the year	-	-	-	-	(404,327)	-	(404,327)
<b>Balance at 31 December 2006</b>	5,225,352	3,310,705	388,000	388,000	(737,056)	748,659	9,323,660
Profit for the year	-	-	-	-	-	1,547,037	1,547,037
Total recognized income and expenses for the year	-	-	-	-	-	1,547,037	1,547,037
Dividend paid	-	-	-	-	-	(495,057)	(495,057)
Transfer to reserves	-	-	162,277	162,277	-	(324,554)	-
<b>Balance at 31 December 2007</b>	5,225,352	3,310,705	550,277	550,277	(737,056)	1,476,085	10,375,640

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

## Statement of cash flows

For the year ended 31 December 2007

	Note	2007 KD	2006 KD
<b>OPERATING ACTIVITIES</b>			
Profit for the year before contribution to KFAS, NLST, Zakat and Directors' remuneration		1,622,765	756,440
Adjustments for:			
Depreciation		704,117	555,331
Finance costs		93,218	99,416
Gain on disposal of property, plant and equipment		(3,439)	(980)
Provision for employees' indemnity		85,602	81,138
Writeback of provision for slow moving inventories		35,500	-
Assets written off		-	7,011
Provision for inventories		-	12,000
Unrealized (gain) / loss on investments at fair value through statement of income		(241,851)	52,486
Realized gain on investments at fair value through statement of income		(57,306)	(2,295)
		<u>2,238,606</u>	<u>1,560,547</u>
Movements in working capital			
Decrease / (increase) in inventories		34,695	(859,853)
Increase in accounts receivable		(1,013,777)	(405,020)
Increase in prepayments and other receivables		(397,982)	(866,867)
Increase in advances received		2,678,476	-
Increase / (decrease) in accounts payable and other credit balances		208,272	(162,425)
<b>Cash generated from / (used in) operations</b>		<u>3,748,290</u>	<u>(733,618)</u>
Payments for KFAS		(6,827)	(6,973)
Payment for NLST		(17,945)	(16,908)
Payments for employees' indemnity		(53,480)	(24,405)
<b>Net cash from/ (used in) operating activities</b>		<u>3,670,038</u>	<u>(781,904)</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(2,351,218)	(3,571,854)
Proceeds on disposal of property, plant and equipment		29,418	3,581
Purchase of investments at fair value through statement of income		(1,157,773)	(185,937)
Proceeds on disposal of investments at fair value through statement of income		1,140,700	87,294
<b>Net cash used in investing activities</b>		<u>(2,338,873)</u>	<u>(3,666,916)</u>
<b>FINANCING ACTIVITIES</b>			
Proceeds from rights issue		-	4,876,057
Term loan received		-	2,289,804
Term loan repaid		(625,000)	-
Finance cost paid		(93,218)	(99,416)
Purchase of treasury shares		-	(404,327)
Dividend paid		(495,057)	(522,535)
<b>Net cash (used in) / from financing activities</b>		<u>(1,213,275)</u>	<u>6,139,583</u>
Net increase in cash and cash equivalents		117,890	1,690,763
Cash and cash equivalents at beginning of the year		2,138,567	447,804
<b>Cash and cash equivalents at end of the year</b>	8	<u>2,256,457</u>	<u>2,138,567</u>

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

## **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 of National Petroleum Services Company K.S.C. (Closed) were authorized for issue by the Board of Directors on \_\_\_\_\_ 2008. The shareholders’ of the company have the power to amend these financial statements at the Annual General Assembly.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

### **2.1 Statement of compliance**

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS).

### **2.2 Basis of preparation**

The financial statements are prepared on the historical cost except for measurement of investment at fair value through statement of income.

The financial statements have been presented in Kuwaiti Dinars (KD) which is the functional currency of the company.

The principal accounting policies are set out below.

### **2.3 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 company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the company 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 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 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.

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

#### **2.4 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 balance sheet date. Exchange differences arising on settlement or translation of monetary items are taken to the 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 investments at fair value through statement of income are reported as part of the fair value gain or loss.

#### **2.5 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.

#### **2.6 Property, plant and equipment**

Property, plant and equipment 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 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.

## **2.7 Impairment of tangible assets**

At each balance sheet date, the company 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 company 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 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 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.

## **2.8 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.



## 2.9 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.

## 2.10 Investments

### 2.10.1 Investments at fair value through statement of income

Investments at fair value through statement of income are initially recognised at fair value, excluding transaction costs. These investments are either “held for trading” or “designated”.

Held for trading investments are acquired principally for the purpose of selling or repurchasing it in the near term or are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking.

Designated investments are investments which are designated as investments at fair value through statement of income on initial recognition.

After initial recognition, investments at fair value through statement of income are remeasured at fair value. Gain or loss arising either from the sale or changes in fair value of “investments at fair value through statement of income” are recognised in the statement of income.

### 2.10.2 Fair values

For investments traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date.

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 valuation techniques commonly used by market participants.

### 2.10.3 Trade and settlement 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/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 regulation or convention in the market place.

### **2.11 Impairment of financial assets**

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset, or a group of similar assets, may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined based on the net present value of future cash flows, discounted at original interest rates and any impairment loss is recognised in the statement of income.

The provision for impairment of loans and advances also covers losses where there is objective evidence that probable losses are present in components of the loans and advances portfolio at the balance sheet date. These have been estimated based on the historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic environment in which the borrowers operate.

### **2.12 Financial instruments**

Financial instruments are recognized in the balance sheet when the company becomes a party to the contractual provisions of the instrument.

### **2.13 Financial liabilities**

All financial liabilities are initially measured at cost and are subsequently measured at amortized cost.

### **2.14 Cash and cash equivalents**

Cash and cash equivalents include cash on hand, current accounts with banks and short-term deposits with an original maturity of three months or less.

### **2.15 Trade receivables**

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method less provision for impairment losses.

### **2.16 Interest bearing borrowings**

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



## 2.17 Derecognition of financial assets and financial liabilities

### Financial assets

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

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

When the company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the company could be required to repay.

### Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability.

## 2.18 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 the 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.

### **2.19 Related party transactions**

Related parties consist of directors, executive officers, their close family members and companies of which they are principal owners. All related party transactions are conducted on an arm's length basis and are approved by management.

### **2.20 Dividends**

Dividends are recognised as a liability in the company's financial statements in the period in which the dividends are approved by the shareholders.

### **2.21 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.

### **2.22 Significant accounting judgements and estimation uncertainty**

#### **Accounting judgements**

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

#### *Classification of investments*

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

Classification of investments as investment at fair value through statement of income 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 income statement in the management accounts, they are classified as at fair value through statement of income. All other investments are classified as available for sale or as held to maturity.

#### **Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet 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;

## 2.22 Significant accounting judgements and estimation uncertainty (Cont.)

- current fair value of another instrument that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation.

### *Useful lives of tangible assets*

As described in note 2.6, the company reviews the estimated useful lives over which its tangible assets are depreciated. The company's management is satisfied that the estimates of useful lives are appropriate.

## 2.23 Standards issued but not yet effective

The following standards and interpretations which have been issued but are not yet effective are applicable to the company.

IFRS 8 'Operating Segments' which replaces IAS 14 'Segment Reporting' is effective for annual periods beginning on or after 1 January 2009. This standard would amend the disclosures of the company's operating segments, products, services and geographical areas in which it operates. This standard has not been applied in these financial statements and the company intends to comply with this standard from its effective date.

IAS 1 'Presentation of Financial Statements' (revised) effective for the accounting periods beginning on or after 1 January 2009 would impact the presentation of the financial statements to enhance the usefulness of the information presented.

The revisions to IAS 23 will have no impact on the company's accounting policies. The principal change to the Standard, which was to eliminate the previously available option to expense all borrowing costs when incurred, will have no impact on the financial statements.



### 3. PROPERTY, PLANT AND EQUIPMENT

Cost	Building		Plant & Machinery		Furniture, fixtures and computers		Vehicles		Capital work in progress		Total	
	KD		KD		KD		KD		KD		KD	
<b>Balance at 1 January 2006</b>	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	
Disposals	-		(8,948)		(74,492)		(11,000)		-		(94,440)	
Transfers	-		628,610		-		-		(628,610)		-	
<b>Balance at 1 January 2007</b>	439,376		6,614,209		262,942		262,687		1,192,495		8,771,709	
Additions	-		1,239,788		51,389		22,960		1,037,081		2,351,218	
Disposals	-		(43,413)		(839)		(29,810)		-		(74,062)	
Transfers	1,913,666		138,430		39,533		-		(2,091,629)		-	
<b>Balance at 31 December 2007</b>	2,353,042		7,949,014		353,025		255,837		137,947		11,048,865	
<b>Accumulated depreciation</b>												
Balance at 1 January 2006	203,110		1,867,407		152,816		121,262		-		2,344,595	
Charge for the year	21,998		455,244		42,807		35,282		-		555,331	
Relating to disposals	-		(7,980)		(65,848)		(11,000)		-		(84,828)	
<b>Balance at 1 January 2007</b>	225,108		2,314,671		129,775		145,544		-		2,815,098	
Charge for the year	12,358		612,403		38,775		40,581		-		704,117	
Relating to disposals	-		(21,472)		(839)		(25,772)		-		(48,083)	
<b>Balance at 31 December 2007</b>	237,466		2,905,602		167,711		160,353		-		3,471,132	
<b>Carrying value</b>												
As at 31 December 2007	2,115,576		5,043,412		185,314		95,484		137,947		7,577,733	
As at 31 December 2006	214,268		4,299,538		133,167		117,143		1,192,495		5,956,611	
<b>Annual depreciation rates</b>	5%		10%		20 to 33.33%		20 to 33.33%					

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

	<b>2007</b>	<b>2006</b>
	<b>KD</b>	<b>KD</b>
Cement and acidizing chemicals	1,076,033	1,237,881
Environmental chemicals	27,832	25,944
Spares and tools	542,196	487,931
	<u>1,646,061</u>	<u>1,751,756</u>
Provision for slow moving inventories	-	(35,500)
	<u>1,646,061</u>	<u>1,716,256</u>

#### 5. ACCOUNTS RECEIVABLE

	<b>2007</b>	<b>2006</b>
	<b>KD</b>	<b>KD</b>
Trade receivables	2,193,880	1,180,103
Al-Khorayef Company (see note 25)	65,063	65,063
	<u>2,258,943</u>	<u>1,245,166</u>
Provision for doubtful debts	(20,000)	(20,000)
	<u>2,238,943</u>	<u>1,225,166</u>

At the balance sheet date, 85% of the net trade receivables are due from 5 customers (2006 - 87% from 5 customers).

At the balance sheet date, net trade receivables amounting to KD 550,611 (2006: KD 243,996) 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

	<b>2007</b>	<b>2006</b>
	<b>KD</b>	<b>KD</b>
90 – 120 days	179,242	53,898
120 – 180 days	194,022	41,192
180 – 365 days	100,332	76,706
Above 365 days	77,015	72,200
Total	<u>550,611</u>	<u>243,996</u>

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

## 6. INVESTMENT AT FAIR VALUE THROUGH STATEMENT OF INCOME

	2007	2006
	KD	KD
Quoted securities	1,076,842	647,611
Unquoted securities	129,355	242,355
	<u>1,206,197</u>	<u>889,966</u>

## 7. PREPAYMENTS AND OTHER RECEIVABLES

	2007	2006
	KD	KD
Advances for property, plant and equipment	1,493,119	1,115,049
Prepayments	37,626	29,559
Deposits	14,203	6,640
Staff receivable	21,340	17,058
	<u>1,566,288</u>	<u>1,168,306</u>

## 8. CASH AND CASH EQUIVALENTS

	2007	2006
	KD	KD
Cash in hand	11,967	12,000
Cash at bank	180,820	642,865
Fixed deposits	2,063,670	1,483,702
	<u>2,256,457</u>	<u>2,138,567</u>

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

	<u>2007</u>	<u>2006</u>
	<b>KD</b>	<b>KD</b>
Authorised, issued and fully paid :		
52,253,524 (2006 : 52,253,524) shares of KD 0.100 each	<u>5,225,352</u>	<u>5,225,352</u>

The movement in ordinary shares in issue during the year was as follows:

	<u>2007</u>	<u>2006</u>
Number of shares in issue 1 January	52,253,524	36,000,000
Rights issue	-	16,253,524
Number of shares in issue 31 December	<u>52,253,524</u>	<u>52,253,524</u>

## 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 company's articles and memorandum of association, as amended, 10% of the net 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.

## 12. VOLUNTARY RESERVE

As required by the company's articles and memorandum of association, 10% of the net profit for the year 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. TREASURY SHARES

During the year, the company bought Nil (2006: 970,000) treasury shares at a total price of KD Nil (2006: KD 404,327).

	2007	2006
Number of own shares	1,590,000	1,590,000
Percentage of issued shares	3.04%	3.04%
Cost (KD)	737,056	737,056
Market value (KD)	516,750	612,150

### 14. TERM LOAN

	2007 KD	2006 KD
Current portion	500,000	625,000
Non-current portion	1,875,000	2,375,000

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.

### 15. ACCOUNTS PAYABLES AND OTHER CREDIT BALANCES

	2007 KD	2006 KD
Trade creditors	309,795	250,225
Accrued leave payable	73,736	54,227
Accrued expenses	339,938	189,725
KFAS contribution payable	14,605	6,827
NLST	40,142	17,945
Zakat payable	981	-
Other payables	696	1,715
	779,893	520,664



**16. GENERAL AND ADMINISTRATIVE EXPENSES**

	<u>2007</u>	<u>2006</u>
	<b>KD</b>	<b>KD</b>
Employee cost	776,408	677,877
Business promotion expenses	85,155	71,062
Depreciation	16,520	16,110
Other expenses	186,458	149,793
	<u>1,064,541</u>	<u>914,842</u>

**17. ZAKAT**

In accordance with the Law No.46 of 2006 concerning Zakat, 1% of the company's taxable income has been provided for in respect of Zakat with effect from 10 December 2007.

**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.

	<u>2007</u>	<u>2006</u>
Net profit for the year (KD)	1,547,037	717,668
Weighted average number of issued and paid up shares of the company (Nos.)	50,663,524	51,101,853
Earnings per share (fils)	<u>30.54</u>	<u>14.04</u>

## 19. EMPLOYEE COST AND DEPRECIATION

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

	2007	2006
	KD	KD
<b>Employee cost</b>		
Cost of sales and services	1,359,336	1,106,367
General and administrative expenses	776,408	677,877
	<u>2,135,744</u>	<u>1,784,244</u>
<b>Depreciation</b>		
Cost of sales and services	687,597	539,220
General and administrative expenses	16,520	16,111
	<u>704,117</u>	<u>555,331</u>

## 20. 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 2007.

## 21. 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 2007 are set out below:

**21. SEGMENTAL INFORMATION (Cont.)**

	<b>Oil field services</b>	<b>Industrial products and services</b>	<b>Total</b>
	<b>KD</b>	<b>KD</b>	<b>KD</b>
Segment revenue	5,121,295	1,478,754	6,600,049
Segment expenses	(3,235,258)	(1,133,174)	(4,368,432)
Segment result	1,886,037	345,580	2,231,617
Unallocated income			471,720
Unallocated expenses			(1,156,300)
Profit for the year			1,547,037
Segment assets	10,000,622	6,491,057	16,491,679
Segment liabilities	3,178,477	2,937,318	6,115,795

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

## 21. SEGMENTAL INFORMATION (Cont)

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

	Oil field services	Industrial products and services	Total
	KD	KD	KD
Segment revenue	4,505,880	480,761	4,986,641
Segment expenses	(2,441,074)	(480,817)	(2,921,891)
Segment result	2,064,806	(56)	2,064,750
Unallocated income			164,124
Unallocated expenses			(1,511,206)
Profit for the year			717,668
Segment assets	9,141,412	3,953,459	13,094,871
Segment liabilities	2,105,101	1,666,461	3,771,562

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

## 22. FINANCIAL RISK AND CAPITAL MANAGEMENT

### (a) Capital risk management

The company's objectives when managing capital are to safeguard the company'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 company sets the amount of capital in proportion to risk. The company 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 company 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.

## 22. FINANCIAL RISK AND CAPITAL MANAGEMENT (Cont.)

The capital structure of the company consists of debt, which includes the borrowings disclosed in note 14, cash and cash equivalents and equity, comprising issued capital, reserves and retained earnings as disclosed in notes 8 and 9 respectively.

### (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 company credit policy and exposure to credit risk are monitored on an ongoing basis. The company 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, accounts receivable and investments at fair value through statement of income

### (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 company is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by the company by maintaining an appropriate mix between fixed and floating rate borrowings.

The company's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

### (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 company does not hedge foreign currency exposure.

## 22. FINANCIAL RISK AND CAPITAL MANAGEMENT (Cont.)

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

	Liabilities		Assets	
	2007	2006	2007	2006
	KD	KD	KD	KD
US Dollars	90,982	155,115	847,897	377,886
Euro	-	-	1,765	697
Sterling Pounds	-	717	-	-
UAE Dirhams	-	901	-	-
Indian Rupees	-	18,588	-	-
	90,982	175,321	849,662	378,583

### (e) Liquidity risk

Liquidity risk is the risk that the company 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 company's short, medium and long-term funding and liquidity management requirements. The company 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 company has at its disposal to further reduce liquidity risk.

The table below analyses the company's non-derivative financial liabilities based on the remaining period at the balance sheet 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.

## 22. FINANCIAL RISK AND CAPITAL MANAGEMENT (Cont.)

At 31 December 2007	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	KD	KD	KD	KD
Term loan	500,000	1,000,000	875,000	-
Account payable and other credit balances	779,893	-	-	-
At 31 December 2006	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	KD	KD	KD	KD
Term loan	625,000	1,000,000	1,375,000	-
Account payable and other credit balances	520,664	-	-	-

### (f) Equity price risk

Equity 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 company to equity price risk, consist principally of investments at fair value through statement of income. The company 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	Effect on profit before KFAS, NLST, Zakat & Directors' fees	Change in equity price	Effect on profit before KFAS, NLST & Directors' fees
	2007	2007	2006	2006
	KD	KD	KD	KD
Kuwait	+5%	81,138	+5%	37,822

### (g) Fair value of financial instruments

In the opinion of management, cash and cash equivalents, accounts receivable, investments at fair value through statement of income, accounts payable and other credit balances and term loans are not significantly different from fair values.

## 23. PROPOSED DIVIDENDS

Subject to the requisite consent of the relevant authorities and approval from the general assembly, the board of directors propose to distribute a cash dividend of 15 Fils per share and one bonus share for every 20 share to the shareholders of record as of the date of the general assembly. During 2007, cash dividend of 10 Fils per share for the year ended 31 December 2006 were approved by the general assembly held on 14 February 2007 and were paid following that approval.

## 24. CONTINGENT LIABILITIES

		2007	2006
		KD	KD
/bills for acceptance	Letters of credit	730,667	634,069
Letters of guarantee		3,494,901	194,004
		4,225,568	828,073

## 25. CONTINGENT ASSETS

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.

## 26. COMPARATIVE FIGURES

Certain comparative figures have been re-classified to conform to current year's presentation.