# Annual Review 2013

الشركة المتحدة للمشروعات النفطية
United Oil Projects K.S.C.

The Dar Al-Athar Al-Islamiyyah is one of Kuwait's leading cultural organizations and home to the al-Sabah Islamic art collection– acknowledged as one of the world's finest collections of Islamic art. The collection consists of over 30,000 priceless objects, including manuscripts, scientific instruments, carpets, fabrics, jewelry, ceramics, ivory, metalwork and glass dating from the seventh century CE from countries such as Spain, India, China and Iran.

This year, the annual reports of KIPCO Group of Companies each feature a key ceramic artifact from the al-Sabah Collection. The images used within the reports reflect KIPCO's commitment to protecting and promoting Kuwait's heritage, while helping to build the nation's future.

The item pictured here (LNS 118 C) is a water-pipe base – or kalian - made in the Iranian region during the 17th century CE. The piece has simple scroll designs with arabesques in red slip. The image is reproduced with the kind permission of the Dar Al-Athar Al-Islamiyyah.

**Contents**

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

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

# United Oil Projects Company (UOP)

United Oil Projects Company (UOP) is a member of KIPCO Group through its association with Qurain Petrochemical Industries Company (QPIC) UOP is one of the group's industrial investments arm in the Oil, Energy & Petrochemical Sector.

QPIC is a public listed company with a share capital of Kuwait Dinars 110 million, sourcing investments in the petrochemical sectors and its related service. QPIC was established by state owned Petrochemical Industries Company (PIC), to encourage the involvement of the private sector in major petrochemical projects locally and internationally and, hence, utilize the available wealth to setup local industries that add value to Kuwait's national economy and provide job opportunities for the people of Kuwait.

The KIPCO Group is one of the largest holding companies in the Middle East and North Africa, with consolidated assets of US$ 30.5 billion as at 31 December, 2013. The Group has significant ownership interests in over 60 companies operating across 24 countries. The group's main business sectors are financial services, media, real estate and manufacturing. Through its core companies, subsidiaries and affiliates, KIPCO also has interests in the education and medical sectors.

# Executive Summary for 2013

## Financial Summery

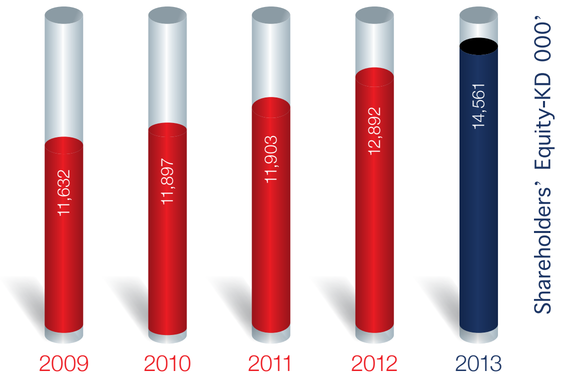
| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| **Income Statement Highlights (KD '000)** | | | | | |
| Gross Profit | **317** | 229 | 165 | 219 | 159 |
| Other Income | **1,304** | 984 | 88 | 635 | 881 |
| Operating Expenses | **-503** | -432 | -598 | -519 | -697 |
| Net Profit for the year | **1,092** | 762 | -349 | 328 | 334 |
| Dividend | **0** | 0 | 0 | 0 | 0 |
| **Financial Statement Highlights (KD ‘000)** | | | | | |
| Total Assets | **15,349** | 13,342 | 12,488 | 12,366 | 12,279 |
| Investments | **10,432** | 9,674 | 9,033 | 9,842 | 10,093 |
| Term Loans | **0** | 0 | 0 | 0 | 150 |
| Equity | **14,561** | 12,892 | 11,903 | 11,897 | 11,632 |
| **Profitability** | | | | | |
| Earnings per Share (fls) | **10.92** | 7.6 | -3.5 | 3.28 | 3.34 |
| Return on Average Assets | **7%** | 6% | -3 | 3% | 3% |
| Return on Average Equity | **7%** | 6% | -3 | 3% | 3% |
| Profit per Employee (KD ‘000) | **24.27** | 16.93 | -7.43 | 6.98 | 7.11 |
| **Capital** | | | | | |
| Equity / Total Assets | **95%** | 97% | 95% | 96% | 95% |
| Debt / Equity | **5%** | 3% | 5% | 4% | 6% |
| **Liquidity & Business Indicators** | | | | | |
| Investments / Total Assets | **68%** | 73% | 72% | 80% | 82% |
| Liquid Assets / Total Assets | **18%** | 15% | 14% | 12% | 9% |
| Number of Employees | **45** | 45 | 47 | 47 | 47 |

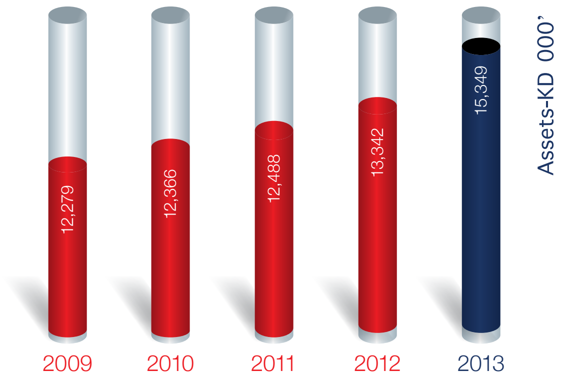
## Business Highlights 2013:

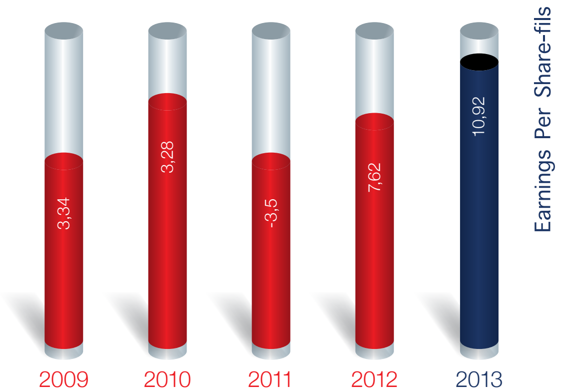
- Al Khorayef put forth admirable performance and won accolades for Operational efficiency, Qualitative contract execution and timely delivery of projects.
- The Projects Division has shown a significant positive growth in comparison to last year, registering 32% growth.
- Chemical Division sales volume and value increased by 25%, Specialty Resin and Acrylic Polyols sales contributed by 68% increase.
- Chemical Division extended its reach to new markets in the GCC and North Africa.

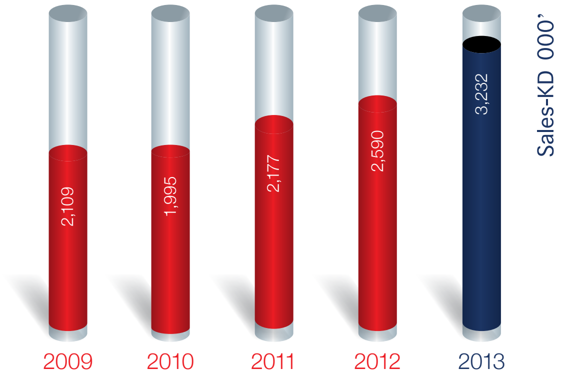
## Financial Highlights 2013:

- UOP reported a net profit of KD 1.09 Million compare to KD 762 thousand in the last year. The net comprehensive income for the year is KD 1.67 Million compared to KD 989 thousand of the previous year.
- The net shareholders' equity has been continuously growing from 2009 onwards. In 2013 the total assets grew by 15% and the equity by 13%.



# Success evidenced through significant financial performance

# Company Overview

Interpreting the pioneer vision of its founders, United Oil Projects Company (UOP) was incorporated in the early eighties under the name of Kuwait Chemical Manufacturing Company (KCMC), to meet both local and international market requirements for specialized chemicals.

In 2005, the company's management adopted a reformed strategy for the development of its activities to adroitly meet and accommodate the frequent economic transformations and developments, as well as to foster its returns through seizing available investment opportunities in the energy sector. As a result, the Company was subsequently re-named as United Oil Projects and the authorized and paid up capital was increased to 10 Million Kuwaiti Dinars approximately USD 35.6 million.

UOP focuses on specialized projects in the Energy, Oil & Gas and Petrochemical sectors through direct investment, alliances and joint ventures with the international market majors of these sectors.

The Company's Chemical Division is a key producer of polymers, which are used in the manufacture of coatings and glass reinforced products, establishing a local and international presence under the brand name KCMC and becoming the largest resins supplier in Kuwait. UOP is certified to ISO 9001:2008 (Quality Management System) and ISO 14001:2004 (Environmental Management System) Standards.

# Key Investments

United Precision Drilling Company (UPDC) continues to be one of United Oil Projects Company's (UOP) significant investments, with a ownership share of 47.5%. A Joint Venture in partnership with Weatherford International Company, the United Precision Drilling Company (UPDC) currently manages a number of rigs in the State of Kuwait and the neutral zone.

Further, through Al-Khorayef United Holding Company (AKUH), United Oil Projects Company's (UOP) also owns 25% share in Al-Khorayef Company for sale maintenance & repair of oil production equipment L.L.C (AKC), a subsidiary of Saudi based Al-Khorayef Group, operating equipment supply contracts and oil-related facilities.

# Company's Mission

United Oil Projects Company three fold missions represent our long term business objectives, which are:

- Progressively enhance the value of shareholders' returns through dynamic and strategic investment in the energy sector.
- Develop a regional network of deal sources; as well as identify and secure lucrative investment opportunities with industry leaders.
- Consistently uphold our social responsibilities towards our environment and our employees by adopting high quality industry standards and best practices.

Guided by our corporate values of sustainability, excellence, commitment and responsibility:

- We maintain sustainability in our business strategy, investment plans, financial growth and environmental considerations to ensure mutual growth for our investors, employees, the market we operate in and the wider community.
- We are committed to transparency and strong corporate governance and sound business practices.
- We are responsible to conduct every phase of our investment strategies with thoroughness, cost-efficiency and prudent analysis to secure long-term value for our shareholders

## Admirable achievement by Associates and Chemical Division to UOP advantage.

# Board of Directors

Mr. Sadoun Abdullah Ali
Chairman

Mr. Muhaiman Ali Behbehani
Vice Chairman and CEO

Mr. Mohammad Bader Al-Sayer
Board Member

Mr. Fuad Abdul-Raheem Akbar
Board Member

Mr. Fawaz Bader Al-Othman
Board Member

# Executive Management

Muhaiman Ali Behbehani
Vice Chairman and CEO

Mr. Muhaiman Ali Behbehani joined United Oil Projects Company in 2006 and was promoted as Vice Chairman/Acting General Manager in 2010, at present he is the Vice Chairman and CEO.

Prior to joining UOP, Mr. Behbehani held several posts in Kuwait National Petroleum Company. Mr. Behbehani has a diversified experience portfolio in oil industries supported by several certificates and specialized courses in business, oil projects and planning.

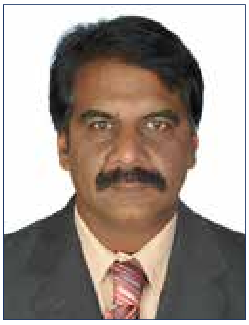
Mr. Behbehani holds a Bachelor's Degree in Mechanical Engineering from University of Toledo -OHIO – USA

Antony John Masefield
Chemicals Division Manager

Mr. Masefield joined United Oil Projects in 2004 and manages all aspects of the chemicals division. Mr. Masefield has a vast and varied industrial experience of 35 years across a broad spectrum of industries including petroleum products and pharmaceuticals.

However it is in the polymer field where Mr. Masefield enjoys more than 30 years of experience, covering most of the Western Hemisphere, Africa and the Middle East, making him one of the doyens of the global resins industry.

Mr. Masefield holds Bachelor's Degree in both Chemistry and Geology along with an Honors degree in Chemistry. He is also professionally qualified as a Registered Natural Scientist (Pr. Sci. Nat.) and is a member of the Oil and Color Chemists Association (OCCA).



G. Noor Basha
Accounts Manager

Mr. Basha joined United Oil Projects Company (UOP), in 2002. He manages the Accounts Department and has 30 years of working experience as a Chief Accountant in various Companies. His versatility is into Business Management, Finance, Accounting, International Trade, Company and Industrial Law, Business Environment and Govt. Policy. Prior to joining UOP Mr. Basha has worked with reputed companies in Kuwait.

Mr. Basha holds Master's degree in Commerce, from Madras University, India.

Jacob George Paret
Business Development Manager

Mr. Paret joined United Oil Projects Company as Business Development Manager in 2011 and manages the Agency Portfolio of the company along with assisting the management in the Projects Division activities.

Mr. Paret has a wide experience working in Kuwait and India, both in Management Positions and Engineering Positions. Along his career, he has worked with M/s Petrofac International Limited and M/s Hindustan Petroleum Corporation Ltd (Fortune 500 Integrated Oil Company) in India and also worked with reputed companies in Kuwait in the Oil and Gas sector. He has also completed Management Development Program on 'Fuel Retailing' at Indian Institute of Management, Ahmadabad.

Mr. Paret holds a Master's Degree in Business Administration and Bachelor's Degree in Mechanical Engineering from University of Calicut, India

# Chairman's Message

## Dear Shareholders

On behalf of the Board of Directors, I am delighted to present the annual report of United Oil Projects Co KSC, reflecting our main developments and achievements, along with the financial performance for the year ended December 31, 2013. The report also highlights the continuing challenges and prospects in the energy sector and its impact on the current portfolio of company activities

## The year in at a glance

The main focus of the company during the year was to strengthen and grow existing investments and its associates. Renewed focus, along with dynamic strategy, a professional management team and well aligned efforts, delivered yet another successful year for United Oil Projects for the year under review. Our investments grew in leaps and bounds, ahead of the growth parameters in the sector.

United Oil Projects have developed an agency portfolio of companies, well capable of providing competent technology, international expertise and above all, world class services to the energy sector.

UOP also benefited from exterior factors including the increasing global demand for oil and Kuwait Petroleum Corporation›s strategy of increasing Oil Production in the upstream sector. The strong foothold of UOP's portfolio, aided us to build on these opportunities, to accelerate their growth, making a substantial positive impact on its financials. Further, the reversal of economic and business activity trends in the region supported the company's efforts to expand its reach in the MENA region.

UOP is considering to widen its investment portfolio, in the growing energy sector in Kuwait and Region, in the coming financial year

## 2013 Performance Highlights

In 2013, UOP with its investment portfolio companies, were well poised to benefit from the opportunities arising in the markets. As a result, the company managed to achieve growth on many levels which has reflected positively on the company's financial results and other key performance indicators.

The Projects Division has shown a positive growth in comparison to last year, registering 32% growth. Whilst the Chemical division sales volume increased by 25% with exports increasing by 45%, and specialty Resin and Acrylic Polyols sales increasing 68% over 2012. During 2013 efforts were further intensified in developing, marketing and producing higher revenue specialty resins to benefit from favorable market conditions.

## Financial Outcome

As of the year ending 2013, United Oil Projects (UOP) reported a net profit of KD 1.09 million, as compared to KD 762 thousand (0.76 million) in 2012. Comprehensive income for the year totaled KD 1.67 million compared to KD 989 thousand (0.99 million) for the previous year.

Net shareholders' equity has continued to grow since 2009 and the net increase in the current year is 13%. The total assets have increased by 15% to KD 15.35 million as compared to KD 13.34 million in 2012.

## Future Outlook

UOP is pursuing its position by capturing profitable investment opportunities aligned with its long term business objectives; in addition to enhancing its local and international strategic partnerships, to increase the revenue streams.

In conclusion, I would like to take this opportunity to thank our shareholders, clients, and partners alike for their appreciated support and to our management and staff for their dedication and relentless effort to achieve the Company's goals. We would also like to extend our thanks to the Kuwait regulatory authorities for their continued support and guidance.

Sincerely

Sadoun A. Ali
Chairman


Consolidating Company's presence in the oil & energy sector.

# Management Review

2013 was another successful year for United Oil Projects Company (UOP). Management's visionary leadership, coupled with improved output from a professional workforce, reaped rich benefits. We achieved significant all-round growth in profits, investments, agency portfolios and manufacturing yield.

The Projects Division grew significantly in operation as well as the Chemical Division. Driven by special technical skills, extensive R&D and market analysis, the sales and profit from Specialty products grew considerably. Adherence to regulatory compliance through standardized systems assisted UOP in achieving its goals.

## Significant Highlights of the year

- In 2013, UOPs' investment portfolio companies were well competent to capture the opportunities in the upstream sector. UPDC displayed an active participation in tenders released by K-Companies, and hence effectively will result in the increase of operational rigs in Kuwait.
- Similarly, Al Khorayef (AKC) brought into forefront admirable performance, in terms of Operational efficiency, Qualitative contract execution and timely delivery. The overall excellence paved way for winning major contracts related to Sucker Rod Pumps, Progressive Cavity Pumps & Electrical Submersible Pumps. Further, AKC has made a strong foothold in KOC in projects related to Heavy Oil and Steam Injection. .
- Further to its current Agency portfolio, UOP managed to acquire new agencies in the Energy sector during 2013, few of which have been invited to participate in the tenders.
- The Chemical Division achieved growth on so many levels in 2013.Compared to 2012, sales volume and value increased by 25%, the exports increased by 45%, specialty Resin and Acrylic Polyols sales increased by 68%.
- The division extended its reach to new markets in the GCC and North Africa.
- The division continuously strives to penetrate new markets. Towards achieving this strategic objective, UOP participated in the exhibition in Paint Istanbul in Turkey and Quanzhou International Exhibition China in 2013.
- Advanced HSE preventive measures were implemented to improve HSE performance. This included; standardized systems, periodic audits, hazard identification and risk assessment. As a result, the company registered zero work related 'Lost time cases'.
- Ensuring compliance with the applicable regulatory parameters, emission monitoring & control system was implemented for production process environment. The company received recognition by Kuwait Environment Public Authority (K-EPA) as an establishment operating in compliance with applicable standards and regulations.
- The company's effort to improve its staff efficiency through systematic training was reflected positively on its manpower performance. During the year, the company conducted in-house training programs and training by international consultants. The new 'Succession Plan' by the Human Resources Department is gaining good grounds in training, developing and promoting qualified employees.

## Overcome Macro-markets Challenges

### In Investment

UPDC faces continued challenges in its drilling operation in Kuwait. The external factors, which are well outside UPDC's control, are well mitigated by risk management measures. Similarly, the internal factors, are well addressed by the enormous professional experience brought in by Weatherford, from international market.

Al Khorayef also had specific challenges, especially in specific projects, wherein it was extremely a challenging task to meet up with the client requirement. Nevertheless, qualitative expertise, timely planning and proper allocation of resources, aided Al Khorayef to tide over the challenges comfortably.

Expansion of Agency Portfolio had its own share of challenges in convincing the apprehensive international principles, in terms of new projects in Kuwait market. Regardless, the latter half of the year witnessed a reversal of trends, soon after the release of the tender for EPC works for Clean Fuel Projects tender

### In The Chemical Industry

In 2013, many challenges were raised in the chemical industry, including limitations on purchase of locally manufactured raw materials and restrictions on the availability of the same. To overcome this challenge, UOP increased volume of its imports of raw materials from GCC and international markets.

New customs regulations on imported alternative raw materials and K-EPA charges on incoming raw material sample testing have negatively affected the company's efforts towards cost-reduction and realizing adequate profitability.

The company's new market penetration plans and improving sales volume/ profitability by extended market reach were greatly challenged due to the same reason.

### In Human Resources

The oil and manufacturing industry as a whole is experiencing a shortage in qualified human resources, as indicated by reliable studies and reports. In order not to compromise the quality, this is delaying the recruitment process in the company.

## Key strategies driven by innovation

### Innovate new products continuously

UOP strives to exceed its customers' expectations and gain their satisfaction with solutions catered to their needs. It successfully developed new specialty resins with high qualities, competing with the offerings of major resins manufacturers and suppliers in Europe and America, and meeting the demand of biggest paints factories in the MENA region.

### Innovate by finding new applications for current products

In order to increase its market share, UOP innovates in marketing its specialty resins which are used in more demanding applications than commodity products.

### Innovate by opening new business channels with prospects

Attract prospects, offer solutions and convert prospects into customers. Following this three-step approach, in the past year UOP succeeded in opening new business channels in the MENA region, mainly Yemen, and built a good relationship with major specialty resins consumers in Egypt, Jordan, Tunis, Sudan and Lebanon.

### Innovate by building on current proven strengths.

With its deep market knowledge and analysis, UOP chemical division is gradually shifting from commodity resins to specialty resins supply.

In this realm, UOP enjoys a competitive advantage of weak local and regional competition with most of competitors being worldwide suppliers. Additionally, it generates higher profits than commodity resins which are produced by all local suppliers with similar qualities. Specialty resin is heavily used in car refinishes and industrial paints sector.

## United Precision Drilling Company (UPDC)

With its significant foothold in the Kuwaiti Market, United Precision Drilling Company (UPDC) offers world class expertise to Kuwait Oil Company (KOC) and Kuwait Gulf Oil Company (KGOC). Despite challenging business environment in the oil and gas drilling sector, locally and internationally, UPDC remains fundamentally strong, thus continues to provide good returns to United Oil Projects Company.

In 2013, the local market witnessed new challenges with the entry of new contractors; however United Precision Drilling Company (UPDC) maintained positive performance, as the management implemented new strategies to strengthen the company's position for tenders. UPDC continued its Kuwait drilling projects utilizing all of its rigs.

UPDC enjoys a strong reputation and goodwill within KOC and is well poised to capture the opportunities created in the drilling sector by the aggressive expansion and modernization projects plans of Kuwait Oil Company. KOC intends to increase the production from the current capacity of 2.6 million barrel per day (BD) to 4 million BD by the year 2020, which is expected to reflect positively on its performance, providing better investment returns to UOP.

## Al-Khorayef Company for sale maintenance & repair of oil production equipment (AKC)

Since 1995, Al-Khorayef Company for sale maintenance & repair of oil production equipment (AKC) has been providing services to the oil, electricity and water sectors in The State of Kuwait, including the supply of electrical submersible pumps (ESP) for both oil and water applications.

Towards enhancing its services, Al Khorayef has increased its offering and expanded its services to other forms of Artificial Lifts including Progressive Cavity Pumps and

# Management Review (Cont.)

Sucker Rod Pumps. The expertise and experience from ESP has provided Al Khorayef a solid platform in the field of Artificial Lifts which allows them to effectively compete with international players.

One of Al Khorayef's several projects with Kuwait Oil Company (KOC) is to build and operate GC-16, an early production facility. Construction in the project is expected to be completed during first quarter of 2014; while it shall be commissioned by mid of 2014.

During the year, Al Khorayef was awarded the Progressive Cavity Pumps contract, in partnership with KUDU Pumps. Also, Al Khorayef was awarded the "Sucker Rod Maintenance Services' tender by Joint Operation. Furthermore , AKC was the lowest bidder in Mega ESP tender issued by KOC in 2013, which is expected to be awarded in early 2014.

Al Khorayef enjoys a positive future outlook, as it is expected to play an increasingly major role in providing additional world class services and expertise to Kuwait Oil Company, KGOC and joint operations, especially in Progressive Cavity Pumps and Sucker Rod Pumps.

## Chemical Division

In 2013 UOP succeeded in increasing the sales of specialty products, while commodity manufacture remained stable. This is a result of The Chemical Division's strategy over the past few years which focused on enhancing the sale of specialty products to improve the division's contribution to the overall income and maximize earnings based on limited installed capacity.

Overall raw material prices were fairly stable during the year, except for some volatility witnessed during the year, mainly due to under-supply and over-demand variations rather than changes in the basic cost of raw material feedstocks such as crude oil.

The Division achieved significant growth in sales volumes, value, and profit compared to 2012, posting a growth of 20%, 25%, and 69% respectively. This indicates higher revenue per product metric ton. This is due to enhanced sales efforts aiming to increase market penetration by expanding UOP's geographical reach, and a competitive advantage against higher cost international competitors' products.

Our Research and Development Department continuously explores new specialty products, and after extensive in-house market research we expect to launch additional specialty products starting from early 2014. Some cater to the GCC, while others are targeting the new geographical marketplaces.

## Agency Portfolio

In light of UOP's management efforts towards expanding the agency's business by enhancing its portfolio and offerings to the Oil and Gas sector, the company is well positioned to benefit from the favorable market condition in Kuwait.

The energy sector provides plenty of emerging opportunities, both in terms of production and investments. UOP has brought into its fold, various international manufacturers and service providers and hence have developed a working relationship with its esteemed partners.

The agency portfolio expanded its wings to include many leading international partners to target both the Products and Services market, in lieu of the emerging opportunities. Few of the specific partners, would most probably expand their relationship to Joint Ventures or other forms of partnership, as suited to the market conditions.

## Corporate Social Responsibility

UOP is proud to be involved in many corporate social responsibilities practices, ranging from environmental, health & safety, educational and youth.

This is well revealed through its commitment to operate under two main aspects namely; the quality of management and the control of its operations on the environment.

By practicing quality of management, UOP has been able to perform beyond expectations with processes optimized for maximum efficiency and by continual development of its workforce through training.

Also, through its Integrated Management System and Health & Safety Policies, UOP has achieved compliance to requirements of Regulatory Authorities; especially Kuwait Environment Public Authority (K-EPA) and Kuwait Ministry of Health (MOH)

Additionally, the company proudly supports the innovative initiative, 'Protégé mentorship program' which is the signature project by the Main Group aimed at giving back to the community through highlighting success stories of hardworking people across all sectors.

## Environment

During 2013, UOP concentrated its efforts on improving the efficient use of resources as well as moving towards cleaner production, pursuant to its ISO 14001:2004 (Environmental Management System) certification.

Cleaner production goes beyond meeting regulatory obligations and looks for further improvements to benefit the company as well as the environment.

Few of the many activities undertaken in this regard were:

- Reusing or recycling 'wastes' rather than sending them to landfills
- Reducing or reusing packaging
- Maintaining equipment and monitoring wasteful leaks
- Turning off equipment when not in use
- Reducing electricity use through awareness and installation of energy efficient LED lights
- Replacing diesel powered forklift truck with one that is powered by clean-burning and efficient LPG fuel.
- UOP also disposes off wastes that cannot be internally recycled through K-EPA approved facilities and companies.

Apart from the above, UOP follow an emission monitoring and control system for its production process environment, keeping with the applicable regulatory parameters.

It is commendable to note that the efforts of UOP are recognized by the regulatory authorities (K-EPA) by being approved as a company having operations which are in compliance with the applicable standards and regulations.

## Good Labor Practices

UOP considers its employees as a major asset and establishes a good working relationship with them.

Understanding that the quality of its relationship with employees affects the employee morale and productivity, the Company adopts the following principles:

Provide good conditions of work

Employees are provided healthy and safe working conditions which are ensured through periodic monitoring of health factors determined by the regulatory authorities, and enforcing the use of personal protection equipment.

Support transparent dialogue

UOP maintains transparency in addressing the concerns of its employees by obtaining feedback through 'Employee Satisfaction Survey' as well as through a feedback system implemented under the Corporate Governance 'Whistle-blowing Policy'.

Promote and maintain health and safety at work

Both in-house and external trainings are conducted in order to well equip the employees in discharging their duties in a healthy and safe manner.

Pre-employment and periodic medical check-up is also conducted through the Health Centre of Ministry of Health.

Encourage human development through training and succession plan

Apart from the regular training programs, the employees are exposed to training by International Consultants on advanced topics related to their job responsibilities.

This has come as a major advantage for the Company ever since it was selected by the United Nations Industrial Development Organization (UNIDO) for export development.

In order to encourage human development the Human Resources Department has also commenced the succession plan to train, develop and promote identified employees.

# Management Review (Cont.)


## Customer Support

UOP understands the importance of its customers and values their feedback on a continual basis. Periodic customer visits are made by the UOP technical and sales team to understand and assess the performance of UOP products as well as to gather information regarding updates or modifications required.

In addition, UOP provides appropriate information on its products thereby ensuring hassle free usage and addressing health and safety precautions.

Periodically, customers' perception about the Company is evaluated by obtaining their feedback through a standard system. The results of which are reviewed in the Management Review Meetings and adequately addressed to improve customer satisfaction.

## Income Statement

The net profit for the year ending December, 2013 is KD 1.09 million versus KD 0.76 million of last year same period, which represent an increase of 43%.

The earning per share for the period stood at 10.92 fils compared to 7.62 fils of the last year.

The revenue from sales is KD 3.2 million increased by 25%, this is to an increase in our export sales. The gross profit also increased by 38% due to introduction of specialty products.

The income from associates is KD 1.05 million representing an increase of 32% and the income from other sources increased by 49% compared to last year and the general and administration expenses is KD 438 thousands increased by 14% .

## The Balance sheet

The total assets are KD 15.35 million, compared to KD 13.34 million for 2012 reflecting a increase of 15% or KD 860 thousands.

The current assets represent 18.5% and the non-current assets represent 81.5% of total assets. We managed to maintain a positive cash flow throughout year and the available cash balance at the end of the year is 1.59 million which is increased by 74% compared to last year. The non-current assets increased by 10.1% and the investments to total assets are 68%.

The current liabilities are KD 600 thousands versus KD 282 thousands and the non-current liabilities are KD 188 thousands versus KD 168 thousands of last year. The debt to equity is 5.4% and the equity to total assets is 94.9%.

The Shareholder's equity is KD 14.56 million (145.6 fils per share) compared to KD 12.89 million (128.9 fils per share) increased by 13%.

# 2014 Future Outlook

Driven by a healthy balance sheet and operational performance, and in spite of volatility in the oil, energy, and petrochemicals sectors, UOP will continue to focus on:

- Positioning UOP in the oil, gas, petrochemical, renewable energy and environmental market segments where the demand for services and products is expected to recover more rapidly in the short term and continue to grow in the medium term.
- Enhancing the company's investments and services in the promising oil, gas and renewable energy projects through forging new partnerships with leading international establishments in the industry.
- Capturing exceptional profitable investment opportunities which are explicitly aligned with long term business objectives and core competencies.
- Accelerating the move to higher margin specialty products within the chemicals' division, through establishing partnerships with global manufacturers, while maintaining the existing commodity product base to maximize production capacity utilization during the transition period.
- Pursuing local and international strategic and synergist partnerships, to increase the chemicals' division revenue streams.

# Financial Statement

31 DECEMBER 2013

## United Oil Projects Company K.S.C. (Closed)

**Contents**

Building a better
working world

Ernst & Young
Al Aiban, Al Osaimi & Partners
P.O. Box 74
18-21st Floor, Baitak Tower
Ahmed Al Jaber Street
Safat Square 13001, Kuwait

Tel: +965 2 295 5000
Fax: +965 2 245 6419
kuwait@kw.ey.com
ey.com/mena

# INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF UNITED OIL PROJECTS COMPANY K.S.C. (CLOSED)

**Report on the Financial Statements**

We have audited the accompanying financial statements of United Oil Projects Company K.S.C. (Closed) (the "Company"), which comprise the statement of financial position as at 31 December 2013, and the statements of income, comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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' judgement, 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 auditors consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for 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 the Company's management, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

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

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF UNITED OIL PROJECTS COMPANY K.S.C. (CLOSED) (continued)

### Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Company and the financial statements, together with the contents of the report of the Company's Board of Directors relating to these financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the financial statements incorporate all information that is required by the Companies Law No. 25 of 2012, as amended, and by the Company's Memorandum of Incorporation and Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 25 of 2012, as amended, or of the Memorandum of Incorporation and Articles of Association have occurred during the year ended 31 December 2013 that might have had a material effect on the business of the Company or on its financial position.

WALEED A. AL OSAIMI
LICENCE NO. 68 A
EY
AL AIBAN, AL OSAIMI & PARTNERS

**18 February 2014**
Kuwait

## STATEMENT OF INCOME

For the year ended 31 December 2013

| | *Notes* | ***2013*** ***KD*** | *2012* *KD* |
|---|---|---|---|
| Sales | | **3,231,662** | 2,590,430 |
| Cost of sales | | **(2,914,942)** | (2,360,956) |
| **GROSS PROFIT** | | **316,720** | 229,474 |
| Share of results from associates | 6 | **1,053,857** | 799,848 |
| Dividend income | | **134,144** | 92,663 |
| Interest income | | **82,876** | 55,302 |
| Foreign exchange gain | | **5,726** | 9,379 |
| Other income | | **32,056** | 119,976 |
| General and administrative expenses | | **(438,935)** | (385,589) |
| Selling and distribution expenses | | **(64,111)** | (49,953) |
| Impairment loss on financial assets available for sale | 7 | **(4,304)** | (3,373) |
| Impairment of investment in an associate | 6 | **-** | (90,000) |
| **PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR ADVANCEMENT OF SCIENCE ("KFAS"), ZAKAT AND BOARD OF DIRECTORS' REMUNERATION** | | **1,118,029** | 777,727 |
| Contribution to KFAS | | **(4,900)** | (3,048) |
| Zakat | | **(5,646)** | (4,086) |
| Board of Directors' remuneration | 8 | **(15,000)** | (9,000) |
| **PROFIT FOR THE YEAR** | 3 | **1,092,483** | 761,593 |
| **BASIC AND DILUTED EARNINGS PER SHARE** | 4 | **10.92 fils** | 7.62 fils |

The attached notes 1 to 19 form part of these financial statements.

# STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

| | *Notes* | ***2013*** ***KD*** | *2012* *KD* |
|---|---|---|---|
| **Profit for the year** | | **1,092,483** | 761,593 |
| **Other comprehensive income:** | | | |
| *Other comprehensive income to be reclassified to statement of income in subsequent periods* | | | |
| **Financial assets available for sales:** | | | |
| Unrealised gain on financial assets available for sale | | **575,001** | 224,028 |
| Impairment of financial assets available for sale | 7 | **4,304** | 3,373 |
| Share of other comprehensive loss of associates | 6 | **(2,271)** | - |
| **Net other comprehensive income to be reclassified to statement of income in subsequent periods** | | **577,034** | 227,401 |
| **Total comprehensive income for the year** | | **1,669,517** | 988,994 |

The attached notes 1 to 19 form part of these financial statements.

## STATEMENT OF FINANCIAL POSITION
As at 31 December 2013

| | *Notes* | ***2013*** ***KD*** | *2012* *KD* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipments | 5 | **830,520** | 886,694 |
| Investment in associates | 6 | **7,795,933** | 7,600,901 |
| Financial assets available for sale | 7 | **2,636,434** | 2,073,398 |
| Due from related parties | 8 | **1,250,000** | 804,680 |
| | | **12,512,887** | 11,365,673 |
| **Current assets** | | | |
| Inventories | 9 | **503,553** | 375,875 |
| Due from related parties | 8 | **150,832** | 77,173 |
| Trade and other receivables | 10 | **591,434** | 609,640 |
| Cash and cash equivalents | 11 | **1,590,844** | 913,863 |
| | | **2,836,663** | 1,976,551 |
| **TOTAL ASSETS** | | **15,349,550** | 13,342,224 |
| **EQUITY AND LIABILITIES** | | | |
| **EQUITY** | | | |
| Share capital | 12 | **10,000,000** | 10,000,000 |
| Share premium | 12 | **1,885,000** | 1,885,000 |
| Statutory reserve | 12 | **468,060** | 356,257 |
| Voluntary reserve | 12 | **468,060** | 356,257 |
| Cumulative change in fair values | | **607,126** | 27,821 |
| Foreign currency translation reserve | | **9,637** | 11,908 |
| Retained earnings | | **1,123,643** | 254,766 |
| | | **14,561,526** | 12,892,009 |
| **LIABILITIES** | | | |
| **Non-current liability** | | | |
| Employees' end of service benefits | 13 | **188,026** | 167,921 |
| **Current liability** | | | |
| Trade and other payables | 14 | **599,998** | 282,294 |
| | | **788,024** | 450,215 |
| **TOTAL EQUITY AND LIABILITIES** | | **15,349,550** | 13,342,224 |

Sadoun A. Ali
Chairman

The attached notes 1 to 19 form part of these financial statements.

## STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

| | *Notes* | ***2013 KD*** | *2012 KD* |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit before contribution to KFAS, Zakat and Board of Director's remuneration | | **1,118,029** | 777,727 |
| Adjustments to reconcile profit to net cash flows: | | | |
| Depreciation | 5 | **88,628** | 89,837 |
| Share of results from associates | 6 | **(1,053,857)** | (799,848) |
| Dividend income | | **(134,144)** | (92,663) |
| Interest income | | **(82,876)** | (55,302) |
| Impairment of financial assets available for sale | 7 | **4,304** | 3,373 |
| Impairment of investment in an associate | 6 | **-** | 90,000 |
| Provision for employees' end of service benefits | 13 | **40,735** | 24,470 |
| Provision for slow moving inventory | | **-** | 15,000 |
| Provision for doubtful debts | 10 | **-** | 4,412 |
| | | **(19,181)** | 57,006 |
| Working capital adjustments: | | | |
| Inventories | | **(127,678)** | 113,382 |
| Due from / to related parties | | **1,341** | (89,613) |
| Trade and other receivables | | **18,206** | (53,607) |
| Trade and other payables | | **292,158** | (83,013) |
| | | **164,845** | (55,845) |
| Employees' end of service benefits paid | 13 | **(20,630)** | (1,916) |
| Net cash flows from (used in) operating activities | | **144,216** | (57,761) |
| **INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipments | 5 | **(32,595)** | (19,503) |
| Proceed from sale of property, plant and equipments | | **141** | - |
| Purchase of financial assets available for sale | | **11,965** | (6,866) |
| Dividends received from associates | | **411,233** | 299,509 |
| Dividends received from others | | **134,144** | 92,663 |
| Interest received | | **7,876** | 7,021 |
| Net cash flows from investing activities | | **532,765** | 372,824 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **676,981** | 315,063 |
| Cash and cash equivalents at 1 January | | **913,863** | 598,800 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | 11 | **1,590,844** | 913,863 |

The attached notes 1 to 19 form part of these financial statements.

# United Oil Projects Company K.S.C. (Closed)

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

| | *Share capital KD* | *Share premium KD* | *Statutory reserve KD* | *Voluntary reserve KD* | *Cumulative changes in fair values KD* | *Foreign currency translation reserve KD* | *Retained earnings (Accumulated losses) KD* | *Total KD* |
|---|---|---|---|---|---|---|---|---|
| As at 1 January 2013 | 10,000,000 | 1,885,000 | 356,257 | 356,257 | 27,821 | 11,908 | 254,766 | 12,892,009 |
| Profit for the year | - | - | - | - | - | - | 1,092,483 | 1,092,483 |
| Other comprehensive income (loss) | - | - | - | - | 579,305 | (2,271) | - | 577,034 |
| Total comprehensive income (loss) for the year | - | - | - | - | 579,305 | (2,271) | 1,092,483 | 1,669,517 |
| Transfer to reserves | - | - | 111,803 | 111,803 | - | - | (223,606) | - |
| **As at 31 December 2013** | **10,000,000** | **1,885,000** | **468,060** | **468,060** | **607,126** | **9,637** | **1,123,643** | **14,561,526** |
| As at 1 January 2012 | 10,000,000 | 1,885,000 | 322,395 | 322,395 | (199,580) | 11,908 | (439,103) | 11,903,015 |
| Profit for the year | - | - | - | - | - | - | 761,593 | 761,593 |
| Other comprehensive income | - | - | - | - | 227,401 | - | - | 227,401 |
| Total comprehensive income for the year | - | - | - | - | 227,401 | - | 761,593 | 988,994 |
| Transfer to reserves | - | - | 33,862 | 33,862 | - | - | (67,724) | - |
| As at 31 December 2012 | 10,000,000 | 1,885,000 | 356,257 | 356,257 | 27,821 | 11,908 | 254,766 | 12,892,009 |

The attached notes 1 to 19 form part of these financial statements.

NOTES TO FINANCIAL STATEMENTS
As at 31 December 2013

## 1 CORPORATE INFORMATION

The financial statements of United Oil Projects Company K.S.C. (Closed) for the year ended 31 December 2013 (the “Company”) were authorised for issue by the Board of Directors on 18 February 2014. The Shareholders’ General Assembly has the power to amend these financial statements after issuance.

The Company was established as a Kuwaiti closed shareholding company in August 1979. The main objectives of the Company are to:

- Setting up petrochemical industry projects relying on locally or regionally available produced materials and Manufacture and supply chemicals for the fiberglass, paint and petrochemical industries and for general use.
- Setting up of paint and fiberglass manufacturing projects (provided that the approval of the Public Authority for Industry is secured).
- Import and export of the raw materials required for such projects, in addition to materials complementary to the manufacturing of paints and fiberglass (provided that the approval of the Public Authority for Industry is secured).
- Production of Polyvinyl Acetate Vinyl, Polyvinyl Aster Resin and Polyurethane resin (of all kinds) Acrylic and epoxy resin, in addition to emulsion resin all kind (subject to the Public Authority for Industry approval).
- The company may set up industrial projects in the field of petrochemicals and natural gas, singly or with the participation of parties and entities that carry on similar business (subject to the Public Authority for Industry approval).
- Invest surplus funds in financial and real estate portfolios locally or abroad managed by specialised firms.
- The company may have an interest in or participate in any manner in entities that carry on business activities similar to its own or which may assist it in realizing its objects in Kuwait or abroad and it may buy or otherwise acquire such companies and entities. The company may carry on the aforesaid business in the State of Kuwait and abroad acting as principal or by proxy.
- The company may participate in industrial projects in the field of petrochemicals, oil and natural gas (subject to the Ministry of Oil approval), singly or with the participation of parties and entities that carry on similar business. The company may also manufacture all kinds of chemical and petrochemical substances branching off thereof and used in the gas sector and the oil sector (subject to the Public Authority for Industry approval)
- To carry on the business of auxiliary services for the operations of drilling of oil wells and the exploration and repair of wells and preparation thereof for production an all subsequent business relating to the maintenance of oil wells and the representation of the competent foreign companies (subject to the Ministry of Oil approval).
- To carry on maintenance work and different general services for oil sector (subject to the Ministry of Oil approval).
- To sell, purchase, supply, distribute, export and store chemical and petrochemical material or any other substitute material used in the Gas and Oil sector and participate in all related activities, also include establish and lease required services (subject to the Ministry of interior approval).

According to an approval from the Public Authority for Industry, the Company is exempt from customs duty on raw materials for the period from October 2001 until April, 2014.

The Company’s registered address is P.O. Box 26011 Safat 13121 - State of Kuwait.

The company is a subsidiary of Qurain Petrochemical Industries Company K.S.C.P. (“Parent Company”), which is listed on the Kuwait Stock Exchange.

The new Companies Law issued on 26 November 2012 by Decree Law no. 25 of 2012 (the “Companies Law”), cancelled the Commercial Companies Law No. 15 of 1960. The Companies Law was subsequently amended on 27 March 2013 by Decree Law no. 97 of 2013 (the “Decree”). The Executive Regulations of the new amended law issued on 29 September 2013 was published in the Official Gazette on 6 October 2013. As per article three of the Executive Regulations, companies have one year from the date of publishing the Executive Regulations to comply with the new amended law.

## 2 SIGNIFICANT ACCOUNTING POLICIES

**Basis of preparation**
The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of financial assets available for sale.

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

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

**Changes in accounting policy and disclosures**
The accounting policies used in the preparation of these financial statements are consistent with those used in previous year, except for the adoption of the following amended IASB Standard relevant to the Company:

*IFRS 7: Disclosures — Offsetting Financial Assets and Financial Liabilities (Amendment) (effective for annual periods beginning on or after 1 January 2013)*
These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The adoption of this standard does not have any material impact on the financial statements of the Company.

*IFRS 12: Disclosure of Involvement with Other Entities (effective for annual periods beginning on or after 1 January 2013)*
IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. IFRS 12 disclosures are provided in Note 6.

*IFRS 13: Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013)*
IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. The adoption of this standard does not have any material impact on the financial position or performance of the Company.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures*. The Company has provided these disclosures in Note 18.

*IAS 1: Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (Amendment) (effective for annual periods beginning on or after 1 July 2012)*
The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The adoption of this standard has no effect on the financial position or performance of the Company and only resulted in presentation changes in statement of comprehensive income.

*IAS 28: Investments in Associates and Joint Ventures (as revised in 2011)*
As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The adoption of this standard did not have any material impact on the financial statements of the Company.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Standards issued but not yet effective**
The following new and amended IASB Standards have been issued but not yet mandatory, and have not been adopted by the Company:

*IFRS 9 Financial Instruments*
IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The standard was initially effective for annual periods beginning on or after 1 January 2015, but International Accounting Standards Board ("IASB") in its July 2013 meeting tentatively decided to defer the mandatory effective date of IFRS 9 until the issue date of the completed version of IFRS 9 is known. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but is not expected to have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

*Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)*
These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

*IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32*
These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

Additional disclosures will be made when the abovementioned standards when become effective and are adopted by the Company.

**Revenue recognition**
*Sale of goods*
Revenue from sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

*Dividend income*
Dividend income is recognised when the right to receive the dividend is established.

*Interest income*
Interest income is recognised as interest accrues using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

**Taxation**
*Kuwait Foundation for the Advancement of Sciences (KFAS)*
The Company calculates the contribution to KFAS in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that income from associates, Board of Directors' remuneration, accumulated deficit and transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

*Zakat*
The Company calculates Zakat in accordance with the requirements of law Ị o. 46 of 2006. The Zakat charge calculated in accordance with these requirements is charged to the statement of income.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property, plant and equipments**
Property, plant and equipments are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Capital work-in-progress is carried at cost and is not depreciated

The initial cost of property, plant and equipments comprises their purchase price and any directly attributable costs of bringing an item of property, plant and equipments to its working condition and location. Expenditure incurred after the property, plant and equipments has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the 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 equipments beyond its originally assessed standard of performance, the expenditure is capitalised as an additional cost of property, plant and equipments.

Depreciation is calculated on a straight line basis over the estimated useful lives of assets as follows:

| | |
|---|---|
| Building | 30 years |
| Plant, machinery and equipments | 5 to 25 years |
| Furniture, office equipments and fixtures | 5 years |
| Motor vehicles | 5 years |

The carrying values of property, plant and equipments are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their value less costs to sell and their value in use.

An item of property, plant and equipments is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognised. The assets residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively if appropriate.

**Investments in associates**
An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Company's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the Company's share of the results of operations of the associate. Any change in other comprehensive income of those investees is presented as part of the Company's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Company recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Company's share of profit or loss of an associate is shown on the face of the statement of income and is disclosed under 'Share of results of associates'.

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

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

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investments in associates**

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

**Financial assets and liabilities**

The Company classifies its financial assets with the following categories as "financial assets available for sale", "due from related parties", "accounts receivable" and "cash and cash equivalents" whereas the Company's financial liabilities include "accounts payable and accruals" and "due to related parties".

**Financial assets**

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through income statement, directly attributable transaction costs.

The Company determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

*Financial assets available for sale*

Financial assets available for sale are those non-derivative financial assets that are designated as available for sale or are not classified as financial assets at fair value through income statement, financial assets held to maturity or loans and receivables.

After initial measurement, financial assets available for sale are measured at fair value with unrealised gains or losses recognised as other comprehensive income in the cumulative changes in fair values reserve until the investment is disposed of, at which time the cumulative gain or loss is recognised in the statement of income.

*Trade receivables and due from related parties*

Accounts receivable and due from related parties are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Doubtful debts are written off when there is no possibility of recovery.

*Cash and cash equivalents*

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash in hand, bank balances, cash in portfolios with financial institutions and short-term deposits with an original maturity of three months or less.

**Financial liabilities**

The Company classifies its financial liabilities as *"Accounts payable and accruals"* and *"due to related parties"*.

*Trade and other payables*

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

***Fair value***

The Company measures financial instruments, such as, financial assets available for sale, at fair value at each balance sheet date.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial assets and liabilities (continued)**

***Fair value*** **(continued)**
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

***De recognition of financial assets and 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 when:

- the rights to receive cash flows from the asset have expired;
- 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. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in statement of income.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Offsetting***
Financial assets and liabilities are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

***Impairment and uncollectability of financial assets***
An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the statement of income. Impairment is determined as follows:

(a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of income;
(b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
(c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

In the case of equity investments classified as financial assets available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of income - is removed from other comprehensive income and recognised in the statement of income. Impairment losses on equity investments are not reversed through the statement of income; increases in their fair value after impairment are recognised in other comprehensive income.

**Inventories**
Inventories are stated at the lower of cost or net realisable value. Costs are those expenses incurred in bringing each product to its present location and condition, as follows:

| | | |
|---|---|---|
| Raw materials, consumables and goods for resale | - | purchase cost on weighted average basis. |
| Finished goods | - | costs of direct materials and labour plus attributable overheads based on a normal level of activity. |

Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion and disposal.

**Employees end of service benefits**
Provision is made for amounts payable to employees under the Kuwaiti Labour Law and employee contracts. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on the reporting date, and approximates the present value of the final obligation.

**Impairment of non-financial assets**
An asset is impaired if its carrying amount exceeds its estimated recoverable amount. The recoverable amount of an asset is the higher of an asset's fair value less cost to sell and value in use. Fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. An assessment is made at each reporting date to determine whether there is objective evidence that an asset may be impaired. If such evidence exists, an impairment loss is recognised in the statement of income. Reversal of impairment losses is recognised in the statement of income. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**Foreign currencies**
The financial statements are presented in Kuwaiti dinars, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the financial reporting date. All differences are taken to statement of income.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Foreign currencies (continued)**
Ị on-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Ị on-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

**Significant accounting judgments and estimates**
The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company has used judgement and estimates principally in, but not limited to, the classification of financial assets, the determination of impairment provisions and valuation of inventories.

***Judgment***
*Classification of financial assets*
Management decides on acquisition of financial assets whether it should be classified as financial assets at fair value through income statement or financial assets available for sale.

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

All other financial assets are classified as available for sale.

***Estimates***
*Impairment of investment in associates*
After application of the equity method, the Company determines whether it is necessary to recognise any impairment loss on the Company's investment in its associated companies, at each financial reporting date based on existence of any objective evidence that the investment in the associate is impaired. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the statement of income.

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

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

*Valuation of inventories*
Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision is applied according to the inventory type and the degree of ageing or obsolescence, based on anticipated selling prices.

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

***Estimates (continued)***

*Impairment of property, plant and equipments*

A decline in the value of property, plant and equipments could have a significant effect on the amounts recognised in the financial statements. Management assesses the impairment of property, plant and equipments whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Factors that are considered important which could trigger an impairment review include the following:

- significant changes in the technology and regulatory environments.
- evidence from internal reporting which indicates that the economic performance of the asset is, or will be, worse than expected.

## 3 PROFIT FOR THE YEAR

Profit for the year is stated after charging:

| | ***2013 KD*** | *2012 KD* |
|---|---|---|
| Staff costs | **478,555** | 397,676 |
| Depreciation (Note 5) | **88,628** | 89,837 |
| Rental – Operating leases | **5,600** | 5,600 |
| Allowance for obsolete and slowing inventories | - | 15,000 |
| Inventories recognised as expenses in the statement of income | **2,636,932** | 2,107,756 |

## 4 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share amount is calculated by dividing profit for the year by the weighted average number of ordinary shares outstanding during the year.

| | ***2013 KD*** | *2012 KD* |
|---|---|---|
| Profit for the year | **1,092,483** | 761,593 |
| | ***Shares*** | *Shares* |
| Weighted average number of shares outstanding during the year | **100,000,000** | 100,000,000 |
| Basic and diluted earnings per share | **10.92 fils** | 7.62 fils |

As at the reporting date, there are no potential dilutive shares.

## 5 PROPERTY, PLANT AND EQUIPMENTS

| | *Building* *KD* | *Plant, machinery and equipments* *KD* | *Furniture, office equipments and fixtures* *KD* | *Motor vehicles* *KD* | *Capital-work-in-progress* *KD* | *Total* *KD* |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| As at 1 January 2013 | 1,603,641 | 1,378,592 | 140,788 | 87,894 | - | 3,210,915 |
| Additions | - | 2,800 | 2,435 | 8,750 | 18,610 | 32,595 |
| Disposals | - | (1,290) | (14,836) | - | - | (16,126) |
| As at 31 December 2013 | **1,603,641** | **1,380,102** | **128,387** | **96,644** | **18,610** | **3,227,384** |
| **Depreciation:** | | | | | | |
| As at 1 January 2013 | 1,427,277 | 690,403 | 134,902 | 71,639 | - | 2,324,221 |
| Charge for the year | 27,630 | 53,739 | 2,863 | 4,396 | - | 88,628 |
| Disposals | - | (1,284) | (14,701) | - | - | (15,985) |
| As at 31 December 2013 | **1,454,907** | **742,858** | **123,064** | **76,035** | - | **2,396,864** |
| **Net book value:** | | | | | | |
| As at 31 December 2013 | **148,734** | **637,244** | **5,323** | **20,609** | **18,610** | **830,520** |

Building is constructed on land leased from the Government of Kuwait for a period of one year and the leases are renewable on the expiry of the leases. The management expects these leases to be renewed indefinitely.

The depreciation charge has been allocated in the statement of income as follows:

| | ***2013*** ***KD*** | *2012* *KD* |
|---|---|---|
| Cost of sales | **45,944** | 45,944 |
| General and administrative expenses | **42,684** | 43,893 |
| | **88,628** | 89,837 |

**5 PROPERTY, PLANT AND EQUIPMENT (continued)**

| | *Building* *KD* | *Plant, machinery and equipment* *KD* | *Furniture, office equipments and fixtures* *KD* | *Motor vehicle* *KD* | *Total* *KD* |
|---|---|---|---|---|---|
| Cost: | | | | | |
| As at 1 January 2012 | 1,603,641 | 1,367,097 | 139,730 | 80,944 | 3,191,412 |
| Additions | - | 11,495 | 1,058 | 6,950 | 19,503 |
| As at 31 December 2012 | 1,603,641 | 1,378,592 | 140,788 | 87,894 | 3,210,915 |
| Depreciation: | | | | | |
| As at 1 January 2012 | 1,399,647 | 636,369 | 129,906 | 68,462 | 2,234,384 |
| Charge for the year | 27,630 | 54,034 | 4,996 | 3,177 | 89,837 |
| As at 31 December 2012 | 1,427,277 | 690,403 | 134,902 | 71,639 | 2,324,221 |
| Net book value: | | | | | |
| As at 31 December 2012 | 176,364 | 688,189 | 5,886 | 16,255 | 886,694 |

## 6 INVESTMENT IN ASSOCIATES

| *Name* | *Country of incorporation* | *Legal interest %* *2013* | *2012* | *Principal activities* |
|---|---|---|---|---|
| United Precision Drilling Company W.L.L. ("UPDC") | Kuwait | **47.50%** | 47.50% | Sale of oil equipment |
| Al-Khorayef United Holding Company K.S.C. (Closed) ("Al-Khorayef") | Kuwait | **25.00%** | 25.00% | Oil equipment sale, maintenance and repairs. |
| United Carbon Projects Company K.S.C. (Closed) ("UCP") | Kuwait | **36.00%** | 36.00% | Technical consulting for protection of environment |

The movement in the carrying amount of investment in associates during the year is as follows:

| | ***2013*** ***KD*** | *2012* *KD* |
|---|---|---|
| As at 1 January | **7,600,901** | 7,190,562 |
| Share of results | **1,053,857** | 799,848 |
| Share of other comprehensive loss | **(2,271)** | - |
| Impairment (See below) | **-** | (90,000) |
| Dividends | **(856,554)** | (299,509) |
| As at 31 December | **7,795,933** | 7,600,901 |

The following table illustrates summarised information of the Company's investment in associates:

| | ***2013*** ***KD*** | *2012* *KD* |
|---|---|---|
| **Share of associates' statement of financial position:** | | |
| Current assets | **19,933,430** | 13,599,181 |
| Non-current assets | **1,445,053** | 936,872 |
| Current liabilities | **(11,865,407)** | (7,404,956) |
| Non-current liabilities | **(3,629,949)** | (1,443,002) |
| **Share of net assets** | **5,883,127** | 5,688,095 |
| **Goodwill** | **1,912,806** | 1,912,806 |
| | **7,795,933** | 7,600,901 |

| | ***2013*** ***KD*** | *2012* *KD* |
|---|---|---|
| **Share of associates' revenue and profit:** | | |
| Revenues | **17,723,215** | 15,141,410 |
| Profit | **1,053,857** | 799,848 |

In accordance with International Accounting Standard 36 "Impairment of assets", the management has performed a detailed exercise in respect of each of the associates to determine whether there is any objective evidence that its investment in associates is considered impaired. As a result of the exercise, the management has recorded an impairment loss of Nil (2012: KD 90,000) in the statement of income.

## 6 INVESTMENT IN ASSOCIATES (continued)

Summarised financial information of individual associates is as follows:

| | *UPDC 2013 KD* | *Al-Khorayef 2013 KD* |
|---|---|---|
| ***Share of associates' statement of financial position:*** | | |
| Current assets | **12,996,985** | **6,936,445** |
| Non-current assets | **-** | **1,445,053** |
| Current liabilities | **(10,123,667)** | **(1,741,740)** |
| Non-current liabilities | **(729,676)** | **(2,900,273)** |
| **Net assets** | **2,143,642** | **3,739,485** |
| **Goodwill** | **308,840** | **1,603,966** |
| | **2,452,482** | **5,343,451** |
| ***Share of associates' revenue, profit and commitments for the year:*** | | |
| Revenue | **14,021,894** | **3,701,321** |
| Profit | **618,973** | **434,884** |
| Commitments | **11,548,005** | **3,922,114** |

| | *UPDC 2012 KD* | *Al-Khorayef 2012 KD* |
|---|---|---|
| *Share of associates' statement of financial position:* | | |
| Current assets | 11,984,988 | 4,884,552 |
| Non-current assets | - | 1,235,610 |
| Current liabilities | (9,539,216) | (1,109,268) |
| Non-current liabilities | (517,733) | (1,250,838) |
| Net assets | 1,928,039 | 3,760,056 |
| Goodwill | 308,840 | 1,603,966 |
| | 2,236,879 | 5,364,022 |
| *Share of associates' revenue, profit and commitments for the year:* | | |
| Revenue | 11,930,323 | 3,211,087 |
| Profit | 504,853 | 434,884 |
| Commitments | 6,867,462 | 2,635,289 |

## 7 FINANCIAL ASSETS AVAILABLE FOR SALE

| | ***2013 KD*** | *2012 KD* |
|---|---|---|
| Quoted equity securities | **2,636,434** | 2,073,398 |

Management has performed a detailed review of its financial assets available for sale to assess whether impairment has occurred in the value of these investments. Based on specific information, management recorded an impairment loss of KD 4,304 (2012: KD 3,373) in the statement of income for the year ended 31 December 2013.

## 8 RELATED PARTY TRANSACTIONS

Related parties represent Parent Company, associated companies, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management.

Significant balances and transactions with related parties included in the financial statements are as follows:

| | *Parent Company* | *Associates* | ***Total 2013*** | *Total 2012* |
|---|---|---|---|---|
| | *KD* | *KD* | ***KD*** | *KD* |
| ***Statement of income:*** | | | | |
| Dividend income | 825 | - | **825** | 1,312 |
| Interest income | - | 75,000 | **75,000** | 48,281 |
| Other income | - | 30,000 | **30,000** | 119,613 |
| ***Statement of financial position:*** | | | | |
| Financial assets available for sale | 18,313 | - | **18,313** | 14,518 |
| Due from related parties | - | 1,400,832 | **1,400,832** | 881,853 |

Due from related parties (classified under non-current assets) carries interest of 6% per annum.

The Company and Parent Company has given a guarantee (on a joint and several basis) to a local bank in connection with certain credit facilities availed by a related party (note 19).

**Compensation of key management personnel**
The remuneration of directors and other members of key management during the year was as follows:

| | ***2013 KD*** | *2012 KD* |
|---|---|---|
| Salaries and short-term benefits | **132,867** | 107,007 |
| Employees' end of service benefits | **18,168** | 9,255 |
| | **151,035** | 116,262 |

The proposed BOD's remuneration of KD 15,000 (2012: 9,000) is subject to approval by the ordinary general assembly.

## 9 INVENTORIES

| | ***2013 KD*** | *2012 KD* |
|---|---|---|
| Raw materials | **372,047** | 285,848 |
| Finished goods | **233,688** | 195,814 |
| Packing materials and spare parts | **7,908** | 4,303 |
| | **613,643** | 485,965 |
| Provision for slow moving items | **(110,090)** | (110,090) |
| | **503,553** | 375,875 |

## 10 TRADE AND OTHER RECEIVABLES

| | ***2013*** | *2012* |
|---|---|---|
| | ***KD*** | *KD* |
| Trade receivables | **552,543** | 579,175 |
| Other receivables | **38,891** | 30,465 |
| | **591,434** | 609,640 |

Trade receivables are non-interest bearing and are generally settled within 30 to 90 days terms.

As at 31 December 2013, trade receivables amounting to KD 64,214 (2012: KD 64,214) were impaired and fully provided.

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Accordingly, management believes that there is no further credit allowance required in excess of the allowance for bad and doubtful debts.

Movement in the provision for impairment of trade receivables were as follows:

| | ***2013*** | *2012* |
|---|---|---|
| | ***KD*** | *KD* |
| As at 1 January | **64,214** | 59,802 |
| Charge for the year | - | 4,412 |
| As at 31 December | **64,214** | 64,214 |

As at 31 December, the ageing analysis of trade receivables that were not impaired is as follows:

| | *Total* | *Neither past due nor impaired* | *Past due but not impaired (< 30 days)* |
|---|---|---|---|
| | *KD* | *KD* | *KD* |
| **2013** | **552,543** | **551,106** | **1,437** |
| 2012 | 579,175 | 541,329 | 37,846 |

As at 31 December 2013, trade receivables amounting to KD 368,932 (2012: KD 392,116) were denominated in US Dollars.

## 11 CASH AND CASH EQUIVALENTS

| | ***2013*** | *2012* |
|---|---|---|
| | ***KD*** | *KD* |
| Cash in hand | **2,018** | 2,293 |
| Cash at banks | **622,562** | 206,286 |
| Cash in portfolios with local financial institutions | **13,488** | 3,530 |
| Short term deposits | **952,776** | 701,754 |
| | **1,590,844** | 913,863 |

Included in cash and cash equivalents are balances denominated in US Dollars amounting to KD 229,036 (2012: KD 28,835) and Euro amounting to KD 129,050 (2012: Nil).

## 12 SHARE CAPITAL, SHARE PREMIUM AND RESERVES

**a) Share capital**
The authorised, issued and paid-up capital consists of 100,000,000 shares (2012: 100,000,000 shares) of 100 fils per share (2012: 100 fils per share), which was fully paid up in cash.

**b) Share premium**
Share premium represents cash received in excess of the par value of the shares issued. The share premium is not available for distribution.

**c) Statutory reserve**
In accordance with the Law of Commercial Companies and the Company's articles of association, 10% of the profit for the year before contribution to KFAS, Zakat and Board of Directors' remuneration, after offsetting accumulated deficit brought forward, has been transferred to statutory reserve. The Company may resolve to discontinue such annual transfers when the reserve totals 50% of paid up share capital.

Distribution of the 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 accumulated profits are not sufficient for the payment of a dividend of that amount.

**d) Voluntary reserve**
In accordance with the Company's articles of association, 10% of the profit for the year before contribution to KFAS, Zakat and Board of Directors' remuneration, after offsetting accumulated deficit brought forward, has been transferred to voluntary reserve. Such annual transfers may be discontinued by a resolution of the Company's shareholders' general assembly upon a recommendation by the board of directors.

## 13 EMPLOYEES' END OF SERVICE BENEFITS

| | ***2013*** ***KD*** | *2012* *KD* |
|---|---|---|
| As at 1 January | **167,921** | 145,367 |
| Provided during the year | **40,735** | 24,470 |
| Paid during the year | **(20,630)** | (1,916) |
| As at 31 December | **188,026** | 167,921 |

## 14 TRADE AND OTHER PAYABLES

| | ***2013*** ***KD*** | *2012* *KD* |
|---|---|---|
| Trade payables | **285,827** | 128,164 |
| Accrued staff payable | **45,351** | 35,404 |
| Accrued expenses | **140,270** | 118,726 |
| Advance from customers | **128,550** | - |
| | **599,998** | 282,294 |

## 15 COMMITMENTS

As at 31 December 2013, the Company had commitments against irrevocable letter of credits amounting to KD 91,689 (2012: KD 114,425).

The Company and Parent Company has given a guarantee (on a joint and several basis) to a local bank amounting to KD 11,920,275 in connection with certain credit facilities availed by a related party (note 19).

## 16 RISK MANAGEMENT

Risk is inherent in the Company's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company's principal financial liabilities comprise accounts payables and accruals and due to related parties. The main purpose of these financial liabilities is to raise finance for the Company's operations. The Company has trade receivables, due from related parties and cash and cash equivalents that arrive directly from its operations. The Company also holds financial assets available for sale.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

The main risks arising from the Company's financial instruments are credit risk, liquidity risk and market risk with the latter subdivided into interest rate risk, equity price risk and foreign currency risk. It is also subject to operating risks. The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Company's strategic planning process.

**Risk management structure**
The Board of Directors of the Company are ultimately responsible for the overall risk management approach and for approving the risk strategies and principles.

**Risk mitigation**
As part of its overall risk management, the Company may choose to use derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

**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 manages credit risk by setting limits for individual counter-parties, and for geographical and industry segments. The Company also monitors credit exposures, and continually assesses the creditworthiness of counterparties.

With respect to credit risk arising from the financial assets of the Company (which comprise trade receivable, due from related parties and cash and cash equivalents), the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments in the statement of financial position.

**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 periodic basis.

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

| | *Within 1 year KD* | *Total KD* |
|---|---|---|
| **2013** | | |
| Trade and other payables* | 471,448 | 471,448 |
| 2012 | | |
| Trade and other payables* | 282,294 | 282,294 |

* Trade and other payables exclude advances to customers.

## 16 RISK MANAGEMENT

**Market risk**
Market risk is the risk that the value of an asset will fluctuate as a result of changes in market variables such as interest rates, equity prices and foreign exchange rates whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all investments traded in the market.

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, diversification of assets in terms of geographical distribution and industry concentration, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

*Interest rate risk*
Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Company is not significantly exposed to interest rate risks since it does not have material financial instruments which carry interest at floating rate at the reporting date.

*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 equity price risk exposure arises from the Company's investment in equity securities classified as 'financial assets available for sale'.

The following table demonstrates the sensitivity to a reasonably possible change in equity indices as a result of change in the fair value of these investments, to which the Company has significant exposure at 31 December:

| **Market indices** | ***Change in equity price %*** | ***Effect on other comprehensive income KD*** |
|---|---|---|
| **2013** | | |
| **Kuwait Stock Exchange** | **±5** | **(58,399)** |
| 2012 | | |
| Kuwait Stock Exchange | ±5 | (27,085) |

An increase in the value of the equity price would only impact other comprehensive income, but would not have an effect on statement of income.

*Currency risk*
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 exposures.

The effect on statement of income (due to change in the fair value of monetary assets and liabilities) as a result of change in currency rate, with all other variables held constant is shown below:

| ***Currency*** | ***Change against KD*** | ***Effect on income statement KD*** |
|---|---|---|
| **2013** | | |
| US Dollars | **±5** | **(11,452)** |
| Euro | **±5** | **(6,453)** |
| 2012 | | |
| US Dollars | ±5 | (16,188) |

The effect of increase in currency rate is expected to be equal and opposite to the effect of the decrease shown above. There will be no effect on other comprehensive income.

## 17 CAPITAL MANAGEMENT

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Company manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the years end 31 December 2013 and 31 December 2012. Capital comprises share capital, share premium, statutory reserve, voluntary reserve and retained earnings and is measured at KD14,561,526 as at 31 December 2013 (2012: KD 12,892,009).

## 18 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months), the carrying amount approximates their fair value.

The methodologies and assumptions used to determine fair values of financial instruments is described in fair value section of note 2: Summary of significant accounting policies.

The Company uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in an active market for identical assets and liabilities:

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

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

As at 31 December 2013, the fair values of financial assets available for sale amounting to KD 2,636,434 (2012: KD 2,073,398) are measured under Level 1 fair value hierarchy. No financial instruments are measured under Level 2 and Level 3 fair value hierarchy as at 31 December 2013 (2012: Nil).

There were no transfers between the hierarchies during the year.

## 19 JOINT VENTURE AGREEMENT

During the year ended 31 December 2010, the Company entered into a joint venture agreement (unincorporated association) to build, operate and maintain an oil facility in Kuwait. The Company has a 25% interest in this unincorporated association which has not yet commenced its operations as at 31 December 2013 since the construction of the facility is still in progress.

The Company and a Parent Company has given a guarantee (on a joint and several basis) to a local bank in connection with certain credit facilities availed by a related party in respect of the activities of the unincorporated association. The amount guaranteed under the agreement is KD 11,920,275. The Company has not made any direct funding to the unincorporated association.

الشركة المتحدة للمشروعات النفطية
United Oil Projects K.S.C.



## How to obtain our 2013 Financial Statements:

Shareholders attending our General Assembly meeting will be provided with a draft printed copy of the Financial Statements for their approval. Shareholders can request a printed copy of the Financial Statements to be sent to them by courier seven days before the advertised date of the General Assembly; please contact Ms. Nehaya Al-Qedra, HR and Admin. Manager, Tel.: +965 2326 3297 ext. 111 to arrange this.

Shareholders can request a copy of the Financial Statements to be sent to them by email seven days before the advertised date of the General Assembly; please contact nhelmy@uopkt.com to arrange this.

Shareholders can download a PDF copy of the Financial Statements seven days before the advertised date of the General Assembly from our company website - www.uopkt.com

For further information on our 2013 Financial Statements or for extra copies of this Review, please call +965 2326 3297

P.O. Box 26011, Safat 13121, Kuwait, Tel: +965 2326 3297 Fax: +965 2326 0179
**www.uopkt.com - info@uopkt.com**