المجموعة البترولية المستقلة ش.م.ك
Independent Petroleum Group S.A.K

2012 ANNUAL REPORT

المجموعة البترولية المستقلة ش.م.ك
Independent Petroleum Group S.A.K

OUR OFFICES

KUWAIT

INDEPENDENT PETROLEUM GROUP S.A.K

Head Office	Location	
P. O. Box 24027 13101 Safat Kuwait	Area 1A 7th Street, Building No. 18 4th Ring Road, Jabriya	Tel. : (965) 22276222 - 25312840 Fax : (965) 22276100 - 22276101 22276102 - 22276103 - 25339858 25329953 - 25331472 E-mail: general@ipg.com.kw

SINGAPORE

INDEPENDENT PETROLEUM GROUP (ASIA) PTE LTD.

Location	
10 Shenton Way # 13-01 MAS Building Singapore 079117	Tel. : (65) 6225 8282 Fax : (65) 6225 3079 / 8395 Tlx : 21631 ipgsin rs E-mail: trading@ipgspore.com.sg

UK - LONDON

INDEPENDENT PETROLEUM GROUP OF KUWAIT LIMITED

Location	
112 Jermyn Street London SW1Y 6LS, UK	Tel. : (44) 207 925 0505 / 8730920 Fax : (44) 207 873 0923 Tlx : 268943 / 911394 ipguk g E-mail: ipglondon@btinternet.com

MOZAMBIQUE - MAPUTO

INDEPENDENT PETROLEUM MOZAMBIQUE, LDA

Location	
Avenida Julius Nyerere, No 760, 3rd Floor, Dto Predio Varandas de Maputo Maputo, Mozambique	Tel. : (258) 21 486351 / 2 Fax : (258) 21 486351 E-mail: samsande@ipg.co.mz

SOUTH AFRICA CAPE TOWN

IPG (SOUTHERN AFRICA) (PROPRIETORY) LIMITED

	Location	
Post Net Suite # 140, Private Bag X18, MILNERTON 7435	Unit D2 The Estuaries Suites, Oxbow Crescent, Century City, 7441 South Africa	Tel. : (27) 21551 9730/9760/9822/9785 Fax : (27) 21551 4661 E-mail: reception@ipgsa.co.za

ZIMBABWE - HARARE

INDEPENDENT PETROLEUM GROUP

Location	
Angwa City, 7th Floor West Wing, Corner Angwa Street / Kwame Nkrumah Av.	Tel./Fax : (263) 4 752 339 E-mail: admin@ipgzim.co.zw

UAE - DUBAI

D&K HOLDING LLC

	Location	
P.O. Box 124317 Dubai United Arab Emirates	ENOC Building 1 Ground Floor Sheikh Rashid Road Bur Dubai	Tel. : (971) 4 - 313 5000 Fax : (971) 4 - 313 5002 E-mail: dnkpl@dnkpetrol.com

DJIBOUTI

INDEPENDENT PETROLEUM GROUP FZE

Location	
LOB 119, Djibouti Free Zone, Djibouti	Tel. : (253) 7786 0541 E-mail: abdi@ipg.com.kw

IPG'S SUBSIDIARY JOINT VENTURE & ASSOCIATE COMPANIES

- **Saudi Arabia** - Yanbu (ATT)
- **UAE** - Fujairah (VHFL)
- **Lebanon** - Beirut (Uniterminals)
- **Morocco** - Tangiers (HTTSA)
- **Pakistan** - Karachi (APL)
- **Djibouti** - (HDHL)
- **Mozambique** - Beira (Inpetro SARL)

www.ipg.com.kw

His Highness Sheikh

Sabah Al-Ahmad Al-Jaber Al-Sabah

The Amir of The State of Kuwait

His Highness Sheikh

Nawwaf Al-Ahmad Al-Jaber Al-Sabah

The Crown Prince of The State of Kuwait

Board of Directors

Khalaf A. Al-Khalaf	Chairman
Ghazi F. Al-Nafisi	Vice Chairman
Waleed J. Hadeed	Executive Managing Director
Abdullah A. Zaman	Managing Director - Planning
Samir S. Shammas	Managing Director - Marketing
Abdullah E. Al-Kandari	Director & Chief Financial Officer
Jasem M. Al-Musallam	Director
Ali M. Al-Radwan	Director
Dirrar Y. Al-Ghanim	Director
Ali R. Al-Bader	Director

Contents

Report of the Board of Directors for 2012

Message to the Shareholders

Dear Shareholders,

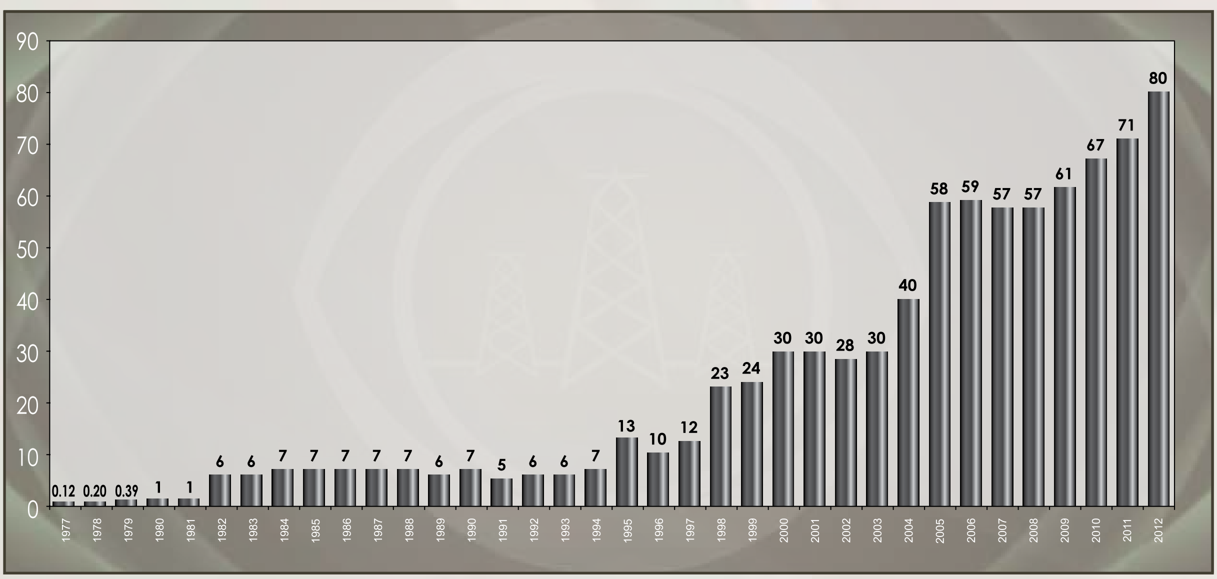
The Board of Directors is pleased to present to its shareholders the 36th Annual Report on the performance of the Independent Petroleum Group (IPG) and its operations for the year 2012.

As anticipated by IPG at the beginning of 2012, the adverse events and external circumstances which occurred during 2011 leading to losses, first of its kind since 1996, were not repeated in 2012, enabling IPG to realize profit of KD 5.8 Million or 40.35 Fils /Share.

IPG experienced significant events during the year 2012, notably the collection of the full outstanding debt (about KD 24 Million) from one of its customers, which included the principal amount plus accumulated interest and legal costs. IPG was also awarded a contract to supply oil products to the Ethiopian Petroleum Supply Enterprises which was performed successfully. This contract is expected to be renewed for the year 2013 as well. IPG also adopted utmost care in optimizing the volumes of stored oil by employing hedging mechanism to mitigate the associated risks and minimize the losses. In the area of shipping, a single hull vessel was sold during the year as IPG is in the process of renewing its shipping fleet in order to cope with the requirement of International Maritime Law.

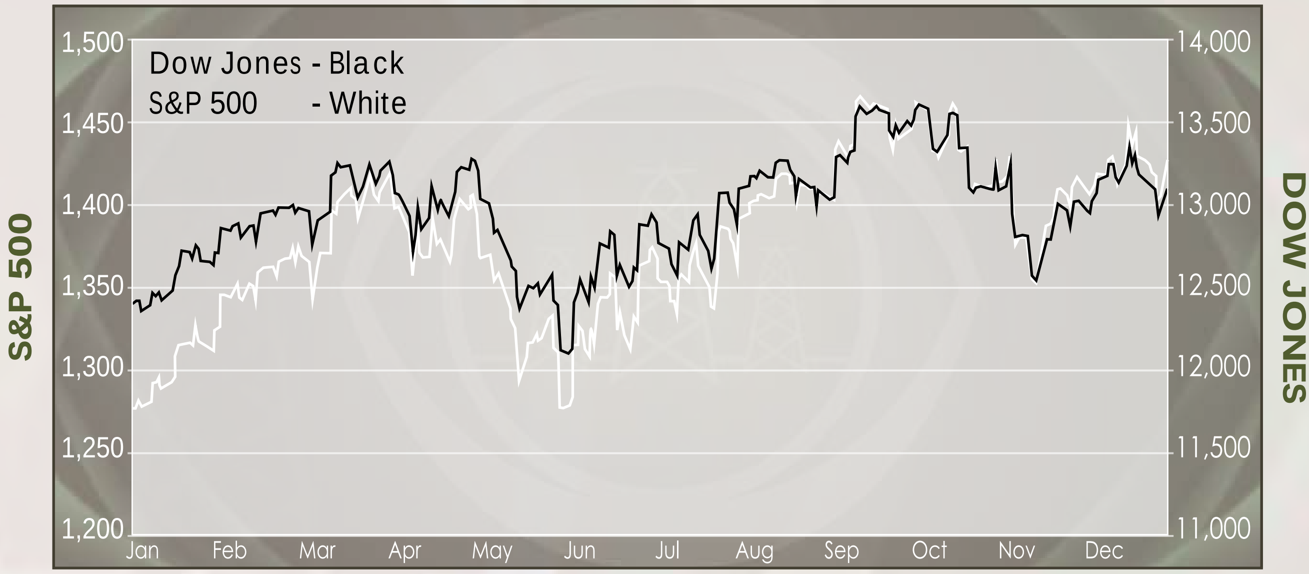
Crude oil prices fluctuated up and down during 2012. It reached US$ 126.62 per barrel during the month of March and dropped down to $ 91.23 at the end of May. At year end, the price settled at $ 108.93. This wide fluctuation of prices reflected the varying perceptions and assumptions considered to resolve the financial crisis in Europe as well as the effects of the volatile political factors in the Middle East & North Africa.

IPG's Equity Movement (KD Million)



Global Financial Markets witnessed volatile price fluctuations due to the European Sovereign-debt crisis in Greece, Spain, Portugal and Italy. The Dow Jones index ranged between 12,000 points during June and 13,600 points at the end of the year. The NASDAQ index also moved from 2,740 to 3,150 points during the same period. Despite the unstable state of the Global Financial Markets, the Company's Financial Portfolios managed by International Banks realized good results compared to the performance during 2011.

S&P 500 and Dow Jones Movement during 2012



Summary of the Company's results for 2012

Marketing & Trading Activity

Despite the price fluctuations in the Global Oil Market, IPG managed to market 4.1 Million tons of oil i.e. 85,000 barrels per day, representing 85.7 % of the planned sales of 4.7 Million tons for the year.

Trading Activity in the Gulf and the Red Sea

Close cooperation continued between IPG and the National Oil Producing Companies such as Bahrain Petroleum Company (BAPCO), Saudi Aramco, State Oil Marketing Organization of Iraq (SOMO), PETRONAS of Malaysia, Aden Refinery Company of Yemen (ARC), Ethiopian Petroleum Supply Enterprises (EPSE), Ministry of Energy and Water of Zambia (MEWD) and The National Oil Company of Malawi (NOCMA). IPG also increased its cooperation with Major Oil companies such as EXXONMOBIL, SHELL, BP, TOTAL and CHINA OIL.

In addition to the above, IPG maintained good cooperation with International Oil Trading Companies such as GLENCORE, ITOCHU, TRAFIGURA, VITOL and LITASCO.

Trading Activity in East Africa

Due to the economic crisis and the increased competition in Europe, certain International Oil Trading Companies sought to enter the East African Markets, forcing a decrease in our sales volumes in Zimbabwe and Mozambique. However, IPG maintained its contracts with the National Oil Company of Malawi (NOCMA) and it successfully completed the crude oil shipments to The Ministry of Energy and Water Development (MEWD) of the Republic of Zambia.

Trading Activity in the Mediterranean Sea and the Black Sea

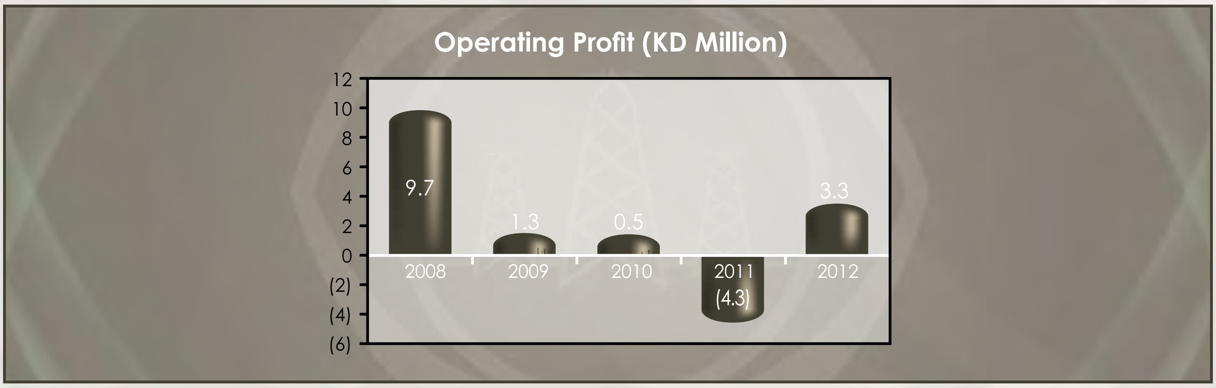
IPG's activities expanded to the Eastern region of the Mediterranean, especially in Lebanon, where it increased its sales to Uniterminals (a Company 50% owned by IPG). Total sales in the Mediterranean and the Black Sea reached about 1.1 Million tons, mainly diesel but also some fuel oil, jet and asphalt. Cooperation continued with HELLAS Motor Oil of Greece, LITASCO of Russia and Ocean Energy of Georgia.

Trading Activity in India and the Far East

Compared to last year, purchasing of products from the Indian refineries has decreased due to poor economic returns. A small quantity of diesel, however, was purchased from Mangalore Refinery and Petrochemicals Limited (MRPL). IPG has also subleased the tanks in Singapore which are leased by IPG from Horizon Singapore Terminal Limited and in which IPG holds 15% share.

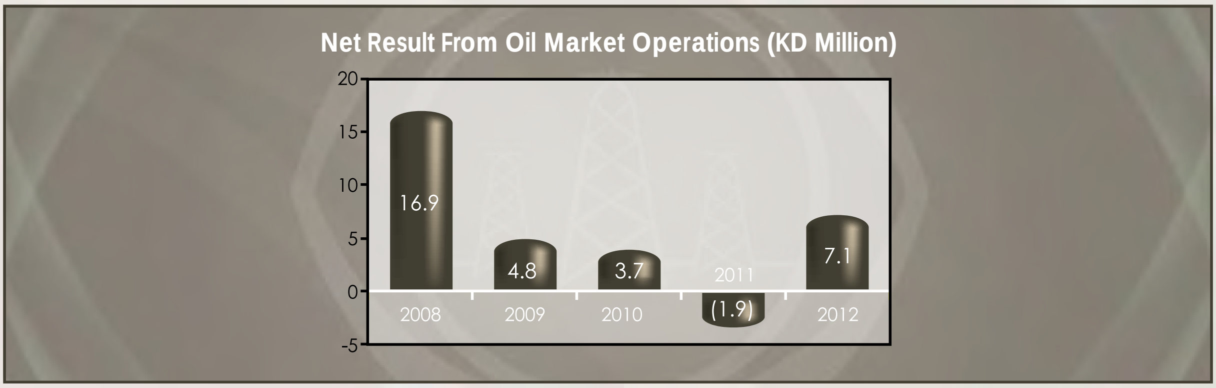
Shipping

During mid-2012, the Oil Tanker MT Gulf Star was sold. IPG continued to use the new vessel (D&K Yusuf I. Al Ghanim) as well as the long-term-chartered vessel D&K1. IPG also fixed some 41 tankers in the spot markets. In all, these made 144 voyages moving about 4.1 Million tons.



Storage of Petroleum Products

Storage capacity in all the projects in which IPG is a shareholder reached 4.7 Million cubic meters, of which IPG owns approximately 850,000 cubic meters, ranging in ownership between 11% - 50%. As the negative impact of the Arab Spring receded during 2012, IPG was not compelled as it did in 2011 to store large quantities of oil, committed to supply some countries, which could not honor their contracts. Accordingly, the related losses of 2011 were not repeated during 2012.

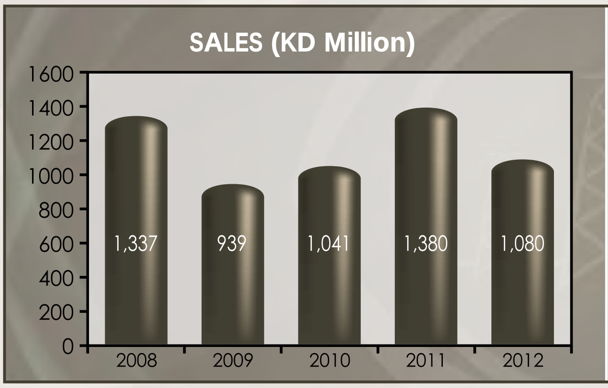


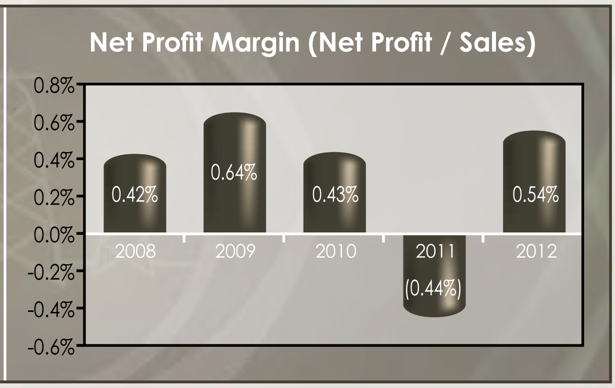
Business & Projects Development

IPG continued to implement its Income Diversification Strategy through the development of investments (storage facilities and petroleum products pipelines) that not only enhance and complement the marketing operations of IPG but also are economically viable on a standalone basis. As a result of such continued efforts, adequate progress has been achieved in the development of investment opportunities in Mozambique, Zimbabwe and other countries in close cooperation with other strategic partners (National Oil Companies and Local and International Institutions). Some of these investment opportunities are expected to enter the project construction phase during 2013. Over the past years, IPG has strategically invested its resources in order to develop and build petroleum products storage facilities and complementary logistic facilities such as jetties. IPG along with its Partners continue to coordinate and follow up the projects under construction and or expansion.

Finance & Treasury

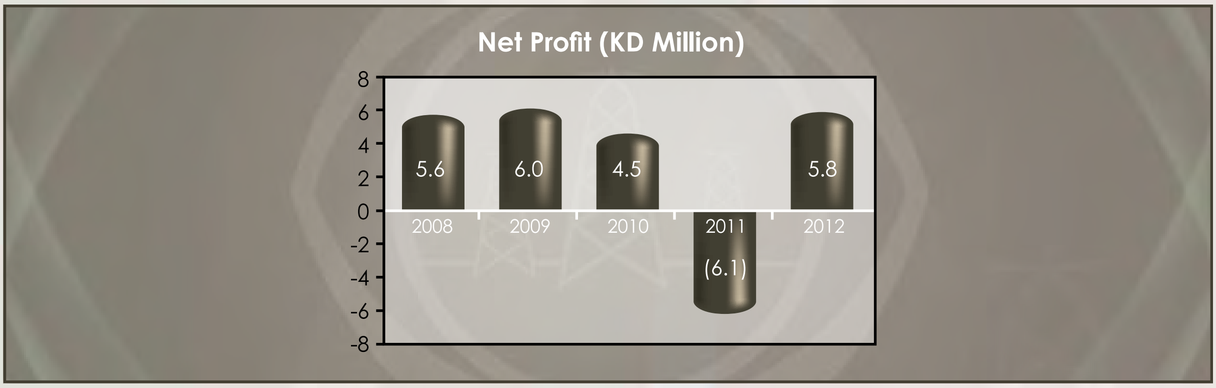
The 2010 Global economic crisis and fluctuations continued to lay their shadows on the year 2012, where the Euro Zone has witnessed more financial instability and risks. These negative effects caused an increase in the cost of finance for IPG's trading operation. In spite of all that, IPG has succeeded to achieve in 2012 the required balance in interest rates through the diversification of the sources of finance for its operations from various local, regional and global banks.
Furthermore, the collection of about KD 24 Million, being an amount due from one of the customers, had a great positive impact on the Company thus reinforcing its relations with local and global banks and rendering IPG as a reliable and credit-worthy institution.





Human Resources Department

IPG deems its human resources to be its true capital. Therefore it considers its investments in human resources as a long term strategic goal. IPG persistently seeks to develop its plans in that field to attract and implement effective concepts to strengthen its human resources. During 2012, 10 employees were recruited, bringing the total number of employees at the Head Office and other branches to 112. Despite the lower number of employees recruited in 2012 compared to the target figures made in the plan, IPG will do its best to look for qualified persons to fill the positions budgeted for 2013.



Information Technology

In line with Top Management's recommendation to cut down on costs for 2012, the IT Department implemented a cost saving plan, focusing only on the utmost necessary projects required to improve security, both internally and externally. To this extent, two projects were executed. The first focused on email security, where a new up to date mail security device was purchased, configured and implemented. This will guarantee that all types of emails will reach IPG after each being checked and filtered into its proper folder and none will be lost or rejected.

The second project was meant to enhance the internal security and, at the same time, give all the employees better experience surfing the net and using all types of applications without affecting the total internet bandwidth allocated for official usage. In addition, the department replaced all laptops and desktops which completed three years of service, to ensure efficiency and reliability at all times.

Legal Affairs

The year 2012 has witnessed the greatest achievement of IPG's Legal Department, namely the winning and enforcement of the Arbitration Award against one of its customers, hence obliging the latter to pay all outstanding amounts, interest and legal cost.

Moreover, the Department contributed towards smooth, efficient and effective functioning of other Departments and overseas affiliates and subsidiaries by rendering tailor-made legal advices on various International Agreements signed by IPG throughout the year 2012.

In conclusion, the Board of Directors expresses its sincere gratitude to the shareholders for their invaluable trust and support and to all the employees of IPG for their dedication to work.

The Board of Directors

IPG's Subsidiary, Joint Venture and Associate Companies
(brief of facilities and latest development)

1 D&K Holdings LLC – UAE: (IPG share 100% - Subsidiary Company)

D&K Holdings LLC is the shipping arm of IPG. The Company owns and operates 2 petroleum product vessels which are fully utilized by IPG. A third vessel has been scrapped recently. A long term vessels acquisition program was developed and being pursued targeting to expand the existing D&KH fleet over the next five years. The D&KH fleet will provide IPG with the required strategic controlled tonnage coverage.

2 Uniterminals – Lebanon: (IPG share 50% - Joint Venture Company)

Uniterminals markets petroleum products to wholesale buyers in Lebanon. It owns and operates a petroleum product storage terminal with a capacity of 74,000 cbm. It has a paid up capital of US$ 16.7 Million.

Other Shareholder is:

- **Unihold SAL – Lebanon**

3 Inpetro SARL, Beira – Mozambique: (IPG share 40% - Associate Company)

Inpetro owns and operates petroleum products storage terminal in Port Beira, Mozambique with a storage capacity of 95,000 cbm constructed at a total capital cost of US$ 26 Million.

Other Shareholders are:

- PETROMOC – National Oil Company of the Republic of Mozambique
- NOIC – National Oil Infrastructure Company of Zimbabwe (PVT) Limited

4 Arabtank Terminals Ltd (ATT), Yanbu – Kingdom of Saudi Arabia: (IPG share 36.5% - Associate Company)

ATT owns and operates a storage facility of 287,700 cubic meters of which 268,500 cubic meters is for petroleum products and 19,200 cubic meters for chemical products with a total capital cost of US$ 74 Million. Construction of three (3) 16" pipelines to transfer products from the Samref refinery, adjacent to ATTL has been completed. To improve the operational efficiency and flexibility of the terminal, a Debottlenecking project is being implemented. The Terminal will be connected to the newly constructed Berth 20 in addition to the existing Berth 21.

Other Shareholders are:

- ENOC – Emirates National Oil Company
- SARCO – Saudi Arabian Refining Company

5 Horizon Tangiers Terminals SA (HTTSA) – Morocco: (IPG share 32.5% - Associate Company)

Construction of HTTSA Terminal for storage of petroleum products and black oil for bunkering was completed and the Terminal was commissioned in Feb. 2012. The total capacity of the facility is 533,000 cubic meters, constructed at a capital cost of 140.5 Million Euros.

Other Shareholders are:

- HTL – Horizon Terminals Limited (100% subsidiary of ENOC – Emirates National Oil Company)
- Afriquia SMDC – Moroccan Private Company

6 Horizon Djibouti Holdings Limited (HDHL) – Djibouti: (IPG share 22.22% - Associate Company)

HDHL owns 90% of the Horizon Djibouti Terminals Limited (HDTL), with the remaining balance (10%) owned by Govt. of Djibouti. HDTL owns and operates an independent storage terminal for petroleum products, LPG, chemicals and edible oils with a storage capacity of 370,000 cbm constructed at a capital cost of US$ 100 Million.

Other Shareholders are:

- HTL – Horizon Terminals Limited
- NSHL – Net Support Holdings Limited
- EML – Essense Management Limited

7 Horizon Singapore Terminals Private Limited (HSTPL) – Singapore: (IPG share 15% - Associate Company)

HSTPL owns and operates an independent petroleum storage terminal with a storage capacity of 1.2 Million cbm and four jetties at a capital cost of US$ 299 Million.

Other Shareholders are:

- HTL – Horizon Terminals Limited
- BIL – Boreh International Limited
- SK – South Korea Energy Asia Pte. Limited
- MBV – Martank BV

8 Asia Petroleum Limited (APL) – Pakistan: (IPG share 12.5% - Associate Company)

APL owns and operates a petroleum products pipeline (including pumping station and storage) in Pakistan. The pipeline runs from Zulfiqarabad terminal at Pipri, Karachi to Hub, Baluchistan to transport Fuel Oil for HUBCO Power Plant. The facility was constructed at a total capital cost of US$ 100 Million.

Other Shareholders are:

- PSO – Pakistan State Oil
- AIL – Asia Infrastructure Ltd of Singapore
- VECO – VECO International of USA

9 Vopak Horizon Fujairah Limited (VHFL) – UAE: (IPG share 11.11% - Associate Company)

VHFL owns and operates an independent petroleum products storage terminal in Fujairah with a storage capacity of 2.1 Million cbm including marine facilities with 4 berths and one single point mooring (SPM), at a total capital cost of US$ 414 Million.

Other Shareholders are:

- VOPAK – VOPAK Oil Logistics Europe & Middle East B.V. of Netherlands
- HTL – Horizon Terminals Limited
- The Government of Fujairah

Financial Highlights

	2006	2007	2008	2009	2010	2011	**2012**
Sales (KD Million)	472	679	1337	939	1041	1380	**1080**
Gross Margin (%)	1.2%	1.4%	1.5%	0.8%	0.6%	0.1%	**0.8%**
Operating Profit (KD Million)	1.8	2.2	9.7	1.3	0.5	-4.3	**3.3**
Net Profit (KD Million)	6.1	6.7	5.6	6.0	4.5	-6.1	**5.8**
Earning Per share (Fils)	40.0	44.5	37.8	41.43	31.03	-41.89	**40.35**
Price Earning (Times)	9.99	10.00	9.64	10.26	14.66	-	**8.67**
Book value (Fils)	385	384	392	423	463	489	**552**
Cash Dividend (%)	30%	30%	30%	30%	30%	-	**30%**
Dividend Yield (%)	7.5%	6.7%	8.2%	7.1%	6.6%	-	**8.6%**
Total Assets (KD Million)	156.2	242.1	197.7	303.8	309.3	424.7	**375.2**
Shareholders' Equity (KD Million)	58.7	57.3	57.2	61.2	66.9	70.7	**79.8**
Return on Average Equity (%)	10%	12%	10%	10%	7%	-9%	**8%**
Return on Average Capital Employed (%)	8.5%	8.6%	7.5%	4.6%	3.1%	-1.0%	**3.9%**

Independent Auditor’s Report
and
Consolidated Financial Statement

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KPMG

RSM Albazie & Co.
Public Accountants

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Telephone : + 965 2247 5090
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T +965 22961000 F +965 22412761
mail@albazie.com www. albazie.com

Independent auditors' report

The Shareholders
Independent Petroleum Group Company S.A.K. (Closed)
State of Kuwait

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Independent Petroleum Group Company S.A.K. (Closed) ("the Parent Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the

KPMG

RSM Albazie & Co.
Public Accountants

consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Report on Other Legal and Regulatory Requirements

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the consolidated financial statements include the information required by the Kuwait Commercial Companies Law and the Parent Company's Articles and Memorandum of Association. In our opinion, proper books of account have been kept by the Parent Company, an inventory count was carried out in accordance with recognized procedures and the accounting information given in the board of directors' report agrees with the books of account. We have not become aware of any contravention, during the year ended 31 December 2012, of the Kuwait Commercial Companies Law or of the Parent Company's Articles and Memorandum of Association that might have had a material effect on the Group's activities or on its consolidated financial position.

Safi A. Al-Mutawa
License No. 138-A
of KPMG Safi Al-Mutawa & Partners
Member firm of KPMG International

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

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

Kuwait: 7 February 2013

Consolidated statement of financial position

as at 31 December 2012

	Notes	2012 KD'000	2011 KD'000
ASSETS			
Current assets			
Cash on hand and at banks	4	**32,456**	27,139
Investments at fair value through statement of income	5	**42,627**	39,561
Trade and other receivables	6	**160,526**	206,725
Inventories		**66,089**	79,343
Total current assets		**301,698**	352,768
Non-current assets			
Other loans	7	**2,149**	3,159
Investments available for sale	5	**26,769**	24,297
Investment in joint venture	8	**4,068**	3,795
Investment in associates	9	**21,155**	18,204
Property and equipment	10	**19,387**	22,438
Total non-current assets		**73,528**	71,893
Total assets		**375,226**	424,661
LIABILITIES AND EQUITY			
Current liabilities			
Due to banks	11	**202,921**	196,009
Directors' fees payable		**100**	-
Trade and other payables	12	**81,201**	145,815
Current portion of term loan	13	**1,018**	1,008
Total current liabilities		**285,240**	342,832
Non-current liabilities			
Non-current portion of term loan	13	**8,413**	9,088
Provision for staff indemnity	14	**1,801**	2,020
Total non-current liabilities		**10,214**	11,108
Total liabilities		**295,454**	353,940
Equity			
Share capital	15	**15,225**	15,225
Share premium		**22,587**	22,587
Legal reserve	16	**7,152**	6,553
General reserve	17	**606**	606
Fair value reserve	5	**23,839**	21,591
Share of associates' hedging reserve		**(191)**	(263)
Foreign currency translation adjustments		**(2,117)**	(3,012)
Treasury shares reserve		**1,429**	1,429
Treasury shares	18	**(2,770)**	(2,770)
Retained earnings		**14,012**	8,775
Total equity		**79,772**	70,721
Total liabilities and equity		**375,226**	424,661

The notes set out on pages 25 to 51 form an integral part of these consolidated financial statements.

Khalaf Ahmad Al-Khalaf	Ghazi Fahad Al-Nafisi	Waleed Jaber Hadeed
Chairman	*Vice Chairman*	*Executive Managing Director*

Consolidated Statement of Income
for the year ended 31 December 2012

	Notes	2012 KD'000	2011 KD'000
Sales		**1,079,973**	1,379,868
Cost of sales		**(1,071,755)**	(1,378,218)
Gross profit		**8,218**	1,650
Net interest relating to oil marketing operations	19	**(1,150)**	(3,593)
Net results of oil marketing operations		**7,068**	(1,943)
Share in results of associates and joint venture	20	**3,763**	4,462
Staff costs		**(3,665)**	(3,242)
Depreciation	10	**(1,630)**	(2,023)
General and administrative expenses		**(2,201)**	(1,525)
Operating profit / (loss)		**3,335**	(4,271)
Investment income / (loss)	21	**2,964**	(1,521)
Other expense	22	**(309)**	(266)
Profit / (loss) for the year before provisions for contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), National Labour Support Tax ("NLST"), Zakat and Directors' fees		**5,990**	(6,058)
Contribution to KFAS	23	**(54)**	-
Provision for NLST	24	**-**	-
Provision for Zakat	23	**-**	-
Directors' fees		**(100)**	-
Profit / (loss) for the year		**5,836**	(6,058)
Earnings per share (fils)	25	**40.35**	(41.89)

The notes set out on pages 25 to 51 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2012

	2012 KD'000	2011 KD'000
Profit / (loss) for the year	**5,836**	(6,058)
Other comprehensive income:		
Changes in fair value of investments available for sale	**2,248**	14,376
Movement in share of associates' hedging reserve	**72**	187
Foreign currency translation adjustments	**895**	(363)
Other comprehensive income for the year	**3,215**	14,200
Total comprehensive income for the year	**9,051**	8,142

The notes set out on pages 25 to 51 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2012

	Share capital	Share premium	Legal reserve	General reserve	Fair value reserve	Share of associates' hedging reserve	Foreign currency translation adjustments	Treasury shares reserve	Treasury shares	Retained earnings	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Balance at 1 January 2011	15,225	22,587	6,553	606	7,215	(450)	(2,649)	1,422	(2,807)	19,169	66,871
Total comprehensive income / (loss) for the year	-	-	-	-	14,376	187	(363)	-	-	(6,058)	8,142
Dividends for 2010 (Note 27)	-	-	-	-	-	-	-	-	-	(4,336)	(4,336)
Sale of treasury shares	-	-	-	-	-	-	-	7	37	-	44
Balance at 31 December 2011	15,225	22,587	6,553	606	21,591	(263)	(3,012)	1,429	(2,770)	8,775	70,721
Total comprehensive income for the year	-	-	-	-	2,248	72	895	-	-	5,836	9,051
Transfer to reserve	-	-	599	-	-	-	-	-	-	(599)	-
Balance at 31 December 2012	15,225	22,587	7,152	606	23,839	(191)	(2,117)	1,429	(2,770)	14,012	79,772

The notes set out on pages 25 to 51 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2012

	Notes	2012 KD'000	2011 KD'000
Cash flows from operating activities			
Profit / (loss) for the year before provisions for contribution to KFAS, NLST, Zakat and Directors' fees		**5,990**	(6,058)
Adjustments for:			
Depreciation	10	**1,630**	2,023
Interest expense		**5,319**	3,809
Investment (income) / loss	21	**(2,964)**	1,521
Share in results of associates and joint venture		**(3,763)**	(4,462)
Interest income		**(4,360)**	(373)
Provision for staff indemnity	14	**236**	224
		2,088	(3,316)
Changes in operating assets and liabilities:			
- Trade and other receivables		**45,933**	(74,792)
- Inventories		**13,254**	(8,167)
- Trade and other payables		**(64,994)**	77,685
Cash used in operations		**(3,719)**	(8,590)
Interest received		**4,626**	363
Payment of staff indemnity	14	**(455)**	(94)
Payment to KFAS		**-**	(42)
Directors' fees paid		**-**	(80)
Net cash generated from / (used in) operating activities		**452**	(8,443)
Cash flows from investing activities			
Time deposits		**(377)**	-
Proceeds from disposal of property and equipment		**1,038**	1,247
Investment in associates	9	**(1,716)**	(660)
Purchase of property and equipment	10	**(40)**	(9,837)
Dividends received		**2,799**	2,574
Other loans		**1,041**	991
Net cash generated from / (used in) investing activities		**2,745**	(5,685)
Cash flows from financing activities			
Due to banks		**6,912**	28,683
Term loan		**(665)**	5,138
Dividends paid		**-**	(4,336)
Proceeds from sale of treasury shares		**-**	44
Interest paid		**(4,993)**	(3,771)
Net cash generated from financing activities		**1,254**	25,758
Effect of foreign currency translation		**489**	692
Net increase in cash and cash equivalents		**4,940**	12,322
Cash and cash equivalents at beginning of the year		**26,374**	14,052
Cash and cash equivalents at end of the year	4	**31,314**	26,374

The notes set out on pages 25 to 51 form an integral part of these consolidated financial statements.

1. Formation and activities

Independent Petroleum Group Company S.A.K. ("the Parent Company") was established on 11 September 1976 as a Closed Kuwaiti Shareholding Company. The Parent Company was listed on the Kuwait Stock Exchange on 10 December 1995.

The main activities of the Parent Company and its subsidiaries ("the Group") are the trading of crude oil and petroleum products, strategic investments and joint ventures in petroleum storage facilities, terminal and distribution facilities, other activities related to the petroleum industry and consulting services in the petroleum and petrochemical fields, ownership of vessels, ship chartering and other ancillary services.

The registered address of the Parent Company is P.O. Box 24027, Safat 13101, State of Kuwait.

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

These consolidated financial statements were authorized for issue by the Board of Directors on 7 February 2013. The Shareholders' Annual General Assembly has the power to amend these consolidated financial statements after issuance.

2. Significant accounting policies

a) <u>Basis of preparation</u>

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements have been prepared under the historical cost convention, except for the following items that are stated at their fair value.

- Investments at fair value through statement of income
- Investments available for sale
- Derivative financial assets and liabilities
- Inventories

The consolidated financial statements are presented rounded to the nearest thousand Kuwaiti Dinars ("KD'000"), which is the Parent Company's presentation currency. The functional currency of the Group is the US Dollars ("USD").

The accounting policies applied by the Group are consistent with those used in the previous year.

b) Standards and Interpretations issued but not effective

New standards issued but not effective for the financial year beginning 1 January 2012 and not early adopted by the Group:

• Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)	Effective for annual periods beginning on or after 1 July 2012
• IFRS 10 Consolidated Financial Statements	Effective for annual periods beginning on or after 1 January 2013
• IFRS 11 Joint Arrangements	Effective for annual periods beginning on or after 1 January 2013
• IFRS 12 Disclosure of Interests in Other Entities	Effective for annual periods beginning on or after 1 January 2013
• IFRS 13 Fair Value Measurement	Effective for annual periods beginning on or after 1 January 2013
• Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)	Effective for annual periods beginning on or after 1 January 2013
• IAS 19 Employee Benefits	Effective for annual periods beginning on or after 1 January 2013
• IAS 28 Investments in Associates and Joint Ventures	Effective for annual periods beginning on or after 1 January 2013
• Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	Effective for annual periods beginning on or after 1 January 2014
• IFRS 9 Financial Instruments: Classification and Measurement	Effective for annual periods beginning on or after 1 January 2015

The Management anticipates that the adoption of these standards and interpretations once they become effective in future periods will have no significant financial impact on the consolidated financial statements of the Group in the period of initial application except for the adoption of IFRS 9.

Management of the Group are in the process of assessing the impact of the adoption of IFRS 9 on the Group's financial instruments. The Group does not plan to adopt this standard early.

c) Basis of consolidation

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

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

Details of the Parent Company's subsidiaries are as follows:

Name of subsidiary	Place of incorporation	Ownership interest 2012	Ownership interest 2011	Principal activity
Independent Petroleum Group Limited	Bahamas	**100%**	100%	Trading of crude oil and petroleum products
Independent Petroleum Group of Kuwait Limited.	United Kingdom	**100%**	100%	Representative office
Independent Petroleum Group (Asia) Pte. Limited.	Singapore	**100%**	100%	Trading of crude oil and petroleum products
Independent Petroleum Group (Southern Africa) (Pty) Limited.	South Africa	**100%**	100%	Representative office
D&K Holdings L.L.C.	United Arab Emirates	**100%**	100%	Holding Company for subsidiaries in shipping

d) Financial instruments

Financial assets and financial liabilities carried in the consolidated statement of financial position include cash on hand and at banks, investments at fair value through statement of income, trade receivables, other loans, investments available for sale, derivative financial instruments, due to banks, trade payables and term loans.

Financial instruments are classified on initial recognition as financial assets, financial liabilities or equity in accordance with the substance of the contractual arrangement. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

i. Cash and cash equivalents

Cash and cash equivalents include cash on hand, current accounts with banks, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

ii. Investment at fair value through statement of income

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

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

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

After initial recognition, investments at fair value through statement of income are remeasured at fair value. Gains or losses arising either from the sale of or changes in fair value of investments at fair value through statement of income are recognised in the consolidated statement of income.

iii. Trade receivables and loans

Trade receivables and loans are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. Appropriate allowances for estimated irrecoverable amounts are recognised in the consolidated statement of income when there is objective evidence that the asset is impaired.

iv. Investments available for sale

Investments available for sale are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

Investments available for sale are initially recognised at fair value plus transaction costs. After initial recognition, investments available for sale are remeasured at fair value, except for investments in unquoted securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost. Unrealized gain or loss on remeasurement of investments available for sale to fair value is recognized directly in other comprehensive income in the fair value reserve account until the investment is derecognised or determined to be impaired, at which time the cumulative gain or loss previously recognised in the fair value reserve is included in the consolidated statement of income.

v. Trade date and settlement date accounting

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

vi. Fair value

For investments traded in active financial markets, fair value is determined by reference to quoted current bid prices at the close of business on the reporting date. For other investments, the fair value is derived from recent arm's length transaction, comparison to similar instruments for which market observable prices exist, discounted cash flow method, or other relevant valuation techniques used by market participants.

vii. Impairment of financial assets

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

Objective evidence of impairment may include:

a) significant financial difficulty of the issuer or counterparty; or
b) default or delinquency in interest or principal payments; or
c) it becomes probable that the counterparty will enter bankruptcy or financial re-organisation; or
d) the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually, are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the specified credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. Impairment losses are recognized in the consolidated statement of income.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated statement of income.

With the exception of equity investments available for sale, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated statement of income.

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

viii. Bank borrowings

Bank borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of income over the period of the borrowings using the effective interest method.

ix. Payables

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

x. Derivatives

In the normal course of business, the Group enters into commodity swap and future contracts. These derivatives are initially recognized as an asset or liability on the commitment date. These contracts are treated as derivatives held for trading purposes, do not qualify for hedge accounting and are stated and subsequently remeasured to fair value with any resultant gain or loss recognized in the consolidated statement of income.

e) Inventory

Inventory of oil and petroleum products is valued at fair value less cost to sell. Any changes arising on the revaluation of inventories are recognised in the consolidated statement of income.

f) Investment in joint venture

Joint venture is the entity over which the Group has joint control, established by contractual agreement. Long term subordinated loans provided by the Group to the joint venture are accounted as part of the investment.

The results and assets and liabilities of joint venture are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Under the equity method, investment in joint venture is carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the joint venture, less any impairment in the value of individual investments. Losses of an joint venture in excess of the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is

accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of an associate.
Where the Group transacts with its jointly controlled entities, unrealized profits and losses are eliminated to the extent of the Group's interest in the joint venture.

Upon loss of joint control, the Group measures and recognizes its remaining investment at its fair value. Any difference between the carrying amount of the former jointly controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal is recognized in consolidated statement of income.

g) <u>Investment in associates</u>

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. 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.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill.

The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.
Where a Group transacts with its associate, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining 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 retaining investment and proceeds from disposal is recognized in the consolidated statement of income.

h) <u>Property and equipment</u>

Property and equipment except freehold land are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes the purchase price and directly associated costs of bringing the asset to a working condition for its intended use.
Depreciation is calculated based on the estimated useful lives of the applicable assets. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Significant improvements and replacements of assets (including improvements to leasehold property) are capitalised.

Freehold land is carried at cost and is not depreciated. Other assets are depreciated on straight line basis as follows:

Buildings	20 years
Vessels	16 - 25 years
Furniture, equipment and computer software	3 - 5 years
Motor Vehicles	5 years
Leasehold improvements	Shorter of useful life of assets or lease period

The estimated useful lives, residual values and depreciation methods are reviewed at each date of statement of financial position, with the effect of any changes in estimate accounted for on prospective basis.

Properties in the course of construction for administrative or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees. Depreciation of these assets, on the same basis as other property and equipment, commences when the assets are ready for their intended use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(n)).

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of income.

i) <u>Provision for staff indemnity</u>

The Group is liable to make defined contribution to State Plans and lump sum payments under defined benefits plans to employees at cessation of employment, in accordance with the laws of the place where they are deemed to be employed. The benefit plan is unfunded and is computed as the amount payable to employees as a result of involuntary termination on the statement of financial position date. This basis is considered to be reliable approximation of the present value of the final obligation.

j) <u>Treasury shares</u>

Treasury shares consist of the Parent Company's own shares that have been issued, subsequently reacquired by the Parent Company and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are sold, gains are credited to a separate account in shareholders' equity (treasury shares reserve) which is not distributable. Any realized losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to reserves. Gains realized subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve. No cash dividends are paid on these shares. Any issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

k) <u>Foreign currencies</u>

Foreign currency transactions are translated to the functional currency (USD) at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies outstanding at the year-end are retranslated into USD at the rates of exchange prevailing at the reporting date. Any resultant gains or losses are taken to the consolidated statement of income.

Non-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 and are not subsequently retranslated.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in USD, which is the functional currency of the Parent Company. The presentation currency for the consolidated financial statements is the Kuwaiti Dinar (KD).

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in KD using exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and recognized in the Group's foreign currency translation reserve. Such exchange differences are recognized in the consolidated statement of income in the period in which the foreign operation is disposed off.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing exchange rate.

l) Revenue recognition

Revenue from sales is recognized when delivery has taken place and transfer of risks and rewards has been completed.

Interest income is recognised on a time proportion basis that reflects the effective yield on the asset.

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

Other revenues and expenses are recorded on an accrual basis.

m) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Interest on other borrowings is calculated on an accrual basis and is recognised in the consolidated statement of income in the period in which it is incurred.

n) Impairment of non-financial assets

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of income.

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

o) Provision

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

p) Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

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

q) Segment reporting

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenue and incurs costs. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is identified as the person being responsible for allocating resources, assessing performance and making strategic decisions regarding the operating segments.

3. Critical judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 2, the Parent Company's management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a) Critical judgments in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

(i) Revenue recognition

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

(ii) Provision for doubtful debts

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

(iii) Classification of investments

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

The Group classifies investments as "at fair value through statement of income" if they are acquired primarily for the purpose of short term profit making or if they are designated at fair value through statement of income at inception, provided their fair values can be reliably estimated. All other investments other than investment in subsidiaries, associates and joint venture are classified as "available for sale".

(iv) Impairment of investments

The Group treats investments "available for sale" as impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is "significant" or "prolonged" requires significant judgment.

(v) Useful lives of property and equipment

The cost of property and equipment is depreciated over the estimated useful life of the asset. The estimated useful life is based on expected usage of the asset and expected physical wear and tear, which depends on operational factors.

(vi) Impairment of property and equipment

The Group determines whether the vessel is impaired at least annually by obtaining estimates of fair value from independent valuers. Where the fair value less selling cost is lower than vessel carrying values, the estimation of recoverable value further requires an estimation of the value in use of the vessel. Estimating the value in use requires management to make an estimate of the expected future cash flows and remaining useful life of the vessel and to choose a suitable discount rate in order to calculate the present value of those cash flows.

(vii) Residual value of the vessels

The residual value of the vessels is determined based on the estimations performed by the D&K's technical department. The estimates are calculated using the deadweight of the vessels multiplied by management's estimate of the scrap steel rate, which is partly based on the age of the vessels and quality of the steel.

b) Key sources of estimation uncertainty

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

(i) Sales, cost of sales and inventory

Where the sales and purchase transactions are based on forward pricing, the sales, cost of sales and inventory is estimated with reference to the closing commodity price quote (Platts) in the commodity exchange in accordance with the terms of the contract.

(ii) Allowance for doubtful debts

The extent of allowance for doubtful debts involves a number of estimates made by the management. Allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified. The allowances and write-down of receivables is subject to management approval.

(iii) Fair value of unquoted equity investments

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

4. Cash on hand and at banks

	2012	2011
	KD'000	KD'000
Cash on hand and at banks	**2,975**	1,233
Call accounts and time deposits	**28,339**	25,141
Cash and cash equivalents	**31,314**	26,374
Time deposits with maturity exceeding three months	**1,142**	765
	32,456	27,139

Time deposits earned interest at an average effective interest rate of 0.25% (2011: 0.5%) per annum and mature within 3 to 6 months (2011: 3 to 6 months) from the date of the deposit.

5. Investments

	2012 KD'000	2011 KD'000
Investments at fair value through statement of income:		
Held for trading:		
Managed portfolios	**41,391**	38,364
Securities	**1,236**	1,197
	42,627	39,561
Investments available for sale:		
Quoted securities	**162**	176
Unquoted securities	**26,607**	24,121
	26,769	24,297

Investments at fair value through statement of income with a carrying amount of KD 41,391 thousands (2011: KD 38,364 thousands) are pledged as collateral against amounts due to banks (Note 11).

During the year, the Group has fair valued its investment in Vopak Horizon Fujairah Limited (VHFL) (unquoted security), consequently, a sum of KD 2,262 thousands has been recognized under fair value reserve in equity through the statement of comprehensive income for changes in fair value of investments available for sale. Accordingly, unquoted securities include investment of 11.11% in VHFL carried at fair value of KD 25,470 thousands (2011: KD 22,984 thousands).

The unquoted securities also include an investment of 12.5% in Asia Petroleum Ltd. carried at cost of KD 1,137 thousands (2011: 1,137 thousands) as it was not possible to reliably measure the fair value since there is no access to relevant information; accordingly this is stated at cost.

6. Trade and other receivables

	2012 KD'000	2011 KD'000
Trade receivables	**159,424**	205,391
Prepaid expenses	**545**	576
Refundable deposits and taxes	**27**	26
Others	**530**	732
	160,526	206,725

The Group's credit period varies from customer to customer. Trade receivables are short term in nature and carry interest rates on commercial terms. A significant portion of trade receivables are due within three months from the reporting date.

During the year, the Group received USD 85.67 million (KD 24.00 million) as full and final settlement of an outstanding receivable, inclusive of all interest, arbitration and legal costs from one of its customers against whom the Group had raised and won an arbitration award through the ICC International Court of Arbitration. Interest received as per the award amounted to USD 14.44 million (KD 4.02 million) (Note 19). Legal fees received as per the award amounted to USD 2.87 million (KD 0.80 million) and is presented as part of net other expenses (Note 22).

7. Other loans

	2012 KD'000	2011 KD'000
Inpetro Petroleum Terminals Project:		
Inpetro SARL	**1,474**	1,460
Petroleos De Mocambique SARL (Petromoc)	**-**	614
	1,474	2,074
Arabtank Terminals Limited	**658**	652
Others	**17**	433
	2,149	3,159

The Group has provided a long-term subordinated loan to Arabtank Terminals Ltd., Kingdom of Saudi Arabia.
The interest rates for the above loans vary from 0% to 8% (2011: 0% to 8%) per annum for loans given at fixed interest rates and 3.5% (2011: 3.5%) over three months LIBOR for loans given at floating interest rates.

8. Investment in joint venture

	2012 KD'000	2011 KD'000
Uniterminals S.A.L., Lebanon	4,068	3,795

Uniterminals S.A.L.

The Group has a 50% equity shareholding with equivalent voting power in Uniterminals Ltd, Lebanon.

The Group's share in the net assets and results of Uniterminals S.A.L., Lebanon included in these consolidated financial statements was based on the audited financial statements for the year ended 31 December and was as follows:

	2012 KD'000	2011 KD'000
Total assets	**35,504**	24,536
Total liabilities	**(31,436)**	(20,741)
Net assets	**4,068**	3,795
Operating profit	**1,296**	1,169
Loan interest and other expenses	**(180)**	(203)
Profit for the year (Note 20)	**1,116**	966

9. Investment in associates

	Location	Percentage of ownership	2012 KD'000	2011 KD'000
Inpetro SARL	Mozambique	40 %	**1,076**	890
ArabTank Terminals Ltd., (ATT)	Kingdom of Saudi Arabia	36.5%	**3,379**	2,941
Horizon Djibouti Holdings Ltd. (HDHL)	Djibouti	22.22%	**4,589**	4,014
Horizon Singapore Terminals Private Ltd., (HSTPL)	Singapore	15%	**6,109**	5,515
Horizon Tangiers Terminals SA. (HTTSA)	Morocco	32.5%	**6,002**	4,844
			21,155	18,204

Inpetro SARL

The Group's investment in Inpetro SARL represents an investment in a petroleum storage terminal. The Group's share in the net assets and results of Inpetro SARL was based on the audited financial statements for the nine month period ended 30 September 2012 (2011: for the nine month period ended 30 September 2011) and management accounts for the three month period ended 31 December 2012 (2011: for the three month period ended 31 December 2011).

	2012 KD'000	2011 KD'000
Total assets	**2,428**	3,218
Total liabilities	**(1,352)**	(2,328)
Net assets	**1,076**	890
Operating income	**801**	747
Operating expenses	**(661)**	(122)
Profit for the year (Note 20)	**140**	625

Arabtank Terminals Ltd., (ATT)

The Group's investment in ATT represents its share of investment in the first phase of the project towards chemical product storage facilities and its share in the second phase of the project towards petroleum product storage facilities.

The Group's share in the net assets and results of ATT included in the consolidated financial statements was based on the audited financial statements for the year ended 31 December and was as follows:

	2012 KD'000	2011 KD'000
Total assets	**7,393**	7,489
Current liabilities	**(1,178)**	(1,173)
Long-term debt	**(2,836)**	(3,375)
Net assets	**3,379**	2,941
Operating income	**1,209**	1,181
Operating expenses	**(802)**	(788)
Profit for the year (Note 20)	**407**	393

Horizon Djibouti Holdings Ltd ("HDHL")

The Group's investment in HDHL represents an investment in a petroleum storage terminal. The Group's share in the net assets and results of HDHL included in the consolidated financial statements was based on the audited financial statements for the year ended 31 December and was as follows:

	2012 KD'000	2011 KD'000
Total assets	**6,493**	6,759
Total liabilities	**(1,904)**	(2,745)
Net assets	**4,589**	4,014
Operating income	**1,670**	1,522
Operating expenses	**(808)**	(717)
Profit for the year (Note 20)	**862**	805

Horizon Singapore Terminals Private Ltd., ("HSTPL")

The Group's investment in HSTPL represents 15% share in the issued and paid-up share capital. As per the shareholders' agreement dated 29 March 2005, all commercial, technical and operating policy decisions require the approval of shareholders together holding not less than 86% of the issued share capital of the investee company. On this basis the Group has significant influence but not overall control over the financial and operating policy decisions of the investee company. The Group's share in the net assets and results of HSTPL, included in the consolidated financial statements was based on the audited financial statements for the year ended 31 December and was as follows:

	2012 KD'000	2011 KD'000
Total assets	**14,161**	13,719
Total liabilities	**(8,052)**	(8,204)
Net assets	**6,109**	5,515
Operating income	**4,010**	3,764
Operating expenses	**(2,173)**	(2,091)
Profit for the year (Note 20)	**1,837**	1,673

Horizon Tangiers Terminals SA. ("HTTSA")

During the year, the Group invested an additional KD 2,073 thousands (2011: KD 660 thousands) towards its share of 32.5% in HTTSA representing investment in petroleum storage terminal in Morocco. Since all the shareholders contributed their proportionate share in the increase of share capital, the Group's ownership interest in HTTSA remains unchanged. During the year, HTTSA has started its commercial operations and the Group's share in the net assets and results of HTTSA, included in the consolidated financial statements was based on the audited financial statements for the year ended 31 December and was as follows:

	2012 KD'000
Total assets	15,431
Total liabilities	(9,429)
Net assets	6,002
Operating income	1,168
Operating expenses	(1,767)
Loss for the year (Note 20)	(599)

Notes to the consolidated financial statements
for the year ended 31 December 2012

10. Property and equipment

	Freehold Land KD'000	Buildings KD'000	Vessels KD'000	Furniture, equipment and computer software KD'000	Motor vehicles KD'000	Leasehold improvements KD'000	Total KD'000
Cost							
As at 1 January 2011	544	1,692	29,305	977	73	57	32,648
Additions / transfer	-	-	9,686	93	58	-	9,837
Disposals	-	-	(9,282)	(1)	-	-	(9,283)
Currency translation effects	-	-	1,218	(14)	-	-	1,204
As at 31 December 2011	544	1,692	30,927	1,055	131	57	34,406
Additions	-	-	29	11	-	-	40
Disposals	-	-	(6,086)	-	-	-	(6,086)
Currency translation effects	-	-	(287)	-	-	-	(287)
As at 31 December 2012	544	1,692	24,583	1,066	131	57	28,073
Accumulated depreciation							
As at 1 January 2011	-	901	14,310	600	57	57	15,925
Charge for the year	-	40	1,855	113	15	-	2,023
Disposals	-	-	(7,311)	(1)	-	-	(7,312)
Currency translation effects	-	-	1,347	(15)	-	-	1,332
As at 31 December 2011	-	941	10,201	697	72	57	11,968
Charge for the year	-	40	1,497	76	17	-	1,630
Disposals	-	-	(4,912)	-	-	-	(4,912)
As at 31 December 2012	-	981	6,786	773	89	57	8,686
Carrying amount							
As at 31 December 2012	544	711	17,797	293	42	-	19,387
As at 31 December 2011	544	751	20,726	358	59	-	22,438

The charter vessels have been collaterised for the term loan (Note 13).

11. Due to banks

Due to banks represents the credit facilities in KD and USD provided by the Group's banks. These facilities carry an average interest rate of 2.2% (2011: 3%) per annum. Due to banks are partially secured by investments at fair value through statement of income with a carrying amount of KD 41,391 thousands (2011: KD 38,364 thousands) (Note 5).

12. Trade and other payables

	2012	2011
	KD'000	KD'000
Trade payables	**62,191**	126,797
Accrued expenses	**14,360**	14,971
Accrued staff leave	**449**	468
Provision for KFAS	**54**	-
Others	**4,147**	3,579
	81,201	145,815

13. Term loan

The term loan relates to the financing of two vessels acquired through DKHL (a subsidiary). The term loan is denominated in USD and is secured by the mortgage of the vessels and carries interest ranging from 1.75% to 5.32% (2011: 1.75% to 5.32%) per annum.

14. Provision for staff indemnity

	2012	2011
	KD'000	KD'000
Balance at beginning of the year	**2,020**	1,890
Charge for the year	**236**	224
Payments made during the year	**(455)**	(94)
Balance at end of the year	**1,801**	2,020

15. Share capital

The authorised, issued and fully paid up share capital consists of 152,250,000 shares of 100 fils each (2011: 152,250,000 shares of 100 fils each).

16. Legal reserve

As per the Kuwait Commercial Companies' Law and the Parent Company's Articles of Association, 10% of the profit for the year before provisions for contribution to KFAS, NLST, Zakat and Directors' fees is required to be transferred to the legal reserve. The Parent Company may resolve to discontinue such annual transfers when this reserve reaches a minimum of 50% of the paid up share capital. Distribution of this reserve is limited to the amount required to enable the payment of a dividend of 5% of the paid up share capital in years when retained earnings are not sufficient for payment of such dividends.

17. General reserve

In accordance with the Parent Company's Articles of Association, 10% of the profit for the year before provisions for contribution to KFAS, NLST, Zakat and Directors' fees is to be transferred to the general reserve. The transfer was discontinued by an ordinary resolution adopted in the general assembly as recommended by the Board of Directors. There are no restrictions on distributions from the general reserve.

18. Treasury shares

	2012	2011
Number of shares	**7,620,000**	7,620,000
Percentage of issued shares	**5.0%**	5.0%
Market value (KD'000)	**2,591**	2,553
Cost (KD'000)	**2,770**	2,770

19. Net interest relating to oil marketing operations

	2012	2011
	KD'000	KD'000
Interest income	**4,169**	216
Interest expense	**(5,319)**	(3,809)
	(1,150)	(3,593)

20. Share in results of associates and joint venture

	2012	2011
	KD'000	KD'000
Inpetro SARL (Note 9)	**140**	625
Arabtank Terminals Ltd. (Note 9)	**407**	393
Horizon Djibouti Holdings Ltd (Note 9)	**862**	805
Horizon Singapore Terminals Private Ltd., (Note 9)	**1,837**	1,673
Horizon Tangiers Terminals (Note 9)	**(599)**	-
Uniterminals S.A.L. (Note 8)	**1,116**	966
	3,763	4,462

21. Investment income / (loss)

	2012	2011
	KD'000	KD'000
Unrealised gain / (loss) from investments at fair value through statement of income	**2,669**	(1,938)
Dividend income	**295**	417
	2,964	(1,521)

22. Other expense

	2012 KD'000	2011 KD'000
Reimbursement of legal fees awarded	**801**	-
Net foreign exchange (loss) /gain	**(450)**	17
Interest income related to project	**191**	157
Miscellaneous expenses	**(851)**	(440)
	(309)	(266)

23. Contribution to KFAS and provision for Zakat

Contribution to Kuwait Foundation for the Advancement of Sciences is calculated at 1% of the profit of the Group after deducting its share of income from Kuwaiti shareholding subsidiaries and associates and transfer to statutory reserve.

Provision for Zakat is calculated at 1% of the profit of the Parent Company after deducting its share of income from Kuwaiti shareholding subsidiaries and associates in accordance with Law No 46/2006 and Ministry of Finance resolution No. 58/2007 and their executive regulations.

Zakat has not been provided, since there was no profit for the Parent Company on which Zakat could be calculated.

24. Provision for NLST

During 2006, the Group filed a suit against the Ministry of Finance contesting their claim for additional amount of KD 442 thousands towards NLST for the year from 2001 to 2004. This claim represents difference between NLST computed on the annual consolidated profit of the Group and that based on annual profit of the Parent Company.

A judgement was granted in favour of the Group in the suit filed as mentioned above. Accordingly, the Group continued to account for NLST based on the annual profit of the Parent Company for the years from 2005 to 2012. The Group continued with their claim against the ministry for the outstanding amount.

NLST has not been provided, since there was no profit for the Parent Company on which NLST could be calculated.

25. Earnings per share

Earnings per share is calculated by dividing the profit / (loss) for the year by the weighted average number of shares outstanding during the year as follows:

	2012	2011
Profit / (loss) for the year (KD'000)	**5,836**	(6,058)
Weighted average number of issued shares outstanding	**152,250,000**	152,250,000
Weighted average number of treasury shares outstanding	**(7,620,000)**	(7,647,944)
Weighted average number of shares outstanding	**144,630,000**	144,602,056
Earnings per share (fils)	**40.35**	(41.89)

26. Proposed dividends

The Board of Directors propose a cash dividend of 30 fils per share for the year ended 31 December 2012 (2011: Nil). This proposal is subject to the approval of the Shareholders' Annual General Assembly.

27. Annual general assembly

The Shareholders' Annual General Assembly held on 21 March 2012 approved the annual audited consolidated financial statements for the year ended 31 December 2011 and no dividends were declared for the year ended 31 December 2011 (2010: 30 fils per share).

28. Related party transactions and balances

These represent transactions with the related parties in the normal course of business. The terms of these transactions are on negotiated contract basis.

Related parties primarily comprise the Parent Company's major shareholders, directors, subsidiaries, associates, joint venture, key management personnel and their close family members.

The related party transactions and balances included in the consolidated financial statements are as follows:

	Joint Venture KD'000	Associates KD'000	Other related parties KD'000	Total 2012 KD'000	Total 2011 KD'000
1. Revenues:					
Sales	242,685	-	-	**242,685**	165,067
Storage expense	-	5,668	-	**5,668**	4,465

	Joint Ventures KD'000	Associates KD'000	Other related parties KD'000	Total 2012 KD'000	Total 2011 KD'000
2. Due from / to related parties:					
Trade and other receivables	18,710	312	-	**19,022**	14,135
Trade and other payables	-	2,032	-	**2,032**	2,020
Others and short-term loans	-	2,149	-	**2,149**	3,159

	2012 KD'000	2011 KD'000
3. Key management compensation		
Salaries and other short-term benefits	**777**	780
Terminal benefits	**76**	84
	853	864

29. Segment information

The Group primarily operates in the trading of crude oil and petroleum products. The trading of crude oil and petroleum products is also related to storage and distribution operations. These operations are inter-related and subject to similar risks and returns. The management has determined that the Group is considered to have a single reportable operating segment. The Group operates in different geographic locations. Information about the Group's reportable operating segment is summarised as follows:

	2012				2011			
	Africa and Middle East	Europe and South America	Asia and Far East	Total	Africa and Middle East	Europe and South America	Asia and Far East	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Sales	976,781	17,104	86,088	1,079,973	1,181,348	166,729	31,791	1,379,868
Segment result	8,827	(28)	2,032	10,831	5,288	(3,604)	835	2,519
Unallocated corporate expenses				(7,496)				(6,790)
Operating profit / (loss)				3,335				(4,271)
Other information:								
Segment assets	160,526	-	-	160,526	198,885	7,840	-	206,725
Unallocated corporate assets				214,700	-	-	-	217,936
Total assets				375,226				424,661
Segment liabilities	45,533	16,659	-	62,192	93,416	23,291	10,090	126,797
Unallocated corporate liabilities				233,262	-	-	-	227,143
Total liabilities				295,454				353,940

Depreciation, capital expenditure and non-cash expenses are mainly related to unallocated corporate assets.

The results of the Group's associates and joint venture are included in the Africa and Middle East segment and Asia and Far East segment.

30. Financial Instruments and risk management

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in Note 2 to these consolidated financial statements.

Categories of financial instruments

	2012	2011
	KD'000	KD'000
Financial assets		
Cash on hand and at banks	**32,456**	27,139
Investments at fair value through statement of income	**42,627**	39,561
Trade and other receivables	**160,526**	206,725
Other loans	**2,149**	3,159
Investments available for sale	**26,769**	24,297
	264,527	300,881
Liabilities		
Due to banks	**202,921**	196,009
Directors' fees payable	**100**	-
Trade and other payables	**81,201**	145,815
Term loan	**9,431**	10,096
	293,653	351,920

Financial risk management objectives

The Group's Management provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group. These risks include market risk (including currency risk, interest rate risk and equity price risk), credit risk and liquidity risk.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group's activities expose it primarily to the financial risk of changes in interest rates and equity prices. The Group is not exposed to foreign currency risk as most of its financial assets and liabilities are denominated in USD.

Interest rate risk

The Group is exposed to interest rate risk as it borrows funds at floating interest rates. The Group also places short-term deposits with banks.

Interest rate sensitivity analysis

At 31 December 2012, if interest rates on borrowings (due to banks and term loan) and short-term deposits had been 1% higher / lower with all other variables held constant, profit for the year would have been increased / decreased by KD 1,829 thousands respectively (2011: loss for the year would have been decreased / increased by KD 1,802 thousands), .

The Group's exposures to interest rates on short-term deposits, due to banks and term loan are detailed in Notes 4, 11 and 13 respectively to the consolidated financial statements.

Equity price risk

Equity price risk is the risk that fair values of equity securities decrease as the result of changes in level of equity indices and the value of individual equity security. The equity price risk exposure arises from the Group's investment in equity securities classified as 'Investments at fair value through income statement' and 'Investments available for sale'.

As at 31 December 2012, if the net asset value of the managed portfolio would have increased / decreased by 5% (2011: 5%), the profit for the year would have increased / decreased by KD 2,070 thousands (2011: loss for the year would have decreased / increased by KD 1,918 thousands). The effect on other comprehensive income due to equity price risk is insignificant as the quoted available for sale investments are not significant.

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management.

Exposure to credit risk

The financial instruments which potentially subject the Group to credit risk consist of current and call accounts at banks, time deposits, loans and trade and other receivables. The Group places its cash and time deposits with various reputed financial institutions and avoids credit concentration. In regard to the concentration of credit risk of trade and other receivables, the Group's deals are usually with major oil companies of high credit rating, and governmental institutions.

The Group's maximum exposure arising from default of the counter-party is limited to the carrying amount of cash on hand and at banks, other loans and trade and other receivables.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

All the financial liabilities of the Group, except for non-current portion of term loan, are due within one year. In case of the term loan, KD 1,018 thousands (2011: KD 1,008 thousands) is due within one year and KD 8,413 thousands (2011: KD 9,088 thousands) is due between one and seven years.

Fair value of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and other models as appropriate. The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Receivables, payables and short-term borrowings

The carrying amounts approximate fair values because of the short maturity of such instruments.

Cash on hand and at banks, deposits and investments

The carrying amounts of cash on hand and at banks and deposits approximate fair values. The fair value of quoted securities is based on market quotations. The Group's management does not have access to relevant information in order to reliably measure the fair value of the unquoted securities that are available-for-sale except for VHFL as disclosed in Note 5. Accordingly, the carrying amount of these investments is based on their cost. In the opinion of management, the fair value of these investments is not significantly different from their carrying amount.

Fair value estimation

Amended IFRS 7 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

The fair value of managed portfolios under investments at fair value through statement of income amounting to KD 41,391 thousands (2011: KD 38,364 thousands) and quoted securities under available-for-sale investments amounting to KD 162 thousands (2011: KD 176 thousands) are determined only based on Level 1 fair value measurement which is the quoted market prices prevailing at the reporting date. The fair value of securities under held for trading category is determined based on Level 2 fair value measurement inputs.

The fair value of investment in VHFL, classified as investments available for sale is determined based on Level 3 fair value measurement which is based on the Discounted Cash Flow method of valuation.

During the year ended 31 December 2012, there were no transfers between different levels of fair value measurement. During the year, the Group has recognized total gains of KD 2,248 thousands (2011: KD 14,376 thousands) in other comprehensive income in respect of fair value measurements of investments available for sale categorised in Level 3 of the fair value hierarchy

Future and swap contracts

The fair value of the Group's open futures and swap contracts are the estimated amounts that the Group would receive or pay to terminate the contracts at the reporting date. The estimated fair values of these contracts are as follows:

		Notional amount 2012 KD'000	Notional amount 2011 KD'000	Fair value 2012 KD'000	Fair value 2011 KD'000
Swap contracts	Buy	**957**	1,838	**969**	1,681
Swap contracts	Sell	**2,201**	2,786	**2,189**	2,828
Future contracts	Buy	**-**	146,788	**-**	148,064
Future contracts	Sell	**30,130**	175,024	**30,104**	175,682

31. Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's strategy remains unchanged from 2011.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash on hand and at banks. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

The capital structure of the Group consists of debt, which includes due to banks and term loan and cash on hand and at banks and equity comprising issued capital, reserves, treasury shares and retained earnings as disclosed in these consolidated financial statements.

	2012 KD'000	2011 KD'000
Due to banks and term loan (Note 11 & 13)	**212,352**	206,105
Less: cash on hand and at banks (Note 4)	**(32,456)**	(27,139)
Net debt	**179,896**	178,966
Total equity	**79,772**	70,721
Total capital resources	**259,668**	249,687
Gearing	**69%**	72%

32. Contingent liabilities and commitments

	2012 KD'000	2011 KD'000
Contingent liabilities:		
Letters of guarantee and bid bonds	**1,859**	14,277
Letters of credit	**89,118**	156,355
	90,977	170,632
Commitments:		
Investments in projects	**14,000**	7,742

33. Comparative figures

Certain of the prior year amounts have been reclassified to conform to the current year presentation