



NAPESCO  
نايسكو

التقرير السنوي

Annual Report  
2012

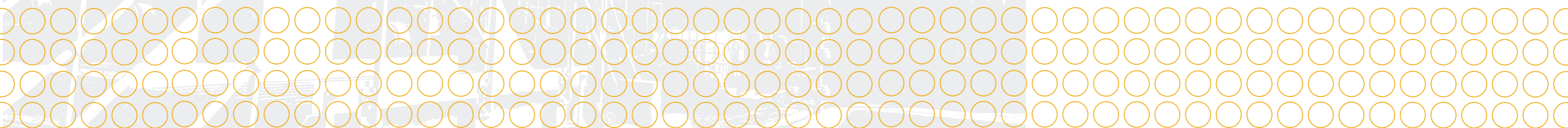
National Petroleum Services Company (k.s.c.c)

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





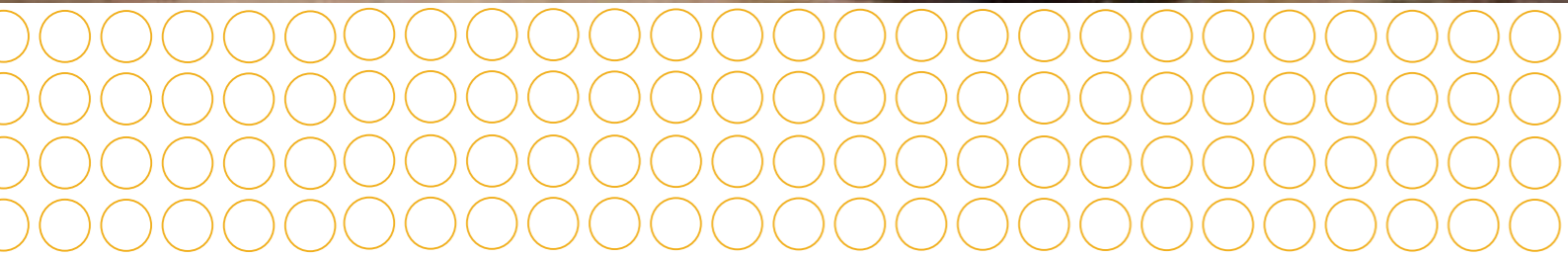
H. H. Sheikh  
**Sabah Al Ahmad Al Jaber Al Sabah**  
The Amir of the State of Kuwait





H. H. Sheikh  
**Nawaf Al Ahmad Al Jaber Al Sabah**  
The Crown Prince of the State of Kuwait

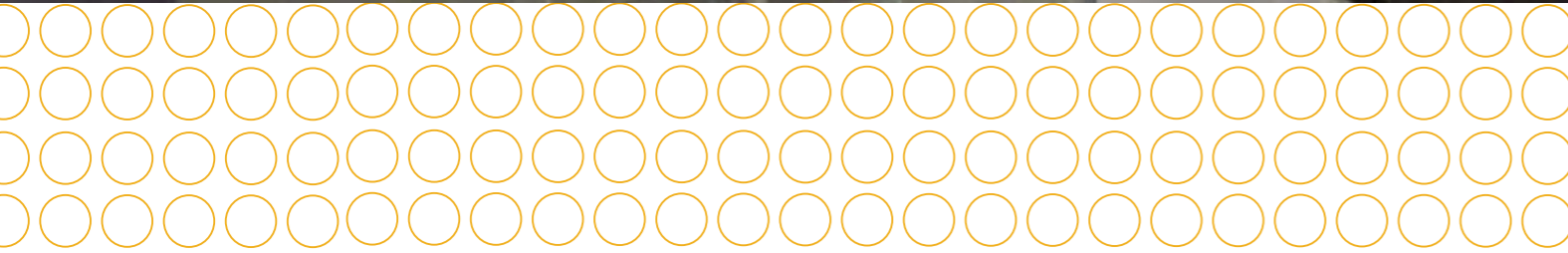




## Contents

Page

Board Of Directors	11
Company Outline	13
Chairman's Statment	14-15
Principal Companies	16
Endorsements	18
Quality Management Systeme Certificates	20
Environment Award	21
Approvals And Endorsments	22-23
Independent Auditors' Report	26
Consolidated Statement Of Financial Position	28
Consolidated Statement Of Income	29
Consolidated Statement Of Comprehensive Income	30
Consolidated Statement Of Changes In Equity	31
Consolidated Statement Of Cash Flows	32
Notes To The Consoldated Financial Statements	33-55



### Board of Directors



**Omran Habib Johar Hayat**  
Chairman



**Khaled Hamdan Al Saif**  
Deputy of Chairman  
& Managing Director



**Hani Mohammed Al Musallam**  
Member



**Radwan Abdulla Jamal**  
Member



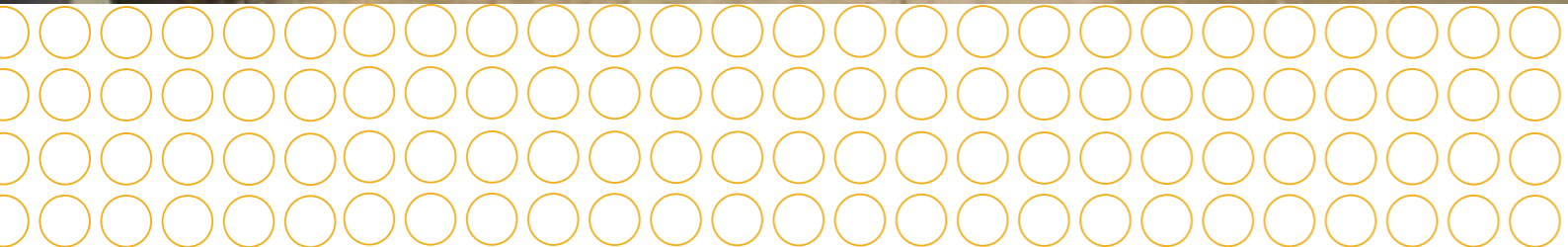
**Muhaimen Ali Behbehani**  
Member



**Munawer Anwar Al-Nouri**  
Member



**Amal Mohammed Hamami**  
Member



## Company Outline

<b>Name of the Company</b>	<b>National Petroleum Services Company (K.S.C) Closed</b>
<b>Commercial Registration</b>	49911 dated 28 March 1993
<b>Date Established</b>	3 <sup>rd</sup> of January 1993
<b>Date Listed on the KSE</b>	18 <sup>th</sup> of October 2003
<b>Address</b>	Shuaibah Industrial Area, Block 3, Street 6, Plot 76 P.O. Box 9801 Ahmadi 61008 Kuwait Telephone: 22251000 Fax: 22251010
<b>Website</b>	<a href="http://www.napesco.com">www.napesco.com</a>
<b>Authorized Capital</b>	K.D 5,760,951
<b>Paid Up</b>	K.D 5,760,951
<b>Nominal Value of the Share</b>	100 Fils
<b>Auditor</b>	<b>RSM A Ibazie &amp; Co.</b> Public Accountants P.O. Box: 2115 Safat - 13022- State of Kuwait Tel.: 22410010 22961000 Fax: 22412761 <b>Al- WAHA</b> Auditing Office Ali Awaid Rukhayes P.O. Box: 27387 Safat - 13134 - State of Kuwait Tel.: 22423415 Fax: 22423417

## Chairman's Statement

Dear Shareholders of National Petroleum Services Company, it is my pleasure to present to you the year 2012 Annual Report depicting the Company's achievements throughout the past fiscal year.

### Hereunder, I summarize our major achievements during the year 2012.

After many years of hard work and perseverance, we are now approved by Kuwait's Fire Directorate for the installation & maintenance of firefighting systems. Due to this, we have been awarded a Three years contract by Petrochemical Industries Company for carrying out maintenance of their firefighting installations and alarm systems.

Kuwait Oil Company (KOC) being our major business partner, has entrusted us one more deep drilling rig for providing cementing services. Addition of this rig has brought the total number of allocated rigs to thirteen. This continuous increase in rig allocation reflects the confidence of our client and efficient level of services provided to our customers.

Further to above, KOC has signed a Variation order of value KD 750,000 for providing additional works to our HSE Consultancy Services & HSE Live Contract with them.

We have strived to develop our relationship with Joint Operations (Kuwait Gulf Oil Company & Saudi Arabian Chevron) which culminated in the following:

- Extension of Cementing Contract by one year with a value increase of KD 4 million.
- Order to supply Valves for a total value of KD 547,696.
- Order to supply Test Separators for a total value of KD 417,343.
- New Environmental Consultancy Services Contract.
- One more drilling rig was entrusted to us for providing cementing services.

We have also signed a sub-contract of value KD 217,525 with Korean HANWHA for providing Halon recycling services to KNPC (Kuwait National Petroleum Company)

In addition to the above sub-contract, we have managed to obtain two more sub-contract agreements for providing services to KOC. First, with Korean based GS for the treatment of oil contaminated soil and second with Indian based TERI for processing and recycling of crude oil.

We are seriously working on getting NAPESCO approved as a main service provider to KOC for carrying out the treatment service of oil contaminated soil.

We also received an order to supply integrated cement laboratory for the Iraqi Drilling Company with a value of US\$ 2,196,458.

In 2012 we have qualified for providing cementing services to Tunisia's Shell and Daleel Petroleum of Oman.

The company in 2012 won valuable Awards in the Health, Safety, Security and Environment categories. We are proud to announce that NAPESCO has won the prestigious KOC Chairman & Managing Director's HSSE (Health, Safety, Security & Environment) Award for the year 2012. NAPESCO also received the Gold award from the American Society of Safety Engineers (Gulf branch). Such high-level awards add value to the company's image.

Esteemed Shareholders; the company has always approached its operations through carefully articulated strategic plan to ensure that our efforts are channeled where maximum shareholder value and returns can be achieved.

In continuation with that approach, we would like to share with you our future action plan for 2013:

1. We will strengthen the relationship between the company and our main clients and enhance the diversity and quality of our services' portfolio to boost customer satisfaction and reduce overall risk.
2. Geographic expansion of the company's operations is a strategic objective consisting of careful study of international market especially in countries which have promising future in oil sector before taking concrete expansion steps. We are therefore focusing our geographical expansion efforts in the Saudi and Libyan markets, due to the sheer size and the development plans that both countries have.
3. We shall never cease or strive to improve, enhance and develop the capabilities and performance of our company. We intend to leverage to the fullest extent the potential of the company by focusing on quality control, planning, performance measurement and development of staff with particular emphasis on the national employees. We hope to raise the level of efficiency of the company's management which will undoubtedly pay returns in terms of increased operational and administrative performance of the company.

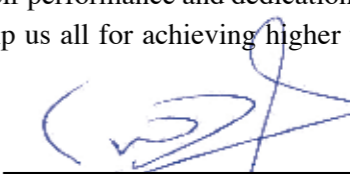
### I wish now to summarize the financial results that the company achieved during 2012.

The company generated revenue from sales and services amounting to KD 11,630,357 for the year 2012 compared with KD 16,377,366 for the year 2011.

A net profit of KD 2,226,756 was achieved in 2012 or 40.40 fils per share as compared to KD 2,338,400 in 2011 or 42.43 fils per share in 2011.

Also shareholder equity of the Company increased in 2012 to reach KD 14,316,929 compared with 13,393,897 KD for 2011, an indication that the company is on the right track in creating and enhancing the value that you have by being a shareholder.

In conclusion, I extend my sincere thanks and appreciation to all the board members as well as the executive management and employees of the company for their performance and dedication that deserves praise and appreciation. Praying to Allah the Almighty to help us all for achieving higher targets and guide us towards the good and success.

  
**Omran Habib Johar Hayat**  
Chairman of Board

### PRINCIPAL COMPANIES

Company Name	Country of Origin	Services
CHOLAMANDALAM MS RISK SERVICES	India	SAFETY & RISK CONSULTANCY
FLOWSERVE LIMITORQUE	U.S.A	ELECTRIC ACTUATORS, MOTORISED VALVES
FPC (FIRE PROTECTION CONSULTANT)	Belgium	FIRE ENGINEERING CONSULTANCY
FUSION PETROLEUM	U.S.A	INTEGRATED GEOLOGICAL, GEOPHYSICAL AND ENGINEERING SERVICES
FILTERS S.R.L	Italy	PROCESS FILTERS
N.V GOUDA VUURVAST	The Netherlands	REFRATORIES, INSULATION MATERIALS
PL ENGINEERING LTD.	India	PLANT DESIGN / PROCESS ENGINEERING
CHINA OIL HBP SCIENCE AND TECHNOLOGY CORP. LTD.	China	OIL & GAS PROCESSING EQUIPMENTS
SNIFFERS N.V.	Belgium	LEAK DETECTION AND REPAIRING AND EMISSION MONITORING
MEKE DENIZ TEMIZILIGI LTD. SERVICES	Turkey	OIL SPILL CONTROL AND MANAGEMENT
SEA-FIRE EUROPE LTD.	U.K	FIRE PROTECTION SYSTEM
FIRELAST CO.	U.S.A	FIRE ALARM SYSTEM & FIRE FIGHTING SYSTEMS
SEV SYSTEMS INC.	U.S.A	FIRE FLUID EQUIPMENTS AND DESIGNING CERTAIN FIRE PROTECTION SYSTEMS

### BUSINESS PARTINERS

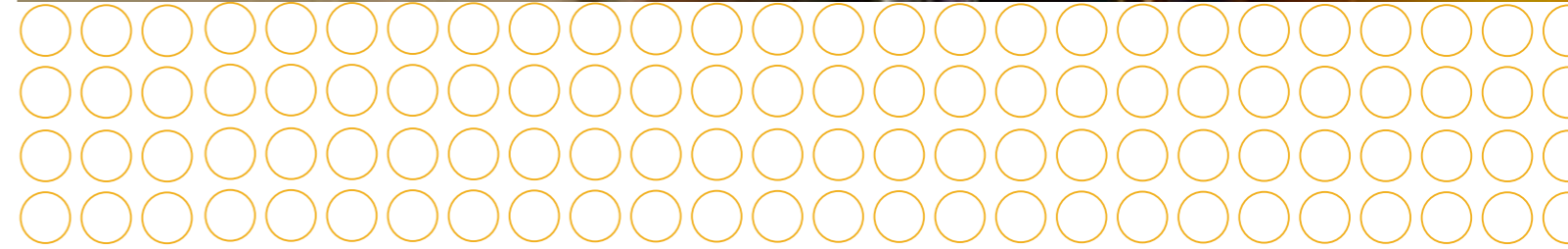
Company Name	Country of Origin	Activity / Product
ECON INDUSTRIES GmbH	Germany	THERMAL DESORPTION TECHNOLOGY AND SEPARATION SYSTEMS
ENVIRON	United Kingdom	ENVIRONMENTAL, HEALTH CONSULTANCY AND SOIL REMEDIATION
PETROLEUM PIPE COMPANY	Dubai	OCTG, TUBING, LINE PIPES
RODLESS PUMPS INC.	China	PROGRESS CAVITY RODLESS PUMPS
SHANGDONG MOLONG	China	OCTG, TUBING
SRI RAMACHANDRA MEDICAL COLLEGE & RESEARCH INSTITUTE	India	OCCUPATIONAL HEALTH, INDUSTRIAL HYGIENE
SITA REMEDIATION	Belgium	SOIL REMEDIATION
ENSERVE ENGG PVT LTD	South Africa	VALVE MANAGEMENT & REPAIR SERVICES
FIRST CLIMATE	Switzerland	CARBON CREDIT & CDM CONSULTANTS
WRS COMPASS	U.S.A	SOIL TREATMENT SERVICES
WITTEMANN	U.S.A	CO2 RECOVERY SYSTEMS
CHINA SHENYANG GOLDFIELD OIL MACHINE MFG CO.	China	INTELLIGENT PUMPING SYSTEMS

### PREQUALIFIED ACTIVITIES

Company Name	Type of Work
Kuwait Oil Company (KOC)	CEMENTING SERVICES
	COILED TUBING,NITROGEN AND SIMULATION SERVICES
	WELL TESTING SERVICES
	ENVIRONMENTAL CONSULTANCY
	ENVIRONMENTAL MONITORING SERVICES
	LABORATORY ANALYTICAL SERVICES FOR SOIL, OIL & WATER (SOW)
	HEALTH CONSULTANCY SERVICES
	SAFETY CONSULTANCY SERVICES
	GEO TECHNICAL AND SOIL INVESTIGATION
	OIL RECOVERY SERVICES
	WASTE MANAGEMENT SERVICES
	TUBULAR CLEANING SERVICES
	MAINTENANCE OF FIRE FIGHTING SYSTEMS
LOCAL RECRUITMENT SERVICES	
Kuwait Petroleum Corporation (KPC)	TRAINING SERVICES PROVIDER
Kuwait National Petroleum Company (KNPC)	ENVIRONMENTAL SERVICES
	ENVIRONMENT IMPACT ASSESSMENT STUDY
	ONLINE LABORATORY MAINTENANCE SERVICES
	SAFETY CONSULTANCY SERVICES (FIRE, SECURITY & SAFETY)
	SUPPLY, INSTALL , COMM & MAINT OF FIRE EXTINGUISHING SYSTEMS
	LEAK DETECTION & REPAIRING SERVICES
	OIL SPILL CONTROL AND MANAGEMENT
HALON PHASE OUT CONSULTANCY & UPGRADING OF FIRE DETECTION & FIRE ALARM SYSTEMS	
Joint Operations - Wafra	OILY VISCOUS LIQUID TREATMENT
	FIRE ALARM & FIRE FIGHTING SYSTEM CONSULTANCY
	ENVIRONMENTAL CONSULTANCY & MONITORING ANALYTICAL LABORATORY SERVICES



Joint Operations - Khafji	ASBESTOS CONSULTANCY ENVIRONMENTAL CONSULTANCY INDOOR AIR QUALITY SERVICES STACK EMISSION MONITORING SERVICES SEISMIC DATA INTERPRETATION & QUALITY CONTROL
Saudi Arabian Chevron (SAC)	ENVIRONMENTAL CONSULTANCY & MONITORING
Kuwait Fire Service Directorate (KFD)	FIRE ALARM SERVICES FIRE FIGHTING SERVICES HALON MANAGEMENT SERVICES
Ministry of Electricity & Water (MEW)	ENVIRONMENTAL CONSULTANCY ENVIRONMENTAL MONITORING
<b>ENDORSEMENTS</b>	
Environment Public Authority	ENVIRONMENT CONSULTATION AVALUTION OF EXITING ENVIRONMENTAL CONDDITION EIA STUDIES MERCURY CONTAMINATED SOIL TREATMENT HALON MANAGEMENT SERVICES
U.S-DOT	PRESSURIZED CYLINDER RETESTER'S IDENTIFICATION NUMBER
DNV	SURVEY AND MAINTENANCE OF FDA & FIRE EXTINGUISHERS EQUIPMENTS SYSTEMS + SCBA
BUREAU VERITAS	SURVEY AND MAINTENANCE OF FDA & FIRE EXTINGUISHERS EQUIPMENTS SYSTEMS + SCBA
LIOYODS Register	SURVEY AND MAINTENANCE OF FDA & FIRE EXTINGUISHERS EQUIPMENTS SYSTEMS + SCBA
Nippon Kaiji Jyokai	SURVEY AND MAINTENANCE OF FDA & FIRE EXTINGUISHERS EQUIPMENTS SYSTEMS + SCBA
ISO 14001 : 2004	ENVIRONMENTAL MONITORING SERVICES INCLUDING LABORATORY TESTING OF WATER, SOIL AND AIR SAMPLES AND EIA
ISO 9001 : 2008	PROVISION OF OIL FILED SERVICES INCLUDING DESIGN FOR OIL WELL CEMENTING
ISO 17025 : 2005	INTERNATIONAL ACCREDITATION SERVICES FOR LABORATORY SERVICES





QUALITY MANAGEMENT SYSTEME CERTIFICATES

AWARDS



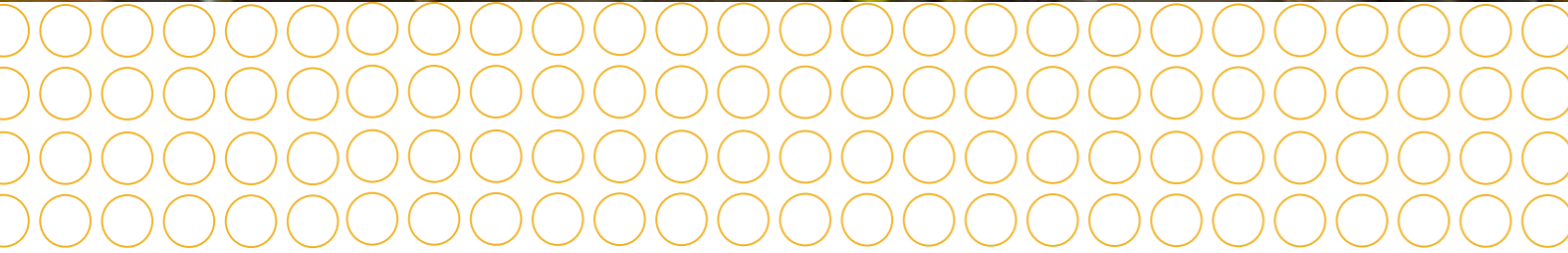


APPROVALS AND ENDORSMENTS



APPROVALS AND ENDORSMENTS





**NATIONAL PETROLEUM SERVICES COMPANY - K.S.C. (CLOSED),  
AND ITS SUBSIDIARY  
STATE OF KUWAIT**

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012  
WITH  
INDEPENDENT AUDITORS' REPORT**

**CONTENTS**

	Pages
Independent Auditors' Report	28
Consolidated statement of financial position	29
Consolidated statement of income	30
Consolidated statement of comprehensive income	31
Consolidated statement of changes in equity	32
Consolidated statement of cash flows	33 – 55
Notes to consolidated financial statements	

## INDEPENDENT AUDITORS' REPORT

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

### Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of National Petroleum Services Company - K.S.C. (Closed) (the Parent Company) and its subsidiary (the Group), which comprise the consolidated statement of financial position as of December 31, 2012, and the consolidated statements of income, comprehensive 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 consolidated financial statements

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

### Auditors' responsibility

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

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

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

### Opinion

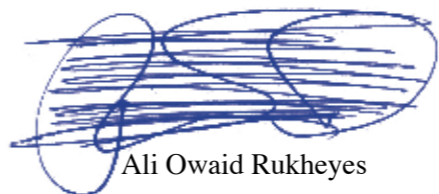
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of National Petroleum Services Company - K.S.C. (Closed) and its subsidiary as of December 31, 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Other Matter

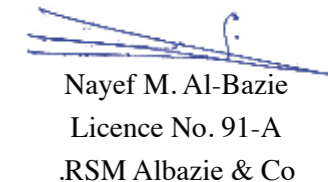
The consolidated financial statements for the year ended December 31, 2011 were audited by other auditors whom issued an unqualified opinion for those consolidated financial statements on February 20, 2012.

### Report on other Legal and Regulatory Requirements

Also in our opinion, the consolidated financial statements include the disclosures required by the Companies Law No. 25 for the year 2012 and the Company's Articles of Association, and we obtained the information we required to perform our audit. In addition, proper books of account have been kept, physical stocktaking was carried out in accordance with recognized practice, and the accounting information given in the Directors' Report is in agreement with the Company's books. According to the information available to us, there were no contraventions during the year ended December 31, 2012 of either the Companies Law No. 25 for the year 2012 and of the Company's Articles of Association which might have materially affected the Company's financial position or results of its operations.



Ali Owaid Rukheyes  
Licence No. 72 - A  
Member of the International Group  
of Accounting Firms



Nayef M. Al-Bazie  
Licence No. 91-A  
.RSM Albazie & Co

State of Kuwait  
10 March 2013



Consolidated Statement of Financial Position As at 31 December 2012

	Note	2012	2011
<b>ASSETS</b>			
Non-current assets:			
Property, plant and equipments	3	6,963,988	7,792,971
Investments available for sale	4	499,850	176,647
Total non-current assets		7,463,838	7,969,618
Current assets:			
Inventories	5	1,623,835	1,544,191
Accounts receivable	6	2,406,670	2,305,405
Pre-payments and other debit balances		597,644	332,945
Investments at fair value through income statement	7	1,634,857	1,632,351
Cash on hand and at banks		4,165,550	3,880,436
Total current assets		10,428,556	9,695,328
Total assets		17,892,394	17,664,946
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
Shareholders' equity:			
Share capital	8	5,760,951	5,486,620
Share premium	9	3,310,705	3,310,705
Treasury shares	10	(868,811)	(868,811)
Statutory reserve	11	1,456,346	1,217,647
Voluntary reserve	12	1,456,346	1,217,647
Cumulative change in fair value		24,288	15,844
Retained earnings		3,177,104	3,014,245
Total equity		14,316,929	13,393,897
Non-current liabilities:			
Provision for end of service indemnity	14	725,666	569,696
Total non-current liabilities		725,666	569,696
Current liabilities:			
Term loans	13	-	1,569,571
Accounts payable and other credit balances	15	2,849,799	2,131,782
Total current liabilities		2,849,799	3,701,353
Total shareholders' equity and liabilities		17,892,394	17,664,946

The accompanying notes (1) to (26) form an integral part of the consolidated financial statements

  
Omran Habib Hassan Jawhar Hayat  
Chairman

Consolidated Statement of the year ended 31 December 2012

	Note	2012	2011
Sales and service revenue		11,630,357	16,377,366
Cost of sales and services		(8,080,082)	(12,862,941)
Gross profit		3,550,275	3,514,425
Other income			
Impairment loss for investments available for sale	4	(241)	(1,953)
Unrealized gain (loss) from changes in fair value of investments at fair value through income statement	7	2,472	(20,924)
Realized gain on sale of investments at fair value through income statement		-	17,169
General and administrative expenses	16	(1,247,659)	(1,092,933)
Interest income		4,902	11,806
Finance charges		(26,795)	(75,339)
Profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences, National Labor Support Tax, contribution to Zakat and Board of Directors remuneration		2,386,995	2,476,807
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)	17	(21,483)	(21,749)
(National Labor Support Tax (NLST)	18	(64,826)	(60,165)
Contribution to Zakat	19	(25,930)	(24,493)
Board of directors' remuneration		(48,000)	(32,000)
Net profit for the year		2,226,756	2,338,400
Earnings per share attributable to shareholders of the (Company (fils Parent	20	40.40	42.43

The accompanying notes (1) to (26) form an integral part of the consolidated financial statements



Consolidated Statement of Company income for the Year ended 31 December 2012

	2012	2011
Net profit for the year	2,226,756	2,338,400
Other comprehensive income		
Change in fair value of investments available for sale	8,444	(9,153)
Other comprehensive income (loss) for the year	8,444	(9,153)
Total comprehensive income for the year	2,235,200	2,329,247

The accompanying notes (1) to (26) form an integral part of the consolidated financial statements

Consolidated Statement of Changes in Equity for the Year ended 31 December 2012

	Share capital	Share premium	Treasury shares	Statutory reserve	Voluntary reserve	Cumulative change in fair value	Retained earnings	Total
Balance at December 31, 2010	5,486,620	3,310,705	(868,811)	969,966	969,966	24,997	2,220,940	12,114,383
Total comprehensive (loss) income for the year	-	-	-	-	-	(9,153)	2,338,400	2,329,247
Cash dividends 2010 (20 fils per share) - (Note 22)	-	-	-	-	-	-	(1,049,733)	(1,049,733)
Transfer to reserves	-	-	-	247,681	247,681	-	(495,362)	-
Balance at December 31, 2011	5,486,620	3,310,705	(868,811)	1,217,647	1,217,647	15,844	3,014,245	13,393,897
Total comprehensive income for the year	-	-	-	-	-	8,444	2,226,756	2,235,200
Cash dividends 2011 (25 fils per share) - (Note 22)	-	-	-	-	-	-	(1,312,168)	(1,312,168)
Bonus shares 2011 (%5) - (Note 22)	274,331	-	-	-	-	-	(274,331)	-
Transfer to reserves	-	-	-	238,699	238,699	-	(477,398)	-
Balance at December 31, 2012	5,760,951	3,310,705	(868,811)	1,456,346	1,456,346	24,288	3,177,104	14,316,929

The accompanying notes (1) to (26) form an integral part of the consolidated financial statements

Consolidated Statement of cash flow for the Year ended 31 December 2012

	2012	2011
Cash flows from operating activities		
Profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences, National Labor Support Tax, contribution to Zakat and Board of Directors remuneration	2,386,995	2,476,807
Adjustments for:		
Depreciation	1,230,796	1,214,582
Gain on sale of Property, plant and equipments	(883)	(14,057)
Impairment loss for investments available for sale	241	1,953
Provision for doubtful debts	-	20,000
Unrealized (gain) loss from changes in fair value of the investments at fair value through income statement	(2,472)	20,924
Realized gain on sale of investments at fair value through statement of income	-	(17,169)
Interest income	(4,902)	(11,806)
Finance charges	26,795	75,339
Provision for end of service indemnity	206,055	155,787
	<b>3,842,625</b>	<b>3,922,360</b>
Changes in operating assets and liabilities:		
Inventories	(79,644)	(124,548)
Accounts receivable	(101,265)	202,149
Pre-payments and other debit balances	(426,193)	87,585
Accounts payable and other credit balances	773,623	173,602
Cash generated from operating activities	<b>4,009,146</b>	<b>4,261,148</b>
Payment of Kuwait Foundation for the Advancement of Sciences	(21,749)	(15,438)
Payment of National Labor Support Tax	(65,374)	(44,495)
Payment of Zakat	(26,149)	(16,541)
Board of Directors' remuneration paid	(32,000)	(32,000)
Paid for end of service indemnity	(50,085)	(37,648)
Net cash generated from operating activities	<b>3,813,789</b>	<b>4,115,026</b>
Cash flows from investing activities		
Paid for purchase of property, plant and equipments	(403,730)	(746,758)
Proceeds from sale of property, plant and equipments	2,800	43,936
Paid for purchase of investments available for sale	(315,000)	-
Net movement on investments at fair value through income statement	-	236,334
Dividend income received	90,922	67,500
Interest income received	4,902	11,806
Net movement in cash at portfolio	(34)	589
Net cash used in investing activities	<b>(620,140)</b>	<b>(386,593)</b>
Cash flows from financing activities		
Net movement on term loans	(1,569,571)	(256,934)
Finance charges paid	(26,796)	(83,759)
Cash dividends paid	(1,312,168)	(1,049,733)
Net cash used in financing activities	<b>(2,908,535)</b>	<b>(1,390,426)</b>
Net increase in cash on hand and at banks	<b>285,114</b>	<b>2,338,007</b>
Cash on hand and at banks at beginning of the year	<b>3,880,436</b>	<b>1,542,429</b>
Cash on hand and at banks at end of the year	<b>4,165,550</b>	<b>3,880,436</b>

The accompanying notes (1) to (26) form an integral part of the consolidated financial statements

Notes to the Consolidated financial statements  
for the Year ended 31 December 2012

1. Incorporation and objectives of the Parent Company

National Petroleum Services Company - K.S.C. (Closed) was incorporated pursuant to the Articles of Association duly authenticated at the Ministry of Justice, Real Estate Registration and Authentication Department under Ref. No. 73 volume 1 dated January 3, 1993. The Parent Company was registered in the Commercial Register under Ref. No. 49911 dated May 1, 1995.

As per the issued letter from the Department of Shareholding Companies No.156 dated May 7, 2012 and as per the Extraordinary General Assembly meeting held on April 5, 2012 the following have been approved:

Approval of increasing the Company's capital from KD 5,486,620 to KD 5,760,951, which amounted to KD 274,331 through the distribution of bonus shares equal to 2,743,310 shares with the percentage of 5% of the Company capital by 5 shares for every 100 shares, to be allocated to the existing shareholders in the Company's records on the date of the General Assembly Meeting.

Amended Articles No. (5) From the Article of Incorporation and article No. (6) from Article of Association of the Company to be the following: "The Company's Capital is KD 5,760,951 distributed over 57,609,510 shares with value of 100 fils for share and all shares are in cash" (Note 8).

The Parent Company's shares were listed on the Kuwait Stock Exchange on October 18, 2003.

The objective for which it was founded is the parent company in accordance with the Article of incorporation & Article of Association, and amendments.

On November 29, 2012, a Decree Law No. 25 of 2012 promulgating the Companies Law was passed; the Group will be in compliance with the law during six months from the date of issuance.

The address of the Parent Company is: Shuaiba Industrial - Plot 3 - P. O. Box 9801, Al-Ahmadi, Postal Code 61008, State of Kuwait.

At December 31, 2012, the Group had 439 employees (2011 – 389 employees).

The consolidated financial statements were authorized for issue by the Board of Directors of the Parent Company on 10 March, 2013. The Shareholders' General Assembly has the power to amend these consolidated financial statements after issuance.

2. Significant accounting policies

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

a) Basis of preparation:

The consolidated financial statements are presented in Kuwaiti Dinars and are prepared under the

Notes to the Consolidated financial statements  
for the Year ended 31 December 2012  
2. Significant accounting policies (continued)

historical cost convention, except that, investments at fair value through income statement and certain investment available for sale that are stated at their fair value. The accounting policies applied by the Group are consistent with those used in the previous year, except for the changes due to implementation of the following new and amended International Financial Reporting Standards effective January 1, 2012:

IFRS 7: Financial Instruments - Disclosures - Enhanced Derecognition Disclosure Requirements (Amendment) (effective July 1, 2011)

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's consolidated financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets.

The adoption of this amendment did not have any material impact on the consolidated financial position or performance of the Group.

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions in the process of applying the Group's accounting policies. Significant accounting judgments, estimates and assumptions are disclosed in Note 2 (q).

Standards and interpretations issued but not effective

The following IASB Standards and Interpretations have been issued but are not yet effective, and have not been adopted by the Group:

IAS 1 Presentation of items of other comprehensive income

The amendments to IAS 1 require items of other comprehensive income to be grouped into two categories:

- a) Items that will not be reclassified, subsequently to consolidated statement of income.
- b) Items that may be reclassified to consolidated statement of income when specific conditions are met.

The amendments are effective for annual periods beginning on or after July 1, 2012.

IAS 16 Property, plant and equipment

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventories, otherwise if they meet definition of inventories as per IAS 2. The amendments are effective for annual periods beginning on or after January 1, 2013.

Amendments to IFRS 7 and IAS 32 offsetting financial assets and financial liabilities and the related disclosures.

The amendments to IAS 32 clarify the meaning of "currently has a legally enforceable right of set off" and "simultaneous realization and settlement". These are effective for annual periods

Notes to the Consolidated financial statements  
for the Year ended 31 December 2012

beginning on or after January 1, 2014.

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement. The amendments are effective for annual periods beginning on or after January 1, 2013.

IFRS 9 Financial Instruments:

The standard, which will be effective for annual periods beginning on or after January 1, 2015, specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified entirely based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortized cost or fair value.

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of IAS 39. They apply a consistent approach to classifying financial assets and replace the numerous categories of financial assets in IAS 39, each of which had its own classification criteria. They also result in one impairment method, replacing the numerous impairment methods in IAS 39 that arise from the different classification categories

IFRS 10 Consolidated Financial Statements (issued in May 2011)

The new Standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements. It introduces a single consolidation model that identifies control as the basis for consolidation for all types of entities, where control is based on whether an investor has power over the investee, exposure/rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the returns. This standard is effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Interests in Other Entities (issued in May 2011)

The new Standard combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. It requires extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. IFRS 12 is effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement (issued in May 2011)

The new Standard defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRS or address how to present changes in fair value. The new requirements are effective for annual periods beginning on or after 1 January 2013.

Notes to the Consolidated financial statements  
for the Year ended 31 December 2012

b) Basis of consolidation:

These standards are not expected to have any impact on the Group's consolidated financial statements

b) Basis of consolidation:

The consolidated financial information for National Petroleum Services Company K.S.C. (Closed) (the Parent Company) and the following subsidiary:

Name of subsidiary	Incorporation country	Ownership percentage %	
		2012	2011
Napesco International Petroleum Services Company W.L.L	Kuwait	% 99	% 99

Subsidiaries are those enterprises controlled by the Parent Company. Control exists when the Parent Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Inter-company balances and transactions, including inter-company profits and unrealized profits and losses are eliminated on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the Non-controlling shareholder's share of changes in equity since the date of the combination.

Non-controlling interests are measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquire, on a transaction-by-transaction basis.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interest even if that results in a deficit balance. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the cumulative translation differences, recorded in consolidated statement of comprehensive income;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in consolidated statement of income; and
- Reclassifies the Parent Company's share of components previously recognized in other comprehensive income to consolidated statements of income or retained earnings as appropriate.

Notes to the Consolidated financial statements  
for the Year ended 31 December 2012

c) Financial instruments

c) Financial instruments

Financial assets and financial liabilities carried on the consolidated statement of financial position include accounts receivable, investments, cash on hand and at banks, term loans and accounts payable.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

c.1) Accounts receivable:

Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the accounts receivable. 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 trade receivable is 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 original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statement of income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated statements of income.

c.2) Investments

The Group classifies its investments in the following categories: Investments at fair value through income statement and available for sale investments. The classification depends on the purpose for which the investments were acquired and is determined at initial recognition by the management.

Investments at fair value through income statement

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

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

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

Notes to the Consolidated financial statements  
for the Year ended 31 December 2012  
c) Financial instruments (continued)

Investments in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months from the end of the reporting period. Investments available for sale are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months from the end of the reporting period.

Purchases and sales of investments are recognized on settlement date – the date on which an asset is delivered to or by the Group. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through income statement.

After initial recognition, investments available for sale are subsequently carried at fair value. The fair values of quoted investments are based on current bid prices. If the market for an investment is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

Realized and unrealized gains and losses from investments at fair value through income statement are included in the consolidated statement of comprehensive income. Unrealized gains and losses arising from changes in the fair value of investments available for sale are recognized in cumulative changes in fair value in consolidated statement of other comprehensive income.

Where investments available for sale could not be measured reliably, these are stated at cost less impairment losses, if any.

When an investment available for sale is disposed off or impaired, any prior fair value earlier reported in other comprehensive income is transferred to the consolidated statement of comprehensive income.

An investment (in whole or in part) is derecognized either when: the contractual rights to receive the cash flows from the investment have expired; or the Group has transferred its rights to receive cash flows from the investment and either (a) has transferred substantially all the risks and rewards of ownership of the investment, or (b) has neither transferred nor retained substantially all the risks and rewards of the investment, but has transferred control of the investment. Where the Group has retained control, it shall continue to recognize the investment to the extent of its continuing involvement in the investment.

The Group assesses at the end of each reporting period whether there is an objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for investments available for sale, the cumulative loss – measured as the difference between the acquisition cost and the

Notes to the Consolidated financial statements  
for the Year ended 31 December 2012  
c) Financial instruments (continued)

current fair value, less any impairment loss on that investment previously recognized in profit or loss – is removed from other comprehensive income and recognized in the consolidated statement of income. Impairment losses recognized in the consolidated statement of income on available for sale equity instruments are not reversed through the consolidated statement of income.

**c.3) Accounts payable**

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

**d) Property, plant and equipments:**

The initial cost of property, plant and equipments comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to consolidated statement of income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipments.

Property, plant and equipments are stated at cost less accumulated depreciation and impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated statement of income.

	Depreciation rate
Buildings	% 5
Machinery and equipments	% 10
Computer equipments, furniture and decorations	% 33,33 - % 20
Motor vehicles	% 33,33 - % 20

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of Property, plant and equipments.

**e) Impairment of assets:**

At the end of financial year, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Notes to the Consolidated financial statements  
for the Year ended 31 December 2012

**d) Property, plant and equipments (continued)**

Recoverable amount is the higher of the 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.

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 recognized immediately in the consolidated statement of income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

**f) Inventories**

Inventories are valued at the lower of cost or net realizable value after providing allowances for any obsolete or slow-moving items. Costs comprise direct materials and, where applicable, direct labor costs and those overheads that have been incurred in bringing the inventory to their present location and condition. Cost is determined on a weighted average basis.

Net realizable value is the estimated selling price in the ordinary course of business less the costs of completion and selling expenses.

**g) Capital:**

Ordinary shares are classified as equity.

**h) Treasury shares:**

Treasury shares consist of the Parent Company's own shares that have been issued, subsequently reacquired by the Group and not yet reissued or canceled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, 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 then reserves.

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

Notes to the Consolidated financial statements  
for the Year ended 31 December 2012

**h) Treasury shares (continued)**

Where any Group's company purchases the Parent Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Parent Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs, is included in equity attributable to the Parent Company's equity holders.

**i) Borrowing costs:**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in consolidated statement of income in the period in which they are incurred.

**j) Provision for end of service indemnity:**

Provision is made for amounts payable to employees under the Kuwaiti and Qatari Labor Law and employee contracts. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination at the end of the reporting period and approximates the present value of the final obligation.

**k) Revenue recognition:**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

**Sale of goods**

Sales represent the total invoiced value of goods sold during the year. Revenue from sale of goods is recognized when significant risks and rewards of ownership of goods are transferred to the buyer.

**Services income**

Revenues from services are recognized when services are rendered to the Group's customers.

Notes to the Consolidated financial statements  
for the Year ended 31 December 2012  
Sale of goods

**Interest income**

Interest income is recognized, when earned on a time apportionment basis.

**Dividends income**

Dividends are recognized when the Group's right to receive payment is established.

**Gain on sale of investments**

Gain on sale of investments is measured by the difference between the sale proceeds and the carrying amount of the investment at the date of disposal, and is recognized at the time of the sale.

**l) Foreign currencies:**

Foreign currency transactions are translated into Kuwaiti Dinars at rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currency at the end of the reporting period are retranslated into Kuwaiti Dinars at rates of exchange prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated 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.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the consolidated statement of income for the period. Translation differences on non-monetary items such as equity investments which are classified as investments at fair value through income statement are reported as part of the fair value gain or loss. Translation differences on non-monetary items such as equity investments classified as investments available for sale are included in "cumulative changes in fair value" in the other comprehensive income.

**m) Provisions:**

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. Provisions are not recognized for future operating losses.

**n) Contingencies:**

Contingent liabilities are not recognized but disclosed in the consolidated financial statements except when the possibility of an outflow of resources embodying economic losses is remote.

A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

**o) Segment reporting:**

Operating segments are reported in a manner consistent with the internal reporting provided to

Notes to the Consolidated financial statements  
for the Year ended 31 December 2012

the chief operating decision-maker. The chief operating decision-maker is identified as the person being responsible for allocating resources, assessing performance and making strategic decisions regarding the operating segments.

**p) Dividend distribution**

Dividend distribution to the parent company's shareholders is recognised as a liability in the group's financial statements in the period in which the dividends are approved by the parent company's shareholders.

**q) Critical accounting estimates and judgments:**

The Group makes judgments, estimates and assumptions concerning the future. The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from the estimates.

**a) Judgments:**

In the process of applying the Group's accounting policies which are described in note 2, management has made the following judgments that have the most significant effect on the amounts recognized in the consolidated financial statements.

**(i) Revenue Recognition:**

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The determination of whether the revenue recognition criteria as specified under IAS 18 are met requires significant judgment.

**(ii) Provision for doubtful debts and inventory:**

The determination of the recoverability of the amount due from customers and the marketability of the inventory and the factors determining the impairment of the receivable and inventory involve significant judgment.

**(iii) Classification of investments:**

On acquisition of an investment, the Group decides whether it should be classified as "at fair value through statement of income". The Group follows the guidance of IAS 39 on classifying its investments.

The Group classifies investments as "at fair value through statement of income" if they are acquired primarily for the purpose of short term profit making or if they are designated at fair value through statement of income at inception, provided their fair values can be reliably estimated.

**(iv) Impairment of investments**

The Group follows the guidance of IAS 39 to determine when an available-for-sale equity investment is impaired. This determination requires significant judgment. In making this judgment, the group evaluates, among other factors, a significant or prolonged decline in the fair value below its cost; and the financial health of and short term business outlook for the

Notes to the Consolidated financial statements  
for the Year ended 31 December 2012

a) Judgments

(iii) Classification of investments (continued)

investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. The determination of what is “significant” or “prolonged” requires significant judgment.

b) Estimates and assumptions:

The key assumptions concerning the future and other key sources of estimating uncertainty at the end of the reporting period 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.

(i) Fair value of unquoted equity investments

If the market for a financial asset is not active or not available, the Group establishes fair value by using valuation techniques which include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer’s specific circumstances. This valuation requires the Group to make estimates about expected future cash flows and discount rates that are subject to uncertainty

(ii) Provision for doubtful debts and inventory:

The extent of provision for doubtful debts and inventories involves estimation process. Provision for doubtful debts is made when there is an objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified. The carrying cost of inventories is written down to their net realizable value when the inventories are damaged or become wholly or partly obsolete or their selling prices have declined. The benchmarks for determining the amount of provision or write-down include ageing analysis, technical assessment and subsequent events. The provisions and write-down of accounts receivable and inventory are subject to management approval.

(iii) Impairment of non-financial assets

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

Notes to the Consolidated financial statements  
for the Year ended 31 December 2012

3. Property, plant and equipments

3. Property, plant and equipments

	Buildings	Machinery and equipments	Computer equipments, furniture and decorations	Motor vehicles	Total
Cost:					
At December 31, 2010	2,577,265	11,158,630	651,941	324,905	14,712,741
Additions	22,318	678,660	45,627	153	746,758
Disposals	-	(56,023)	-	(9,611)	(65,634)
At December 31, 2011	2,599,583	11,781,267	697,568	315,447	15,393,865
Additions	59,015	251,833	32,782	60,100	403,730
Disposals	-	-	-	(11,600)	(11,600)
At December 31, 2012	2,658,598	12,033,100	730,350	363,947	15,785,995
Accumulated depreciation:					
At December 31, 2010	591,869	5,168,158	462,298	199,742	6,422,067
Charge for the year	125,375	952,429	95,245	41,533	1,214,582
Related to disposals	-	(26,144)	-	(9,611)	(35,755)
At December 31, 2011	717,244	6,094,443	557,543	231,664	7,600,894
Charge for the year	130,094	979,402	85,524	35,776	1,230,796
Related to disposals	-	-	-	(9,683)	(9,683)
At December 31, 2012	847,338	7,073,845	643,067	257,757	8,822,007
Net book value:					
At December 31, 2012	1,811,260	4,959,255	87,283	106,190	6,963,988
At December 31, 2011	1,882,339	5,686,824	140,025	83,783	7,792,971
At December 31, 2010	1,985,396	5,990,472	189,643	125,163	8,290,674



Notes to the Consolidated financial statements  
for the Year ended 31 December 2012

4. Investments available for sale

Depreciation charge for the year was allocated as follows:

	2012	2011
Cost of sales and services	1,112,027	1,085,435
(Other (Note 16	118,769	129,147
	1,230,796	1,214,582

- The Group`s buildings are constructed on land leased from State of Kuwait, which expire on July 31, 2013
- The Group`s assets are mortgaged against term loans granted by local bank (Note13).

4. Investments available for sale

	2012	2011
Funds and Portfolios	474,842	158,122
Quoted shares	25,008	18,525
	499,850	176,647

The movement on the investments during the year as follows:

	2012	2011
Balance at beginning of the year	176,647	187,753
Additions	315,000	-
Changes in fair value	8,444	(9,153)
Impairment losses	(241)	(1,953)
Balance at end of the year	499,850	176,647

Investments available for sale are denominated in the following currencies:

Currency	2012	2011
Kuwaiti Dinars	183,582	175,099
US Dollar	316,268	1,548
	499,850	176,647

5. Inventories

	2012	2011
Cement and acidizing chemicals	936,938	901,434
Environmental chemicals	49,931	40,647
Spare and tools	636,966	602,110
	1,623,835	1,544,191



Notes to the Consolidated financial statements  
for the Year ended 31 December 2012

6. Accounts receivable

6. Accounts receivable

	2012	2011
(a) Trade receivables	2,446,670	2,345,405
(Provision for doubtful debts (b	(40,000)	(40,000)
	2,406,670	2,305,405

a) The fair values of accounts receivable and other debit balances approximate their carrying values as at December 31, 2012. The ageing of receivables is as follows

	2012	2011
to 3 months 1	1,958,697	1,732,431
to 12 months 3	463,275	553,872
Over 1 year	24,698	59,102
	2,446,670	2,345,405

b) Provision for doubtful debts:

The movement of the provision for doubtful debts is as follows:

	2012	2011
Balance at beginning of the year	40,000	20,000
Provision for the year	-	20,000
Balance at end of the year	40,000	40,000

7. Investments at fair value through income statement

The movement during the year is as follows:

	2012	2011
Balance at beginning of the year	1,632,351	1,873,029
Additions	-	-
Net movement in cash at portfolio	34	(589)
Disposals	-	(219,165)
Unrealized gain (loss) from changes in fair value	2,472	(20,924)
Balance at end of the year	1,634,857	1,632,351

8. Share capital

The authorized, issued and fully paid-up capital consists of 57,609,510 shares (2011 – 54,866,200) of nominal value of 100 fils each and all shares are in cash (Note 1).

Notes to the Consolidated financial statements  
for the Year ended 31 December 2012  
9.Share premium

9.Share premium

This represents cash received in excess of the par value of the shares issued. The share premium is not available for distribution except in cases stipulated by law.

10. Treasury shares

	2012	2011
(Number of treasury shares (shares	2,498,475	2,379,500
(%) Percentage of issued shares	% 4.34	% 4.34
(Market value (KD	899,541	809,030
(Cost (KD	868,811	868,811

11. Statutory reserve

As required by the Commercial Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year attributable to equity holders of the Parent Company before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST), Zakat and Board of Directors' remuneration is transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve equals 50% of the capital. This reserve is not available for distribution except in cases stipulated by Law and the Parent Company's Articles of Association.

12. Voluntary reserve

As required by the Parent Company's Articles of Association, 10% of the profit for the year attributable to equity holders of the Parent Company before contribution to KFAS, NLST, Zakat and Board of Directors' remuneration is transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' General Assembly upon recommendation by the Board of Directors.

13. Term loans

The term loans carry an interest rate of 3.5% per annum over the Central Bank of Kuwait discount rate as of December 31, 2011. Loans are granted by a local bank and are secured by property, plant and equipment for the Parent Company (Note 3).

14. Provision for end of service indemnity

	2012	2011
Balance at beginning of the year	569,696	451,557
Charge for the year	206,055	155,787
Paid during the year	(50,085)	(37,648)
Balance at end of the year	725,666	569,696

Notes to the Consolidated financial statements  
for the Year ended 31 December 2012  
15. Accounts payable and other credit balances

15. Accounts payable and other credit balances

	2012	2011
Trade payable	489,332	666,346
Accrued expenses	1,842,729	1,235,224
Advance received from subcontractor	243,395	-
Accrued leave	114,104	89,233
National Labor Support Tax payable	64,826	61,920
Payable to Kuwait Foundation for Advancement of Sciences	21,483	22,291
Zakat payable	25,930	24,768
Board of Directors' remuneration payable	48,000	32,000
	2,849,799	2,131,782

Trade payables are non-interest bearing. There is no material difference between the fair value and the carrying value of accounts payable and other credit balances as of December 31, 2012.

16. General and administrative expenses

	2012	2011
Staff costs	751,406	625,156
Professional fees	51,837	30,504
Depreciation (Note 3)	118,769	129,147
Other	325,647	308,126
	1,247,659	1,092,933

Salaries and wages include compensation to key management personnel as follows:

	2012	2011
Short term benefits	184,525	162,025
Terminal benefits	11,538	9,134
	196,063	171,159

17. Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)

Contribution to Kuwait Foundation for the Advancement of Sciences is calculated at 1% of the profit for the year attributable to equity holders of the Parent Company before contribution to KFAS, NLST, Zakat and Board of director's remuneration and after deducting its share of income from shareholding subsidiaries and associates and transfer to Statuary reserve.

18. National Labor Support Tax (NLST)

National Labor Support Tax is calculated at 2.5% of the Profit for the year attributable to equity holders of the Parent Company before contribution to KFAS, NLST, Zakat and Board of director's remuneration and after deducting its share of income from listed shareholding subsidiaries and associates, dividends from Kuwaiti listed Shareholding Companies.

Notes to the Consolidated financial statements  
for the Year ended 31 December 2012

19. Contribution to Zakat

19. Contribution to Zakat

Contribution to Zakat is calculated at 1% of the Profit for the year attributable to equity holders of the Parent Company before contribution to KFAS, NLST, Zakat and Board of director remuneration after deducting its share of income from shareholding subsidiaries and associates in accordance with Ministry of Finance resolution No. 58/2007 effective December 10, 2007.

20. Earnings per share

There were no potential dilutive ordinary shares. Earnings per share is computed based on profit for the year attributable to the parent Company's shareholders and the weighted average number of outstanding during the year as follows:

	2012	2011
Net profit for the year attributable to the parent company's shareholders	2,226,756	2,338,400
<u>Number of shares outstanding :</u>	<u>Shares</u>	<u>Shares</u>
Number of issued shares at beginning of the year	54,866,200	54,866,200
Add: Bonus shares	2,743,310	2,743,310
Less : Weighted average number of treasury shares	(2,498,475)	(2,498,475)
Weighted average number of outstanding shares	55,111,035	55,111,035
Earnings per share (Fils)	40.40	42.43

According to International Accounting Standard 33 "Earnings per share" requirements, earnings per share for the year ended December 31, 2011 was 44.55 fils / per share and had been restated due to the effect of the bonus shares for the year ended December 31, 2011 (Note 22).

21. Staff costs

Staff costs for the year ended December 31, 2012 amounted to KD 3,183,116 (2011 – KD 3,319,108).

22. General Assembly

- The Board of Directors held on 20 february has proposed to distribute cash dividends for the year ended December 31, 2012 amounted to 25 Fils, and proposed bonus to the board of director with amount of 48,000. This proposal is subject to the approval of the parent company's Shareholders General Assembly.
- The shareholders' general assembly held on April 27, 2011 approved the distribution of cash dividends of 20 fills per share for the year ended December 31, 2010.
- The parent company's shareholders' general assembly held on April 5, 2012 approved the distribution of cash dividends of 25 fills per share and bonus shares of 5 shares for every 100 shares for the year ended December 31, 2011.

Notes to the Consolidated financial statements  
for the Year ended 31 December 2012

23. Contingent liabilities and claims

23. Contingent liabilities and claims

At the date of consolidated statement of financial position, the Group was contingently liable in respect of the following:

	2012	2011
Letters of credit	459,080	696,802
Letter of guarantees	2,802,321	3,255,883
	<b>3,261,401</b>	<b>3,952,685</b>

24. Segment information

For the purposes of segment reporting, the Group's management has divided its activities into the following business segments:

- Oil field services.
- Industrial products and services.

Details of the above segments, which constitute the segment information, are as follows:

	2012		
	Oil field services	Industrial products and services	Total
Segment revenue	8,624,246	3,006,111	11,630,357
Segment cost	(6,368,680)	(1,711,402)	(8,080,082)
Gross profit	2,255,566	1,294,709	3,550,275
Unallocated revenue	-	-	108,742
Unallocated expenses	-	-	(1,432,261)
Net profit for the period	-	-	2,226,756
Segment assets	17,369,310	523,084	17,892,394
Segment liabilities	3,575,465	-	3,575,465

	2011		
	Oil field services	Industrial products and services	Total
Segment revenue	8,601,771	7,775,595	16,377,366
Segment cost	(5,630,873)	(7,232,068)	(12,862,941)
Gross profit	2,970,898	543,527	3,514,425
Unallocated revenue	-	-	130,654
Unallocated expenses	-	-	(1,306,679)
Net profit for the period	-	-	2,338,400
Segment assets	17,127,378	537,568	17,664,946
Segment liabilities	4,271,049	-	4,271,049

Notes to the Consolidated financial statements  
for the Year ended 31 December 2012

25. Financial risk management

25. Financial risk management

In the normal course of business, the Group uses primary financial instruments such as accounts receivable, investments, cash on hand and at banks, term loans and account payable, and as a result, is exposed to the risks indicated below. The Group currently does not use derivative financial instruments to manage its exposure to these risks.

**Interest rate risk:**

Financial instruments are subject to the risk of changes in value due to changes in the rates of interest. The effective interest rates and the periods in which interest bearing financial assets and liabilities are mentioned in the respective notes.

**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. Financial assets which potentially subject the Group to credit risk consist principally of cash at banks and term deposits and accounts receivable. The Group's cash is placed with high credit rating local banks and receivables are presented net of allowance for doubtful debts. Credit risk with respect to receivables is limited due to the large number of customers and their dispersion across different industries.

The Group's maximum exposure arising from default of the counter-party is limited to the carrying amount of receivables.

**Foreign currency risk:**

The Group incurs foreign currency risk on transactions that are denominated in a currency other than the Kuwaiti Dinar. The Group may reduce its exposure to fluctuations in foreign exchange rates through the use of derivative financial instruments. The Group ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the Kuwaiti Dinar.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange between Kuwaiti Dinar and each of (USD and Pound sterling).

	2012	Increase / (Decrease) against KD	Balance	Effect on consolidated income statement
USD		5% ±	812,470	40,624 ±
GBP		5% ±	2,180	±109
	2011	Increase / (Decrease) against KD	Balance	Effect on consolidated income statement
USD		5% ±	420,810	±21,041

**Liquidity risk:**

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments

Notes to the Consolidated financial statements  
for the Year ended 31 December 2012

25. Financial risk management (continued)

associated with financial instruments. To manage this risk, the Group periodically assesses the financial viability of customers and invest in bank deposits and other investments that is readily realizable.

Maturity table for financial liabilities:

	2012		
	1-3 months	3-12 months	Total
Accounts payable and other credit balances	2,634,164	215,635	2,849,799
	2011		
	1-3 months	3-12 months	Total
Accounts payable and other credit balances	1,956,247	175,535	2,131,782
Term loans	125,000	1,444,571	1,569,571
	2,081,247	1,620,106	3,701,353

**Equity price risk**

Equity price risk is the risk that fair values of equities decrease as the result of changes in level of equity indices and the value of individual stocks.

The following table demonstrates the sensitivity to a reasonably possible charge in equity indices as a result of change in fair value of investments at fair value through income statement, for which the Group had exposure as of December 31:

	2012		2011	
	Change in equity % price	Effect on consolidated statement of comprehensive income	Change in equity % price	Effect on consolidated statement of comprehensive income
Market Index				
Investment available for sale	%±5	±24,993	%±5	±8,832
Investments at fair value through income statement	%±5	±81,743	%±5	±81,618

**Fair value of financial instruments**

Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from current bid prices, discounted cash flow models and other models as appropriate. At December 31, the fair values of financial instruments approximate their carrying amounts.

The Group had measured fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Notes to the Consolidated financial statements  
for the Year ended 31 December 2012  
25. Financial risk management (continued)

The following table presents the Group's assets that are measured at fair value as of December 31, 2012:

Assets	Level 1	Level 2	Total
Investment available for sale	25,008	474,842	499,850
Investments at fair value through income statement	-	1,634,857	1,634,857
	25,008	2,109,699	2,134,707

The following table presents the Group's assets that are measured at fair value as of December 31, 2011:

Assets	Level 1	Level 2	Total
Investment available for sale	18,525	158,122	176,647
Investments at fair value through income statement	-	1,632,351	1,632,351
	18,525	1,790,473	1,808,998

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily traded equity investments classified as trading securities or available-for-sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of reporting period, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Notes to the Consolidated financial statements  
for the Year ended 31 December 2012  
25. Financial risk management (continued)

26. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, sell assets to reduce debt, repay loans or obtain additional loans.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital resources. Net debt is calculated as total borrowings less cash on hands and at banks. Total capital resources are calculated as total equity plus net debt.

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

	2012	2011
Term loans	-	1,569,571
Less : cash on hand and at banks	(4,165,550)	(3,880,436)
Net debt	(4,165,550)	(2,310,865)
Total shareholder's equity	14,316,929	13,393,897
Total capital resources	10,151,379	11,083,032

