شـركـة مـشـاريـع الكـويـت القـابـضـة ش.م.ك.

Kuwait Projects Company (Holding) K.S.C.

# KUWAIT PROJECTS CO. (CAYMAN)

*(incorporated with limited liability in the Cayman Islands)*

Guaranteed by

## Kuwait Projects Company (Holding) K.S.C. (Closed)

*(incorporated with limited liability in the State of Kuwait)*

***U.S.$2,000,000,000***

## Euro Medium Term Note Programme

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Under this U.S.$2,000,000,000 Euro Medium Term Note Programme (the "**Programme**"), Kuwait Projects Co. (Cayman) (the "**Issuer**") may from time to time issue notes (the "**Notes**") denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

The payments of all amounts due in respect of the Notes will be unconditionally and irrevocably guaranteed by Kuwait Projects Company (Holding) K.S.C. (Closed) (the "**Guarantor**").

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed U.S.$2,000,000,000 (or its equivalent in other currencies calculated as described in the Dealer Agreement described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "Key Features of the Programme" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see "Risk Factors".

This Base Prospectus has been approved by the United Kingdom Financial Services Authority (the "**FSA**"), which is the United Kingdom competent authority for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**") and relevant implementing measures in the United Kingdom, as a base prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the issue of Notes issued under the Programme described in this Base Prospectus during the period of twelve months after the date hereof. Applications have been made to admit such Notes during the period of twelve months after the date hereof to listing on the Official List of the FSA and to trading on the London Stock Exchange-Regulated Market of London Stock Exchange plc (the "**London Stock Exchange**"). The London Stock Exchange-Regulated Market is a regulated market for the purposes of Directive 2004/39/EC (Markets in Financial Instruments Directive).

The Issuer and the Guarantor may agree with any Dealer and the Trustee (as defined herein) that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a supplemental Base Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

The Programme also permits Notes to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system or to be admitted to listing, trading and/or quotation by such other or further listing authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer the Guarantor and the relevant Dealer.

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***Joint Arrangers***

**BNP PARIBAS** **Dresdner Kleinwort** **HSBC**

***Dealers***

**BNP PARIBAS**

**CALYON**
**Crédit Agricole CIB**

**Dresdner Kleinwort**

**Emirates Financial Services**

**HSBC**

**RZB - Austria**
**Raiffeisen Zentralbank Österreich AG**

**WESTLB AG**

The date of this Base Prospectus is 17 April 2008.

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## IMPORTANT NOTICES

Each of Kuwait Projects Co. (Cayman) (the "**Issuer**") and Kuwait Projects Company (Holding) K.S.C. (Closed) (the "**Guarantor**", together with the Issuer (the "**Responsible Persons**")) accepts responsibility for the information contained in this Base Prospectus. The Issuer and the Guarantor declare that, having taken all reasonable care to ensure that such is the case, the information contained in this Base Prospectus is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

The auditors' report on the financial statements of the Issuer is included in the form and context in which it is included, with the consent of Ernst & Young (Al Aiban, Al Osaimi and Partners), who has authorised the contents of that part of this Base Prospectus. Ernst & Young (Al Aiban, Al Osaimi and Partners) has also accepted responsibility for its said auditors' report as part of this Base Prospectus and, for the purpose of compliance with Prospectus Rule 5.5.4R(2)(f), declared that it has taken all reasonable care to ensure that the information contained in that report is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in this Base Prospectus in compliance with items 1.1 and 1.2 of Annexes IX, XII and XIII of the Prospectus Directive Regulation. As the offered Notes have not been and will not be registered under the Securities Act, Ernst & Young (Al Aiban, Al Osaimi and Partners) has not filed a consent under the Securities Act.

Each Tranche (as defined herein) of Notes will be issued on the terms set out herein under "Terms and Conditions of the Notes" (the "**Conditions**") as amended and/or supplemented by a document specific to such Tranche called final terms (the "**Final Terms**") or in a separate prospectus specific to such Tranche (the "**Drawdown Prospectus**") as described under "Final Terms and Drawdown Prospectuses" below. In the case of a Tranche of Notes which is the subject of a Drawdown Prospectus, each reference in this Base Prospectus to information being specified or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus unless the context requires otherwise.

This Base Prospectus should be read and construed together with any amendments or supplements hereto with any information incorporated by reference herein and, in relation to any Tranche (as defined herein) of Notes which is the subject of Final Terms should be read and construed together with the relevant Final Terms.

Subject as provided in the applicable Final Terms or Drawdown Prospectus, the only person authorised to use this Base Prospectus in connection with an offer of Notes is the person named in the Base Prospectus as the relevant Dealer or Manager, as the case may be.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other document entered into in relation to the Programme or any information supplied by the Issuer or the Guarantor and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor or any Dealer.

No representation or warranty is made or implied by the Dealers or any of their respective affiliates, and neither the Dealers nor any of their respective affiliates makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Base Prospectus. Neither the delivery of this Base Prospectus or any Final Terms nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Base Prospectus is true subsequent to the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or the Guarantor since the date thereof or, if later, the date upon which this Base Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Base Prospectus and any Final Terms and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. The Issuer, the Guarantor, the Dealers and the Trustee do not represent that this Base Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Guarantor, the Dealers or the Trustee which is intended to permit a public offering of any Notes outside the UK or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Final Terms comes are required by the Issuer, the Guarantor and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Base Prospectus or any Final Terms and other offering material relating to the Notes, see "Subscription and Sale". In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the European Economic Area (including Germany and the United Kingdom), the Cayman Islands, United Arab Emirates and Kuwait, see "Subscription and Sale". Notes have not been and will not be registered under the United States Securities Act of 1933 (as amended) (the "**Securities Act**") and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons.

Neither this Base Prospectus nor any Final Terms constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer, the Guarantor, the Dealers or any of them that any recipient of this Base Prospectus or any Final Terms should subscribe for or purchase any Notes. Each recipient of this Base Prospectus or any Final Terms shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer and the Guarantor.

The maximum aggregate principal amount of Notes outstanding and guaranteed at any one time under the Programme will not exceed U.S.$2,000,000,000 (and for this purpose, any Notes denominated in another currency shall be translated into U.S. dollars at the date of the agreement to issue such Notes (calculated in accordance with the provisions of the Dealer Agreement). The maximum aggregate principal amount of Notes which may be outstanding and guaranteed at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement as defined under "Subscription and Sale".

In this Base Prospectus, unless otherwise specified, references to a "**Member State**" are references to a Member State of the European Economic Area, references to "**U.S.$**", "**U.S. dollars**" or "**dollars**" are to United States dollars, references to "**EUR**" or "**euro**" are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended, and references to "**KD**" are to Kuwaiti dinars.

Certain figures included in this Base Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Translations of amounts from Kuwaiti dinars to U.S. dollars are solely for the convenience of the reader. No representation is made that the Kuwaiti dinar or U.S. dollar amounts referred to herein could have been converted into U.S. dollars or Kuwaiti dinars, as the case may be, at any particular exchange rate or at all.

This Base Prospectus has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC) (each, a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this Base Prospectus as completed by Final Terms or a Drawdown Prospectus in relation to the offer of those Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or to supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

**In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail.**

**However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager(s) (or persons acting on behalf of the Stabilising Manager(s)) in accordance with all applicable laws and rules.**

# RISK FACTORS

*Prospective investors should read the entire Base Prospectus. Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Base Prospectus have the same meanings in this section.*

## Risk Factors

Each of the Issuer and the Guarantor believes that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. Most of these factors are contingencies which may or may not occur and neither the Issuer nor the Guarantor is in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.

Each of the Issuer and the Guarantor believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the Issuer or the Guarantor to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons and neither the Issuer nor the Guarantor represent that the statements below regarding the risks of holding any Notes are exhaustive. Additional risks and uncertainties not presently known to the Issuer or the Guarantor or that each of the Issuer or the Guarantor currently believes to be immaterial could also have a material impact on the Issuer's or the Guarantor's business operations. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.

## Factors that may affect the Guarantor's ability to fulfil its obligations under the Guarantee

### Market Risk

The Guarantor is exposed to interest rate and equity price risks associated with the Group's investment and asset and liability management activities.

Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between the Guarantor's investment activities and its borrowing costs.

Changes in equity prices may affect the value of the Guarantor's investment portfolios. It is difficult to accurately predict changes in economic and market conditions and to anticipate the effects that such changes could have on the Guarantor's financial performance and business operations.

### Currency Risk

The Guarantor generates a significant proportion of its earnings in Kuwaiti Dinar. From January 2003 to 20 May 2007, the Kuwaiti Dinar was pegged to the U.S. Dollar around a parity rate of 0.29963, with margins set at +/- 3.5 per cent. and with rates not exceeding 0.31011 and 0.28914. On 20 May 2007, this policy was replaced with one based on an undisclosed weighted basket of international currencies. The undisclosed weighted basket of currencies is calculated on world currencies reflecting the foreign trade and financial relation of the State of Kuwait. The U.S. dollar continues to play a significant role in determining the Kuwaiti Dinar exchange rate. During the period 20 May to 31 December 2007, the Kuwaiti Dinar appreciated by 5.23 per cent. against the U.S. dollar.

With the removal of the peg to the U.S. dollar, any weakening of the Kuwaiti Dinar against the U.S. dollar may adversely impact the ability of the Guarantor to repay principal and interest on borrowings denominated in a currency other than Kuwaiti Dinars. The Guarantor is exposed to the potential impact of any alteration to the Central Bank of Kuwait's foreign exchange policy.

### Operational Risk

Operational risk and losses at the Principal Companies (as defined in "Description of the Guarantor"), can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, systems and equipment failures, natural disasters or the failure of external systems (for example, those of counterparties or vendors) which may have an impact on the Guarantor's performance. Notwithstanding anything in this risk factor, this risk factor should not be taken to imply that the Issuer will be unable to comply with its obligations as a company with securities admitted to the Official List.

### Developing markets are subject to greater risks than more developed markets, including significant political, social and economic risks

As of 31 December 2007 nearly 60 per cent. of the Guarantor's assets were concentrated in Kuwait. There can be no assurance from the Guarantor that its current strong financial performance will continue to be supported by strong and robust economic conditions in Kuwait. The economy of Kuwait is largely driven by revenues from oil exports and as such is exposed to volatility in oil prices. Moreover, while government policies have generally resulted in improved economic performance, there can be no assurance that such level of performance can be sustained.

The Guarantor's financial performance can be adversely affected by political, economic and related developments not only from within Kuwait, but also from within the countries of the GCC (which comprises Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) and the political and economic instability in surrounding countries, such as Iraq and Iran. Although not unique to the region, Kuwait, the GCC region and surrounding countries are exposed to specific risks that may have a material impact on the business carried out by the Guarantor, its operating results and its financial condition.

Amongst those specific risks is the possibility of:

- political and social instability;
- general downturn in economic conditions;
- external acts of warfare, civil clashes and terrorist activity;
- natural disasters; and
- regulatory, taxation and legal structure changes.

Any unexpected changes in the political, social, economic or other conditions in countries in which the Guarantor or any of its associated companies carry on business may have a material adverse effect on the Guarantor's business, financial condition and results of operations and may adversely affect the Guarantor's plans for international expansion and investment.

It is not possible to predict the occurrence of events or circumstances such as or similar to those outlined above or the impact of such occurrences and no assurance can be given that the Guarantor's business would be able to sustain its current profit levels if such events or circumstances were to occur.

### Legal and regulatory systems may create an uncertain environment for investment and business activities

The Guarantor's Principal Companies operate in regulated businesses across multiple jurisdictions. Local regulations may change in a manner adverse to the business of one or more Principal Companies. This may be as a result of increased competition from additional licences being issued or changes to licence conditions affecting activities or profitability of a particular business. Ownership restrictions or limitations on the scope of activities could also be imposed on the Guarantor.

No assurance can be given that the government of any of the jurisdictions in which the Guarantor's Principal Companies operate will not implement regulation or fiscal or monetary policies, including policies, regulations, or new legal interpretations of existing regulations, relating to or affecting expropriation, nationalisation, taxation, interest rates or exchange controls, or otherwise take actions which could have a material adverse effect on the Guarantor's business, financial condition, results of operations or prospects.

**Competition from global competitors**

Many of the governments of the Middle East and North Africa ("**MENA**") region are liberalising their economies and initiating economic reforms. The MENA region is emerging as an investment opportunity, thereby attracting transnational companies. The increased competition could have an adverse impact on the profitability of Guarantor and its subsidiaries (the "Group") and its associates.

Profitability is dependent on the performance of the Guarantor's Principal Companies (see page XX below) Most of the Guarantor's revenue is derived from its Principal Companies. The Guarantor may be impacted by the ability of those companies to complete or successfully integrate strategic transactions, develop and introduce new products and services in a timely manner and respond effectively to technological changes.

**Operational cash flows mostly restricted to dividend income**

As a holding company, the Guarantor does not have direct access to the cash flows of its Principal Companies. The Guarantor's cash flows are limited to its share of the dividends declared by these companies, interest income on its investments and proceeds from its own trading activities or sales of its assets. Any change in the profitability of the Principal Companies would adversely impact the Guarantor's cash flow position.

The payment of dividends by certain of the Principal Companies to the Guarantor is subject to restrictions contained in insurance, banking, securities and corporate laws and regulations which require that solvency and capital standards are maintained by such companies.

**Funding strategy exposes the Guarantor to roll-over risk**

In addition to the internal generation of cashflow through upstream dividends, income from interest and income from trading, the Guarantor relies on external borrowings to fund its investments. These are primarily in the form of corporate bonds and loans, which are continually refinanced.

As of 31 December 2007, the Guarantor's unconsolidated debt was KD 265.9 million. The Guarantor follows an active liability management policy focused on managing debt mix, currency, maturity and cost of funds. All of the Guarantor's unconsolidated debt is unsecured.

The Guarantor's future ability to originate new debt and pay or refinance its existing and future obligations as they become due will depend not only on its financial condition and results of operations at the time but also on certain factors over which the Guarantor has no control such as:

- Investor sentiment towards companies conducting business in similar markets and sectors
- Prevailing capital and financial market conditions, including interest and exchange rates, and
- Political conditions in the MENA region.

Therefore, the Guarantor has no assurance that it would be able to obtain funding in the financial markets on satisfactory terms, which would limit its ability to originate new loans and to pay or refinance its existing and future obligations as they become due and would have an adverse impact on its business, financial condition and results of operations.

**Concentration of shareholding with a single entity**

As of 3 April 2008, 44.3 per cent. of the Guarantor's shareholding vests with a single entity, Al Futtooh Holding Company K.S.C. (Closed). This exposes the Guarantor to the risk of potential erosion in market value in the event of the major shareholder liquidating its holding.

**Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme**

***The Notes may not be a suitable investment for all investors***

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

**Risks related to the structure of a particular issue of Notes**

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

*Notes subject to optional redemption by the Issuer*

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

*Index Linked Notes and Dual Currency Notes*

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

(i) the market price of such Notes may be volatile;

(ii) they may receive no interest;

(iii) payment of principal or interest may occur at a different time or in a different currency than expected;

(iv) they may lose all or a substantial portion of their principal;

(v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

(vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and

(vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

*Partly paid Notes*

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

*Variable rate Notes with a multiplier or other leverage factor*

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

*Inverse Floating Rate Notes*

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

*Fixed/Floating Rate Notes*

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the

Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

*Notes issued at a substantial discount or premium*

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

***Risks related to Notes generally***

Set out below is a brief description of certain risks relating to the Notes generally:

*Modification, waivers and substitution*

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Notes or (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor under any Notes in place of the Issuer, in the circumstances described in Condition 17 of the conditions of the Notes.

*EU Savings Directive*

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland).

If, following implementation of this Directive, a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer, the Guarantor, any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent following implementation of this Directive, the Issuer will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

*Change of law*

The conditions of the Notes are based on English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Base Prospectus.

*Enforcing Foreign Judgments in Kuwait*

The Dealer Agreement, the Agency Agreement and the Trust Deed (each as defined in the Conditions) contain a provision for the courts of England (the "Courts of England") to have jurisdiction to settle any disputes which may arise thereunder. Although the submission to the jurisdiction of the Courts of England is valid and binding, if a claim is brought before the Kuwaiti Courts, the Kuwaiti Courts may still accept jurisdiction in any suit, action or proceedings in the situations identified in Articles 24 and 26 of the Code. These situations are where (a) the defendant in the proceedings expressly or impliedly accepted the jurisdiction of the Kuwaiti Courts, (b) the defendant is a Kuwaiti citizen or is resident, domiciled, or has a place of business or a chosen domicile in Kuwait or (c) if such legal proceedings relate to a property (movable or immovable) located in Kuwait, an obligation is created, executed or to be performed in Kuwait or a bankruptcy declared in Kuwait.

There can therefore be no assurance that Kuwaiti Courts will decline jurisdiction to adjudicate any dispute under the Notes, notwithstanding the provision in the Notes providing an option for the Courts of England to have jurisdiction to settle any disputes arising thereunder. The Kuwaiti Courts could be influenced when deciding whether or not to decline jurisdiction by the existence of proceedings in relation to such dispute in another jurisdiction.

If a judgment is obtained in the United Kingdom, then enforcement of that judgment by the Kuwaiti Courts (without re-trial or examination of merits of the case) is subject to compliance with the provisions of Article 199 of the Code. Article 199 of the Code requires that (a) the jurisdiction in which the judgment was rendered must afford reciprocal treatment to judgments rendered in Kuwait, (b) the judgment must be rendered by a competent authority according to the law of the jurisdiction in which it was rendered, (c) the parties must have been duly summoned to appear and were duly represented at the proceedings, (d) the judgment must be final and unappealable (res judicata) according to the law of the jurisdiction in which it was rendered, (e) the judgment must not contradict any prior judgment rendered and, finally, (f) the judgment must not contain anything in conflict with the general morals or public order of Kuwait. In respect of the requirement under Article 199 of the Code that the courts of the jurisdiction in which the judgment was issued must afford reciprocal treatment to judgments issued by the Kuwaiti Courts, there is no treaty between Kuwait and the United Kingdom that affords such required reciprocal treatment. There are no known instances of the Courts of England enforcing Kuwaiti judgments, while there are differing decisions issued by the Court of Cassation (the highest court in Kuwait) with regard to the enforcement in Kuwait of a monetary judgment issued by the Courts of England. In 2005 and 2006 the Court of Cassation (the highest court in Kuwait) had to consider applications for the enforcement in Kuwait of an English judgment. In the former case the Court was satisfied that on the facts the criteria for enforcement set out in Article 199 had been satisfied and approved the enforcement of the English judgment but in the latter it was not and declined to do so.

*Trading in the clearing systems*

In relation to any issue of Notes which have a minimum denomination and are tradeable in the clearing systems in amounts above such minimum denomination which are smaller than it, should definitive Notes be required to be issued, a holder who does not have an integral multiple of the minimum denomination in his account with the relevant clearing system at the relevant time may not receive all of his entitlement in the form of definitive Notes unless and until such time as his holding becomes an integral multiple of the minimum denomination. In relation to Notes which are expressed in the relevant Final Terms to be "Permanent Global Note exchangeable for Definitive Notes", see "Forms of the Notes – Permanent Global Note exchangeable for Definitive Notes" and "Form of Final Terms – General Provisions Applicable to the Notes – Form of Notes".

***Risks related to the market generally***

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

*The secondary market generally*

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

*Exchange rate risks and exchange controls*

The Issuer will pay principal and interest on the Notes and the Guarantor will make any payments under the Guarantee in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

*Interest rate risks*

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

*Credit ratings may not reflect all risks*

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

***Legal investment considerations may restrict certain investments***

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

## OVERVIEW OF THE PROGRAMME

*The following overview of the Programme does not purport to be complete and is qualified in its entirety by the remainder of this Base Prospectus. Words and expressions defined in "Forms of the Notes" or "Terms and Conditions of the Notes" below shall have the same meanings in this overview of the Programme.*

***The Issuer and any relevant Dealer may agree that Notes shall be issued in a form other than that contemplated in the Terms and Conditions, in which event, in the case of listed Notes only and if appropriate, a supplemental Base Prospectus will be published.***

This overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive.

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| Issuer: | Kuwait Projects Co. (Cayman) |
| Guarantor: | Kuwait Projects Company (Holding) K.S.C. (Closed) |
| Risk Factors: | There are certain factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme. These are set out under "Risk Factors". There are also certain factors that may affect the Guarantor's ability to fulfil its obligations under the Guarantee. These are also set out under "Risk Factors". In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under "Risk Factors" and include the fact that the Notes may not be a suitable investment for all investors, certain risks relating to the structure of particular Series of Notes and certain market risks. |
| Arrangers: | BNP Paribas, Dresdner Bank Aktiengesellschaft, HSBC Bank plc |
| Dealers: | BNP Paribas, Dresdner Bank Aktiengesellschaft, HSBC Bank plc, CALYON, Emirates Financial Services PSC, Raiffeisen Zentralbank Österreich Aktiengesellschaft and WestLB AG, and any other Dealer appointed from time to time by the Issuer and the Guarantor either generally in respect of the Programme or in relation to a particular Tranche of Notes. |
| Trustee: | BNY Corporate Trustee Services Limited |
| Principal Paying Agent: | The Bank of New York acting through its London office |
| Registrar: | The Bank of New York acting through its New York office |
| Final Terms or Drawdown Prospectus: | Notes issued under the Programme may be issued either (1) pursuant to this Base Prospectus and associated Final Terms or (2) pursuant to a drawdown prospectus (each a "**Drawdown Prospectus**") prepared in connection with a particular Tranche of Notes.<br><br>For a Tranche of Notes which is the subject of Final Terms, those Final Terms will, for the purposes of that Tranche only, supplement the Terms and Conditions of the Notes and this Base Prospectus and must be read in conjunction with this Base Prospectus. The terms and conditions applicable to any particular Tranche of Notes which is the subject of Final |

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| | Terms are the Terms and Conditions of the Notes as supplemented, amended and/or replaced to the extent described in the relevant Final Terms.<br><br>The terms and conditions applicable to any particular Tranche of Notes which is the subject of a Drawdown Prospectus will be the Terms and Conditions of the Notes as supplemented, amended and/or replaced to the extent described in the relevant Drawdown Prospectus. In the case of a Tranche of Notes which is the subject of a Drawdown Prospectus, each reference in this Base Prospectus to information being specified or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus. |
| Listing and Admission to Trading: | Each Series may be admitted to trading on the London Stock Exchange and/or admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system as may be agreed between the Issuer and the relevant Dealer and specified in the relevant Final Terms or may be issued on the basis that they will not be admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system. |
| Clearing Systems: | Euroclear and/or Clearstream, Luxembourg and/or, in relation to any Tranche of Notes, any other clearing system as may be specified in the relevant Final Terms. |
| Initial Programme Amount: | Up to U.S.$2,000,000,000 (or its equivalent in other currencies calculated as described in the Dealer Agreement) aggregate principal amount of Notes outstanding and guaranteed at any one time. The Issuer and the Guarantor may increase the amount of the Programme in accordance with the Dealer Agreement. |
| Issuance in Series: | Notes will be issued in Series. Each Series may comprise one or more Tranches issued on different issue dates. The Notes of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches. The Notes of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Notes of different denominations. |
| Forms of Notes: | Notes may be issued in bearer or in registered form. Each Tranche of Notes issued in bearer form will initially be in the form of either a Temporary Global Note or a Permanent Global Note, in each case as specified in the relevant Final Terms. Each Global Note will be deposited on or around the relevant issue date with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Final Terms, for Definitive Notes. If the TEFRA D Rules are specified in the relevant Final Terms as applicable, certification as to non-U.S. beneficial |

ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons. Registered Notes will not be exchangeable for Bearer Notes and *vice-versa*.

Any Notes issued in registered form will generally be represented by Note Certificates available for physical delivery only. However, the Issuer retains the option to make specific arrangements for a Tranche of Registered Notes to be delivered and/or settled in a clearing system and to be represented by a global Note certificate. Such arrangements will be described in the applicable Final Terms and will be subject to additional or supplemental documentation, including a global Note certificate in a form acceptable to the Issuer, the relevant clearing system and the Registrar.

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| Currencies: | Notes may be denominated in U.S. dollars or euro or in any other currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Notes are denominated. |
| Notes having a maturity of less than one year: | Where Notes have a maturity of less than one year and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, such Notes must: (i) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (ii) be issued in other circumstances which do not constitute a contravention of section 19 of the FSMA by the Issuer. |
| Status of the Notes: | Notes will be issued on an unsubordinated basis. |
| Status of the Guarantee: | Notes will be unconditionally and irrevocably guaranteed by the Guarantor, on an unsubordinated basis. |
| Issue Price: | Notes may be issued at any price and either on a fully or partly paid basis, as specified in the relevant Final Terms. The price and amount of Notes to be issued under the Programme will be determined by the Issuer, the Guarantor and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions. |

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| Maturities: | Any maturity, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements. |
| Redemption: | Subject as described in "Notes having a maturity of less than one Year" above, Notes may be redeemable at par or at such other Redemption Amount (detailed in a formula, index or otherwise) as may be specified in the relevant Final Terms. Notes may also be redeemable in two or more instalments on such dates and in such manner as may be specified in the relevant Final Terms.<br><br>If a Put Event (Restructuring) (as defined in the Conditions) occurs, Notes may be redeemable at par at the option of the relevant Noteholder. See "Terms and Conditions of the Notes – Redemption and Purchase – Redemption at the option of Noteholders (Restructuring)" |
| Optional Redemption: | Notes may be redeemed before their stated maturity at the option of the Issuer (either in whole or in part) and/or the Noteholders to the extent (if at all) specified in the relevant Final Terms. |
| Tax Redemption: | Except as described in "Optional Redemption" above, early redemption will only be permitted for tax reasons as described in Condition 10(b) (*Redemption and Purchase – Redemption for tax reasons*). |
| Interest: | Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate or other variable rate or be index-linked and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series. |
| Denominations: | No Notes admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area may be issued under the Programme which have a minimum denomination of less than EUR50,000 (or equivalent in another currency at the their issue date). Subject thereto, Notes will be issued in such denominations as may be specified in the relevant Final Terms, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements applicable to the relevant Specified Currency, see "Notes having a maturity of less than one year" above. |
| Negative Pledge: | The Notes will have the benefit of a negative pledge as described in Condition 5 (*Covenants*). |
| Cross Default: | The Notes will have the benefit of a cross default provision as described in Condition 13 (*Events of Default*). |
| Taxation: | All payments in respect of Notes will be made free and clear of withholding taxes of the Cayman Islands and Kuwait, as the case may be, unless the withholding is required by law subject to certain exceptions to the extent provided in Condition 12 (*Taxation*). In that event, the Issuer or (as the |

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| | case may be) the Guarantor will (subject as provided in Condition 12 (*Taxation*)) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding been required. |
| Governing Law: | English law. |
| Ratings: | The ratings of the Notes to be issued under the Programme will be specified in the relevant Final Terms. |
| Selling Restrictions: | For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States, the European Economic Area (including Germany and the United Kingdom), the Cayman Islands, United Arab Emirates and Kuwait see "Subscription and Sale" below. |

## DOCUMENTS INCORPORATED BY REFERENCE

The auditors' report and audited financial statements of the Issuer for the period from 7 March 2006, the date of its incorporation, to 31 December 2007 which is published simultaneously with this Base Prospectus and has been filed with the FSA shall be incorporated in, and form part of, this Base Prospectus.

Following the publication of this Base Prospectus, a supplement may be prepared by the Issuer and the Guarantor and approved by the FSA in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Base Prospectus or in a document which is incorporated by reference in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

Copies of documents incorporated by reference in this Base Prospectus can be obtained from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London.

The Issuer and the Guarantor will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Notes, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Notes.

## FORMS OF THE NOTES

*The following provisions apply only to Notes issued in bearer form. Notes issued in registered form will be represented by definitive Note certificates available for physical delivery only. However, the Issuer retains the option to make specific arrangements for a Tranche of Registered Notes to be delivered and/or settled in a clearing system and to be represented by a global Note certificate. Such arrangements will be described in the applicable Final Terms and will be subject to additional or supplemental documentation, including a global Note certificate in a form acceptable to the Issuer, the relevant clearing system and the Registrar. For the terms applicable to the form and transfer of Notes in registered form see Conditions 3(b) and (c) under "Terms and conditions of the Notes" below.*

Each Tranche of Notes will initially be in the form of either a temporary global note (the "**Temporary Global Note**"), without interest coupons, or a permanent global note (the "**Permanent Global Note**"), without interest coupons, in each case as specified in the relevant Final Terms. Each Temporary Global Note or, as the case may be, Permanent Global Note (each a "**Global Note**") will be deposited on or around the issue date of the relevant Tranche of the Notes with a depositary or a common depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear System ("**Euroclear**") and/or Clearstream Banking, société anonyme, Luxembourg ("**Clearstream, Luxembourg**") and/or any other relevant clearing system.

The relevant Final Terms will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (the "**TEFRA C Rules**") or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (the "**TEFRA D Rules**") are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

### Temporary Global Note exchangeable for Permanent Global Note

If the relevant Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for a Permanent Global Note", then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure (in the case of first exchange) the prompt delivery (free of charge to the bearer) of such Permanent Global Note to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

(i) presentation and (in the case of final exchange) surrender of the Temporary Global Note at the Specified Office of the Principal Paying Agent; and

(ii) receipt by the Principal Paying Agent of a certificate or certificates of non-U.S. beneficial ownership,

within 7 days of the bearer requesting such exchange.

The principal amount of the Permanent Global Note shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership; *provided, however, that* in no circumstances shall the principal amount of the Permanent Global Note exceed the initial principal amount of the Temporary Global Note.

The Permanent Global Note will be exchangeable in whole, but not in part, for Notes in definitive form ("**Definitive Notes**"):

(i) on the expiry of such period of notice as may be specified in the relevant Final Terms; or

(ii) at any time, if so specified in the relevant Final Terms; or

(iii) if the relevant Final Terms specifies "in the limited circumstances described in the Permanent Global Note", then if (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or has in fact done so and no successor clearing system satisfactory to the Trustee is available or (b) any of the circumstances described in Condition 13 (*Events of Default*) occurs.

The Permanent Global Note will also become exchangeable, in whole but not in part and at the option of the Issuer, for Definitive Notes if, by reason of any change in the laws of the Cayman Islands or Kuwait, the Issuer or the Guarantor is or will be required to make any withholding or deduction from any payment in respect of the Notes which would not be required if the Notes were in definitive form.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note at the Specified Office of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

**Temporary Global Note exchangeable for Definitive Notes**

If the relevant Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules or the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

If the relevant Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note at the Specified Office of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

### Permanent Global Note exchangeable for Definitive Notes

If the relevant Final Terms specifies the form of Notes as being "Permanent Global Note exchangeable for Definitive Notes", then the Notes will initially be in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes:

(i) on the expiry of such period of notice as may be specified in the relevant Final Terms; or

(ii) at any time, if so specified in the relevant Final Terms; or

(iii) if the relevant Final Terms specifies "in the limited circumstances described in the Permanent Global Note", then if (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or has in fact done so and no successor clearing system satisfactory to the Trustee is available or (b) any of the circumstances described in Condition 13 (*Events of Default*) occurs.

If the relevant Final Terms specify the form of Notes as "Permanent Global Note exchangeable for Definitive Notes" in circumstances other than "in the limited circumstances specified in the Permanent Global Note", such Notes may only be issued in denominations equal to or greater than EUR50,000 (or equivalent) and integral multiples thereof.

The Permanent Global Note will also become exchangeable, in whole but not in part and at the option of the Issuer, for Definitive Notes if, by reason of any change in the laws of the Cayman Islands or Kuwait, the Issuer or the Guarantor is or will be required to make any withholding or deduction from any payment in respect of the Notes which would not be required if the Notes were in definitive form.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note at the Specified Office of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

### Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under "Terms and Conditions of the Notes" below and the provisions of the relevant Final Terms which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions Relating to the Notes while in Global Form" below.

### Legend concerning United States persons

In the case of any Tranche of Notes having a maturity of more than 365 days, the Notes in global form, the Notes in definitive form and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

> "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

### Registered Notes

Each Tranche of Registered Notes will be in the form of either individual Note Certificates in registered form ("**Individual Note Certificates**") or a global Note in registered form (a "**Global Note Certificate**"), in each case as specified in the relevant Final Terms. Each Global Note Certificate will be deposited on or around the relevant issue date with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and registered in the name of a nominee for such depositary and will be exchangeable for Individual Note Certificates in accordance with its terms.

If the relevant Final Terms specify the form of Notes as being "Individual Note Certificates", then the Notes will at all times be in the form of Individual Note Certificates issued to each Noteholder in respect of their respective holdings.

If the relevant Final Terms specify the form of Notes as being "Global Note Certificate exchangeable for Individual Note Certificates", then the Notes will initially be in the form of a Global Note Certificate which will be exchangeable in whole, but not in part, for Individual Note Certificates if the relevant Final Terms specify "in the limited circumstances described in the Global Note Certificate", if (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or has in fact done so and no successor clearing system satisfactory to the Trustee is available or (b) any of the circumstances described in Condition 13 (*Events of Default*) occurs.

Whenever the Global Note Certificate is to be exchanged for Individual Note Certificates, the Issuer shall procure that Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered holder of the Global Note Certificate to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note Certificate at the specified office of the Registrar.

Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions which, as supplemented, amended and/or replaced by the relevant Final Terms, will be endorsed on each Note in definitive form issued under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions Relating to the Notes while in Global Form" below.*

### 1. Introduction

(a) *Programme*: Kuwait Projects Co. (Cayman) (the "**Issuer**") has established a Euro Medium Term Note Programme (the "**Programme**") for the issuance of up to U.S.$2,000,000,000 in aggregate principal amount of notes (the "**Notes**") guaranteed by Kuwait Projects Company (Holding) K.S.C. (Closed) (the "**Guarantor**").

(b) *Final Terms*: Notes issued under the Programme are issued in series (each a "**Series**") and each Series may comprise one or more tranches (each a "**Tranche**") of Notes. Each Tranche is the subject of final terms (the "**Final Terms**") which supplement these terms and conditions (the "**Conditions**"). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as supplemented, amended and/or replaced by the relevant Final Terms. In the event of any inconsistency between these Conditions and the relevant Final Terms, the relevant Final Terms shall prevail. References in these Conditions to the "relevant Final Terms" are to Part A of the Final Terms (or the relevant provisions thereof).

(c) *Trust Deed*: The Notes are subject to and have the benefit of a trust deed dated 17 April 2008 (as amended or supplemented from time to time) (the "**Trust Deed**") between the Issuer, the Guarantor and BNY Corporate Trustee Services Limited as trustee (the "**Trustee**", which expression shall include all persons for the time being the trustee or trustees appointed under the Trust Deed).

(d) *Agency Agreement*: The Notes are the subject of an amended and restated issue and paying agency agreement dated 17 April 2008 (the "**Agency Agreement**") between the Issuer, the Guarantor, the Trustee, The Bank of New York (acting through its New York office) in its capacity as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in accordance with the Agency Agreement in connection with the Notes), The Bank of New York in its capacity as the principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in accordance with the Agency Agreement in connection with the Notes) and the paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes).

(e) *The Notes*: All subsequent references in these Conditions to "Notes" are to the Notes which are the subject of the relevant Final Terms. Copies of the relevant Final Terms are available for inspection by Noteholders during normal business hours at the Specified Office of the Principal Paying Agent, the initial Specified Office of which is set out below.

(f) *Summaries*: Certain provisions of these Conditions are summaries of the Agency Agreement and the Trust Deed and are subject to their detailed provisions. The holders of the Notes (the "**Noteholders**") and the holders of the related interest coupons, if any, (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Trust Deed applicable to them. Copies of the Agency Agreement and the Trust Deed are available for inspection by Noteholders during normal business hours at the Specified Offices of each of the Paying Agents and the Registrar, the initial Specified Offices of which are set out below.

## 2. Interpretation

(a) *Definitions*: In these Conditions the following expressions have the following meanings:

"**Accrual Yield**" has the meaning given in the relevant Final Terms;

"**Additional Business Centre(s)**" means the city or cities specified as such in the relevant Final Terms;

"**Additional Financial Centre(s)**" means the city or cities specified as such in the relevant Final Terms;

"**Business Day**" means:

(i) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre; and

(ii) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre;

"**Business Day Convention**", in relation to any particular date, has the meaning given in the relevant Final Terms and, if so specified in the relevant Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

(i) "**Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day;

(ii) "**Modified Following Business Day Convention**" or "**Modified Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;

(iii) "**Preceding Business Day Convention**" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;

(iv) "**FRN Convention**", "**Floating Rate Convention**" or "**Eurodollar Convention**" means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Final Terms as the Specified Period after the calendar month in which the preceding such date occurred *provided, however, that*:

(A) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;

(B) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

(C) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and

(v) "**No Adjustment**" means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

"**Calculation Agent**" means the Principal Paying Agent or such other Person specified in the relevant Final Terms as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Final Terms;

"**Core Subsidiary**" means those entities nominated from time to time and notified by the Guarantor to the Trustee, the Guarantor's investment in which at any given time provides in aggregate at least 80 per cent. of the Guarantor's total Non-Trading Income and which, as at the date of the Trust Deed are Burgan Bank S.A.K., Gulf Insurance Company K.S.C. and United Gulf Bank B.S.C.;

"**Coupon Sheet**" means, in respect of a Note, a coupon sheet relating to the Note;

"**Day Count Fraction**" means (subject as provided in Condition 6 (*Fixed Rate Note Provisions*) and Condition 7 (*Floating Rate Note and Index-Linked Interest Note Provisions*)), in respect of the calculation of an amount for any period of time (the "**Calculation Period**"), such day count fraction as may be specified in these Conditions or the relevant Final Terms and:

(i) if "**Actual/Actual (ICMA)**" is so specified, means:

(a) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(b) where the Calculation Period is longer than one Regular Period, the sum of:

(A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;

(ii) if "**Actual/365**" or "**Actual/Actual (ISDA)**" is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(iii) if "**Actual/365 (Fixed)**" is so specified, means the actual number of days in the Calculation Period divided by 365;

(iv) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;

(v) if "**30/360**", "**360/360**" or "**Bond Basis**" is so specified, means the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$Y_1$" is the year, expressed as a number, in which the first day of the Interest Period falls;

"$Y_2$" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$M_1$" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"$M_2$" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$D_1$" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case $D_1$ will be 30; and

"$D_2$" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and $D_1$ is greater than 29, in which case $D_2$ will be 30; and

(vi) if "**30E/360**" or "**Eurobond Basis**" is so specified means, the number of days in the Calculation Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$Y_1$" is the year, expressed as a number, in which the first day of the Interest Period falls;

"$Y_2$" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$M_1$" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"$M_2$" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$D_1$" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case $D_1$ will be 30; and

"$D_2$" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case $D_2$ will be 30; and

(vii) if "**30E/360 (ISDA)**" is so specified, means the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$Y_1$" is the year, expressed as a number, in which the first day of the Interest Period falls;

"$Y_2$" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$M_1$" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"$M_2$" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$D_1$" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case $D_1$ will be 30; and

"$D_2$" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case $D_2$ will be 30.

"**Early Redemption Amount (Tax)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

"**Early Termination Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, these Conditions or the relevant Final Terms;

"**Event of Default**" means any of the events described in Condition 13 (*Events of Default*);

"**Extraordinary Resolution**" has the meaning given in the Trust Deed;

"**Final Redemption Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

"**Fixed Coupon Amount**" has the meaning given in the relevant Final Terms;

"**Guarantee**" means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

(i) any obligation to purchase such Indebtedness;

(ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(iii) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(iv) any other agreement to be responsible for such Indebtedness;

"**Guarantee of the Notes**" means the guarantee of the Notes given by the Guarantor in the Trust Deed;

"**Holder**" means a Holder of Registered Notes or, as the context requires, the holder of a Bearer Note or of a Coupon;

"**Holder of Registered Notes**" means the person in whose name a Registered Note is registered in the Register (or, in the case of a joint holding, the first named thereof);

"**IFRS**" means International Financial Reporting Standards (formerly International Accounting Standards) issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee of IASB (as amended, supplemented or re-issued from time to time);

"**Indebtedness**" means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

(i) amounts raised by acceptance under any acceptance credit facility;

(ii) amounts raised under any note purchase facility;

(iii) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and IFRS, be treated as finance or capital leases;

(iv) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and

(v) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

"**Interest Amount**" means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

"**Interest Commencement Date**" means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Final Terms;

"**Interest Determination Date**" has the meaning given in the relevant Final Terms;

"**Interest Payment Date**" means the date or dates specified as such in, or determined in accordance with the provisions of, the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms:

(i) as the same may be adjusted in accordance with the relevant Business Day Convention; or

(ii) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

"**Interest Period**" means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

"**Investment Grade Rating**" means a rating of at least investment grade (BBB-/ Baa3/ BBB-, or their respective equivalents for the time being) from a Rating Agency;

"**ISDA Definitions**" means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Final Terms) as published by the International Swaps and Derivatives Association, Inc.);

"**Issue Date**" has the meaning given in the relevant Final Terms;

"**Margin**" has the meaning given in the relevant Final Terms;

"**Maturity Date**" has the meaning given in the relevant Final Terms;

"**Maximum Redemption Amount**" has the meaning given in the relevant Final Terms;

"**Minimum Redemption Amount**" has the meaning given in the relevant Final Terms;

"**Non-Trading Income**" means, in respect of the Guarantor, all income received by the Guarantor other than through its trading and day to day operations, including (without limitation) distributions received on its shareholdings in other entities and interest received in respect of any loan, bond or other debt security;

"**Optional Redemption Amount (Call)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

"**Optional Redemption Amount (Put)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

"**Optional Redemption Date (Call)**" has the meaning given in the relevant Final Terms;

"**Optional Redemption Date (Put)**" has the meaning given in the relevant Final Terms;

"**Participating Member State**" means a Member State of the European Communities which adopts the euro as its lawful currency in accordance with the Treaty;

"**Payment Business Day**" means:

(i) if the currency of payment is not euro, any day which is:

  (A) a day on which banks in the relevant place of presentation or of surrender or endorsement (in the case of Registered Notes), are open for presentation and payment of bearer debt securities or for surrender or endorsement of note certificates and payment, (in the case of Registered Notes), and for dealings in foreign currencies; and

  (B) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre; or

(ii) if the currency of payment is euro, any day which is:

  (A) a day on which banks in the relevant place of presentation or of surrender or endorsement (in the case of Registered Notes), are open for presentation and payment of bearer debt securities, or for surrender or endorsement of note certificates and payment, (in the case of Registered Notes), and for dealings in foreign currencies; and

  (B) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**Principal Financial Centre**" means, in relation to any currency, the principal financial centre for that currency provided, however, that:

(i) in relation to euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and

(ii) in relation to Australian dollars, it means Sydney and, in relation to New Zealand dollars, it means Auckland;

"**Put Option Notice**" means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"**Put Option Receipt**" means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"**Rate of Interest**" means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Final Terms;

"**Rating Agency**" means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. and its successors or any other internationally recognised rating agency which has at the request of the Guarantor for the time being assigned a credit rating to the Guarantor;

"**Redemption Amount**" means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the relevant Final Terms;

"**Reference Banks**" has the meaning given in the relevant Final Terms or, if none, four major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate;

"**Reference Price**" has the meaning given in the relevant Final Terms;

"**Reference Rate**" has the meaning given in the relevant Final Terms;

"**Register**" means the register maintained by the Registrar in respect of the Registered Notes in accordance with the Agency Agreement;

"**Registrar**" means, in relation to any Series of Registered Notes, The Bank of New York;

"**Regular Period**" means:

(i) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;

(ii) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls; and

(iii) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period ;

"**Relevant Date**" means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Principal Paying Agent or the Trustee as the case may be on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

"**Relevant Financial Centre**" has the meaning given in the relevant Final Terms;

"**Relevant Indebtedness**" means any present and future Indebtedness which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is or is capable of being listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market);

"**Relevant Screen Page**" means the page, section or other part of a particular information service (including, without limitation, the Reuter Money 3000 Service and the Telerate Service) specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

"**Relevant Time**" has the meaning given in the relevant Final Terms;

"**Reserved Matter**" means any proposal (i) to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes on redemption or maturity or the date for any such payment; (ii) to effect the exchange or substitution of Notes for, or the conversion of Notes into, shares, bonds or other obligations or securities of the Issuer or the Guarantor or any other person or body corporate formed or to be formed (other than in relation to Condition 17(c) (*Substitution*)); (iii) to change the currency in which amounts due in respect of Notes are payable; (iv) to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution; or (v) to amend this definition;

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

"**Specified Currency**" has the meaning given in the relevant Final Terms;

"**Specified Denomination(s)**" has the meaning given in the relevant Final Terms;

"**Specified Office**" has the meaning given in the Agency Agreement;

"**Specified Period**" has the meaning given in the relevant Final Terms;

"**Subsidiary**" means in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**"):

(i) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or

(ii) whose financial statements are, in accordance with applicable law and IFRS, consolidated with those of the first Person;

"**Talon**" means a talon for further Coupons;

"**TARGET Settlement Day**" means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is open;

"**Treaty**" means the Treaty establishing the European Communities, as amended; and

"**Zero Coupon Note**" means a Note specified as such in the relevant Final Terms.

(b) *Interpretation:* In these Conditions:

(i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;

(ii) if Talons are specified in the relevant Final Terms as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;

(iii) if Talons are not specified in the relevant Final Terms as being attached to the Notes at the time of issue, references to Talons are not applicable;

(iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 12 (*Taxation*) or any undertaking given in addition to, or in substitution for, that Condition, any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;

(v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 12 (*Taxation*) or any undertaking given in addition to, or in substitution for, that Condition and any other amount in the nature of interest payable pursuant to these Conditions;

(vi) references to Notes being "outstanding" shall be construed in accordance with the Trust Deed;

(vii) if an expression is stated in Condition 2(a) (*Definitions*) to have the meaning given in the relevant Final Terms, but the relevant Final Terms gives no such meaning or specifies that such expression is "not applicable" then such expression is not applicable to the Notes; and

(viii) any reference to the Agency Agreement or the Trust Deed shall be construed as a reference to the Agency Agreement or the Trust Deed, as the case may be, as amended and/or supplemented up to and including the Issue Date of the Notes.

## 3. Form, Denomination, Transfer and Title

Notes are issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**") as specified in the relevant Final Terms. Registered Notes may not be exchanged for Bearer Notes.

(a) *Notes in Bearer Form*: Bearer Notes are issued in the Specified Denomination(s) with Coupons and, if specified in the relevant Final Terms, Talons attached at the time of issue. In the case of a Series of Bearer Notes with more than one Specified Denomination, Notes of one Specified Denomination will not be exchangeable for Notes of another Specified Denomination. Title to the Bearer Notes and the Coupons will pass by delivery. The Holder of any Bearer Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Bearer Note under the Contracts (Rights of Third Parties) Act 1999.

(b) *Notes in registered form*: Registered Notes are issued in the Specified Denomination(s) and may be held in holdings equal to any specified minimum amount and integral multiples equal to any specified increments (as specified in the relevant Final Terms) in excess thereof (each, an "**Authorised Holding**"). The Holder of each Registered Note shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such Holder.

(c) *Register and Transfers of Registered Notes*

(i) *Register*: The Registrar will maintain the Register in accordance with the provisions of the Agency Agreement. A Note Certificate (as defined in the Trust Deed) will be issued to each Holder of Registered Notes in respect of its holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

(ii) *Transfers*: Subject to Conditions 3(c)(v) (*Closed Periods*) and 3(c)(vi) (*Regulations concerning transfers and registration*) below, a Registered Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar, together with such evidence as the Registrar may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer provided, however, that a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the Registered Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are Authorised Holdings. Where not all the Registered Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Registered Notes will be issued to the transferor.

(iii) *Registration and delivery of Note Certificates*: Within 5 business days of the surrender of a Note Certificate in accordance with Condition 3(c)(ii) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Registered Notes transferred to each Holder of Registered Notes at its Specified Office or (at the request and risk of any such relevant Holder of Registered Notes) by uninsured first class mail (airmail if overseas) to the address specified for the purposes by such Holder of Registered Notes. In this paragraph, "**business day**" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar is located.

(iv) *No charge*: The transfer of a Registered Note will be effected without charge by or on behalf of the Issuer or the Registrar but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(v) *Closed periods*: Holders of Registered Notes may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Notes.

(vi) *Regulations concerning transfers and registration*: All transfers of Registered Notes and entries in the Register are subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Holder of Registered Notes who requests in writing a copy of such regulation.

**4. Status and Guarantee**

(a) *Status of the Notes*: The Notes constitute direct, general and unconditional obligations of the Issuer which will at all times rank pari passu among themselves and at least pari passu with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(b) *Guarantee of the Notes*: The Guarantor has in the Trust Deed unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes. This Guarantee of the Notes constitutes direct, general and unconditional obligations of the Guarantor which will at all times rank at least pari passu with all other present and future unsecured and unsubordinated obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

**5. Covenants**

(a) *Negative Pledge:* So long as any Note remains outstanding, neither the Issuer nor the Guarantor shall create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness or any Guarantee of any Relevant Indebtedness;

(b) *Step Up Events:* So long as any Note remains outstanding, on the occurrence of a Step Up Event the applicable Rate of Interest payable (i) in respect of such Note, if interest-bearing, shall be increased by 0.5 per cent. per annum from the beginning of the Interest Period immediately subsequent to the occurrence of such Step Up Event; and (ii) in respect of such Note, if not interest-bearing, shall be 0.5 per cent. per annum from, and including, the date of the Step Up Event to, but excluding, the Maturity Date.

For the purposes of this Condition 5 only:

A "**Step Up Event**" will be deemed to have occurred if, for so long as any Note remains outstanding, the solicited rating assigned to the Notes by a Rating Agency is (i) withdrawn either by the Rating Agency or at the request of the Issuer or the Guarantor or (ii) reduced from an Investment Grade Rating to a non-Investment Grade Rating (BB+/Ba1/BB or their respective equivalents for the time being) or worse.

**6. Fixed Rate Note Provisions**

(a) *Application*: This Condition 6 (*Fixed Rate Note Provisions*) is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Final Terms as being applicable.

(b) *Accrual of interest*: The Notes bear interest from, and including, the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 11 (*Payments*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Principal Paying Agent or, as the case may be, the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Fixed Coupon Amount*: The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Specified Denomination of Notes is a multiple of the Calculation Amount, shall be the product of the amount for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

(d) *Calculation of interest amount*: The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest for such period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

## 7. Floating Rate Note and Index-Linked Interest Note Provisions

(a) *Application*: This Condition 7 (*Floating Rate Note and Index-Linked Interest Note Provisions*) is applicable to the Notes only if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Final Terms as being applicable.

(b) *Accrual of interest*: The Notes bear interest from, and including, the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 11 (*Payments*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 7 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is five days after the Principal Paying Agent or, as the case may be, the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such fifth day (except to the extent that there is any subsequent default in payment).

(c) *Screen Rate Determination*: If Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:

(i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(ii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(iii) if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:

(A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and

(B) determine the arithmetic mean of such quotations; and

(iv) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin (if any) and the rate or (as the case may be) the arithmetic mean so determined; *provided, however, that* if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin (if any) and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

(d) *ISDA Determination*: If ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin (if any) and the relevant ISDA Rate where "ISDA Rate" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;

(ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms; and

(iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on the London inter-bank offered rate (LIBOR) or on the euro zone inter bank offered rate (EURIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Final Terms.

(e) *Index-Linked Interest*: If the Index-Linked Interest Note Provisions are specified in the relevant Final Terms as being applicable, the Rate(s) of Interest applicable to the Notes for each Interest Period will be determined in the manner specified in the relevant Final Terms.

(f) *Maximum or Minimum Rate of Interest*: If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Final Terms, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.

(g) *Calculation of Interest Amount*: The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

(h) *Calculation of other amounts*: If the relevant Final Terms specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Final Terms.

(i) *Publication*: The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Issuer, the Guarantor, the Paying Agents, the Trustee and each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders in accordance with Condition 20 (*Notices*). The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.

(j) *Notifications etc*: All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 7 (*Floating Rate Note and Index-Linked Interest Note Provisions*) by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Guarantor, the Trustee, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent or the Trustee in connection with the exercise or non-exercise by them of their respective powers, duties and discretions for such purposes.

(k) *Determination or Calculation by Trustee*: If the Calculation Agent fails at any time to determine a Rate of Interest or to calculate an Interest Amount or additional Interest Amount, the Trustee will determine such Rate of Interest and make such determination or calculation which shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply all of the provisions of these Conditions with any necessary consequential amendments to the extent that, in its sole opinion and with absolute discretion, it can do so and in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances and will not be liable for any loss, liability, damage, fee, cost, charge or expense which may arise as a result thereof. Any such determination or calculation made by the Trustee shall be binding on the Issuer, the Guarantor, Noteholders and Couponholders.

## 8. Zero Coupon Note Provisions

(a) *Application*: This Condition 8 (*Zero Coupon Note Provisions*) is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Final Terms as being applicable.

(b) *Late payment on Zero Coupon Notes*: If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Principal Paying Agent or, as the case may be, the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

## 9. Dual Currency Note Provisions

(a) *Application*: This Condition 9 (*Dual Currency Note Provisions*) is applicable to the Notes only if the Dual Currency Note Provisions are specified in the relevant Final Terms as being applicable.

(b) *Rate of Interest*: If the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the relevant Final Terms.

## 10. Redemption and Purchase

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 11 (*Payments*).

(b) *Redemption for tax reasons*: The Notes may be redeemed at the option of the Issuer in whole, but not in part:

(i) at any time (if neither the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Final Terms as being applicable); or

(ii) on any Interest Payment Date (if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Final Terms as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if:

(A) (1) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 12 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Cayman Islands or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes and (2) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or

(B) (1) the Guarantor has or (if a demand was made under the Guarantee of the Notes) would become obliged to pay additional amounts as provided or referred to in Condition 12 (*Taxation*) or the Guarantor has or will become obliged to make any such withholding or deduction as is referred to in Condition 12 (*Taxation*) from any amount paid by it to the Issuer in order to enable the Issuer to make a payment of principal or interest in respect of the Notes, in either case as a result of any change in, or amendment to, the laws or regulations of the State of Kuwait or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes, and (2) such obligation cannot be avoided by the Guarantor taking reasonable measures available to it,

*provided, however*, that no such notice of redemption shall be given earlier than:

(1) where the Notes may be redeemed at any time, 90 days prior to the earliest date on which the Issuer or the Guarantor would be obliged to pay such additional amounts or the Guarantor would be obliged to make such withholding or deduction if a payment in respect of the Notes were then due or (as the case may be) a demand under the Guarantee of the Notes were then made; or

(2) where the Notes may be redeemed only on an Interest Payment Date, 60 days prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer or the Guarantor would be obliged to pay such additional amounts or the Guarantor would be obliged to make such withholding or deduction if a payment in respect of the Notes were then due or (as the case may be) a demand under the Guarantee of the Notes were then made.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver or procure that there is delivered to the Trustee (A) a certificate signed by two directors of the Issuer or (as the case may be) two directors of the Guarantor stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (B) an opinion in form and substance satisfactory to the Trustee of independent legal advisers of recognised standing to the effect that the Issuer or (as the case may be) the Guarantor has or will become obliged to pay such additional amounts or (as the case may be) the Guarantor has or will become obliged to make such withholding or deduction as a result of such change or amendment. The Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the circumstances set out in (A) and (B) above, in which event they shall be conclusive and binding on the Noteholders. Upon the expiry of any such notice as is referred to in this Condition 10(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 10(b).

(c) *Redemption at the option of the Issuer*: If the Call Option is specified in the relevant Final Terms as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Final Terms, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer giving not less than 15 nor more than 30 days' notice to the Noteholders and having notified the Trustee prior to the provision of such notice (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).

(d) *Partial redemption:*

(i) *Partial Redemption of Bearer Notes*: If the Notes are to be redeemed in part only on any date in accordance with Condition 10(c) (*Redemption at the option of the Issuer*), the Notes to be redeemed shall be selected by the drawing of lots in such place as the Trustee approves and in such manner as the Trustee considers appropriate, subject to compliance with applicable law and the rules of each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation, and the notice to Noteholders referred to in Condition 10(c) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Final Terms, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

(ii) *Partial Redemption of Registered Notes*: If Registered Notes are to be redeemed in part only on any date in accordance with Condition 10(c) (*Redemption at the option of the Issuer*), each Registered Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Registered Notes to be redeemed on the relevant Optional Redemption Date (Call) bears to the aggregate principal amount of outstanding Registered Notes on such date.

(e) *Redemption at the option of Noteholders*: If the Put Option is specified in the relevant Final Terms as being applicable, the Issuer shall, at the option of any Noteholder redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 10(e), the Noteholder must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put), deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto, in the case of Bearer Notes, or deposit with the Registrar the relevant Note Certificate relating to such Note, in the case of Registered Notes, and a duly completed Put Option Notice in the form obtainable from any Paying Agent or Registrar, as the case may be. The Paying Agent or the Registrar, as the case may be, with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note or Note Certificate, once deposited with a duly completed Put Option Notice in accordance with this Condition 10(e), may be withdrawn; *provided, however, that* if, prior to the relevant Optional Redemption Date (Put), any such Note or the Notes evidenced by any Note Certificate becomes immediately due and payable or, upon due presentation of any such Note or Note Certificate on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent or Registrar shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note or Note Certificate at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Bearer Note is held by a Paying Agent in accordance with this Condition 10(e), the depositor of such Note and not such Paying Agent shall be deemed to be the holder of such Note for all purposes.

(f) *Redemption at the option of Noteholders (Restructuring)*: If a Put Event (Restructuring) occurs the Issuer or the Guarantor shall give notice to the Noteholders (specifying the nature of the Put Event (Restructuring)), of an optional redemption date (the "**Optional Redemption Date (Restructuring)**") which shall be not less than 50 nor more than 75 days after the date of such notice and the procedure for exercising the option contained in this Condition 10(f), and the Issuer shall, at the option of any Noteholder redeem or, at the Issuer's option, purchase such Note on the Optional Redemption Date (Restructuring) at an amount equal to its principal amount together with (or, where purchased, together with an amount equal to) interest (if any) accrued to such date. In order to exercise the option contained in this Condition 10(f), the Noteholder must deliver such Note together with all unmatured Coupons, on any business day falling within the period of 45 days after the notice of a Put Event (Restructuring) is given, at the specified office of any Paying Agent, accompanied by a duly completed non-transferable Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition

10(f), may be withdrawn; *provided, however, that* if, prior to the relevant Optional Redemption Date (Restructuring), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Restructuring), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 10(f), the depositor of such Note and not such Paying Agent shall be deemed to be the holder of such Note for all purposes.

For the purposes of this Condition 10(f) only:

"**business day**" means a day (other than a Saturday or Sunday) on which banks are generally open for business in the State of Kuwait, the Cayman Islands, New York City and in the city where the Specified Office of the Principal Paying Agent is located;

"**Group**" means the Guarantor and its Subsidiaries for the time being;

A "**Negative Rating Event**" shall be deemed to have occurred in respect of a Restructuring Event if the Guarantor does not within 120 days of a Restructuring Event obtain an Investment Grade Rating;

A "**Put Event (Restructuring)**" will be deemed to have occurred if, for so long as any Note remains outstanding, there occurs a Restructuring Event and within the Restructuring Period (i) if at the time that Restructuring Event occurs there are Rated Securities, a Rating Downgrade in respect of that Restructuring Event occurs; or (ii) if at the time that Restructuring Event occurs there are no Rated Securities, a Negative Rating Event in respect of that Restructuring Event occurs;

"**Rated Securities**" means any Notes so long as they shall have a solicited rating from any Rating Agency;

A "**Rating Downgrade**" shall be deemed to have occurred in respect of a Restructuring Event if the solicited rating assigned 30 business days prior to the Restructuring Event to the Rated Securities by a Rating Agency is withdrawn or reduced from an Investment Grade Rating to a non-Investment Grade Rating (BB+/Ba1/BB or their respective equivalents for the time being) or worse, or if any Rating Agency shall have already rated the Rated Securities below Investment Grade Rating, the rating of such Rating Agency is lowered by one or more full rating categories (for example, from BB+/Ba1/BB+ to BB/Ba2/BB or such similar lowering);

A "**Restructuring Event**" shall be deemed to have occurred if either:

(i) any Person or any Persons (other than Al Futtooh Investments Co. W.L.L., any of its shareholders and any of their respective associates (where an associate of an individual is the individual's husband, wife or child or is a relative, or the husband or wife of a relative, of the individual or of the individual's husband or wife) ("**AFI**")) acting in concert or any Person or Persons acting on behalf of any such Person(s) at any time directly or indirectly own(s) or acquire(s) (whether or not approved by the board of directors of the Guarantor) (A) 50 per cent. or more of the issued or allotted ordinary share capital of the Guarantor or (B) such number of shares in the capital of the Guarantor carrying 50 per cent. or more of the voting rights exercisable at general meetings of the Guarantor; or

(ii) if AFI ceases directly or indirectly to own (A) 30 per cent. or more of the issued or allotted ordinary share capital of the Guarantor or (B) such number of shares in the capital of the Guarantor carrying 30 per cent. or more of the voting rights exercisable at general meetings of the Guarantor;

"**Restructuring Period**" means the period commencing on the earlier of the date (the "**Restructuring Period Commencement Date**") of the public announcement of the Restructuring Event or the public announcement of the intention of the relevant Person or Persons to effect a Restructuring Event and ending 120 days after the Restructuring Period Commencement Date (or such longer period for which the Rated Securities or, as the case may be, any Notes are under consideration (such consideration having been announced publicly within the period ending 120 days after the Restructuring Period Commencement Date) for rating review or, as the case may be, rating by a Rating Agency);

(g) *No other redemption*: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) (Scheduled redemption) to (c) (Redemption at the option of the Issuer) above.

(h) *Early redemption of Zero Coupon Notes*: Unless otherwise specified in the relevant Final Terms, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Final Terms for the purposes of this Condition 10(h) or, if none is so specified, a Day Count Fraction of 30E/360.

(i) *Purchase*: The Issuer, the Guarantor or any of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, provided that all unmatured Coupons are purchased therewith. Such Notes may be held, resold or, at the option of the purchaser, surrendered to any Paying Agent for cancellation.

(j) *Cancellation*: All Notes redeemed or surrendered for cancellation and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

## 11. Payments

### (a) Payments – Bearer Notes

This Condition 11(a) is only applicable to Bearer Notes.

(1) *Principal*: Payments of principal shall be made only against presentation and (provided that payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States (which expression, as used in these Conditions, means the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction) by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in London).

(2) *Interest*: Payments of interest shall, subject to paragraph (8) (*Payments other than in respect of matured Coupons*) below, be made only against presentation and (provided that

payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (1) above.

(3) *Payments in New York City*: Payments of principal or interest payable in U.S. dollars may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in U.S. dollars when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law without involving, in the opinion of the Issuer and the Guarantor, adverse tax consequences to either the Issuer or the Guarantor.

(4) *Payments subject to fiscal laws*: All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 12 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(5) *Deductions for unmatured Coupons*: If the relevant Final Terms specifies that the Fixed Rate Note Provisions are applicable and a Note is presented without all unmatured Coupons relating thereto:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; *provided, however*, that if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; provided, however, that where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; *provided, however, that*, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (1) (*Principal*) above against presentation and (provided that payment is made in full) surrender of the relevant missing Coupons.

(6) *Unmatured Coupons void*: If the relevant Final Terms specifies that this Condition 11(a)(6) is applicable or that the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are applicable, on the due date for final redemption of any Note or early redemption in whole of such Note pursuant to Condition 10(b) (*Redemption for tax reasons*),

Condition 10(c) (*Redemption at the option of the Issuer*), Condition 10(e) (*Redemption at the option of Noteholders*), Condition 10(f) (*Redemption at the option of Noteholders (Restructuring))* or Condition 13 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

(7) *Payments on business days*: If the due date for payment of any amount in respect of any Note or Coupon is not a Payment Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

(8) *Payments other than in respect of matured Coupons*: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by paragraph (3) (*Payments in New York City)* above).

(9) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

(10) *Exchange of Talons*: On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Principal Paying Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 14 (*Prescription*)). Upon the due date for redemption of any Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

(b) **Payment – Registered Notes**

(1) This Condition 11(b) is only applicable to Registered Notes.

(2) *Principal*: Payments of principal shall be made by cheque drawn in the currency in which the payment is due on or, upon application by a Holder of Registered Notes to the specified office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in such currency (or, if that currency is euro, any other account to which euro may be credited or transferred) maintained by the payee with, a bank in the Principal Financial Centre of such currency (in the case of a sterling cheque, a town clearing branch of a bank in London) and (in the case of final redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the specified office of any Paying Agent.

(3) *Interest*: Payments of interest shall be made by cheque drawn in the currency in which the payment is due on or, upon application by a Holder of Registered Notes to the specified office of the Principal Paying Agent not later than four Payment Business Days before the due date for any such payment, by transfer to an account denominated in such currency (or, if that currency is euro, any other account to which euro may be credited or transferred) maintained by the payee with, a bank in the Principal Financial Centre of such currency and, in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificate at the specified office of any Paying Agent.

(4) *Payments subject to fiscal laws*: All payments in respect of the Registered Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment,

but without prejudice to the provisions of Condition 12 (*Taxation*). No commissions or expenses shall be charged to the Holders of Registered Notes in respect of such payments.

(5) *Payments on business days*: Where payment is to be made by transfer to an account, payment instruments (for value the due date, or, if the due date is not a Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payment on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the Payment Business Date immediately preceding the due date for payment. A Holder of Registered Notes shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 11(b)(5) arriving after the due date for payment or being lost in the mail.

(6) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Registered Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(7) *Record date*: Each payment in respect of a Registered Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Registered Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

## 12. Taxation

(a) *Gross up*: All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Cayman Islands or the State of Kuwait or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, the Issuer or (as the case may be) the Guarantor shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon presented for payment:

(i) in the Cayman Islands or the State of Kuwait; or

(ii) by or on behalf of a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note or Coupon; or

(iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(iv) by or on behalf of a Holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the EU; or

(v) more than 30 days after the Relevant Date except to the extent that the Holder of such Note or Coupon would have been entitled to such additional amounts on presenting such Note or Coupon for payment on the last day of such period of 30 days assuming that day to have been a Payment Business Day.

(b) *Taxing jurisdiction*: If the Issuer or the Guarantor becomes subject at any time to any taxing jurisdiction other than the Cayman Islands or the State of Kuwait respectively, references in these Conditions to the Cayman Islands or the State of Kuwait shall be construed as references to the Cayman Islands or (as the case may be) the State of Kuwait and/or such other jurisdiction.

## 13. Events of Default

If any of the following events occurs, then the Trustee at its discretion may and, if so requested in writing by Holders of at least one quarter of the aggregate principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution, shall (subject in the case of the happening of any of the events mentioned in paragraphs (b) (*Breach of other obligations*), (d) (*Unsatisfied judgment*), (i) (*Failure to take action, etc*.) or (j) (*Unlawfulness*) below and, in relation only to a Core Subsidiary, paragraphs (c) (*Cross-default of Issuer, Guarantor or Core Subsidiary*), (e) (*Security enforced*), (g) (*Winding up, etc*.) or (h) (*Analogous event*) below, to the Trustee having certified in writing that the happening of such event is in its opinion materially prejudicial to the interests of the Noteholders and subject, in all cases, to the Trustee having been indemnified or provided with security to its satisfaction) give written notice to the Issuer declaring the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality:

(a) *Non-payment*: the Issuer fails to pay any amount of principal in respect of the Notes within 5 days of the due date for payment thereof or fails to pay any amount of interest in respect of the Notes within 10 days of the due date for payment thereof; or

(b) *Breach of other obligations*: the Issuer or the Guarantor defaults in the performance or observance of any of its other obligations under or in respect of the Notes, the Trust Deed or the Guarantee of the Notes and such default (i) is, in the opinion of the Trustee, incapable of remedy or (ii) being a default which is, in the opinion of the Trustee, capable of being remedied, remains unremedied for 30 days or such longer period as the Trustee may agree after written notice thereof has been received by the Issuer and the Guarantor from the Trustee; or

(c) *Cross-default of Issuer, Guarantor or Core Subsidiary:*

(i) any Indebtedness of the Issuer, the Guarantor or any Core Subsidiary is not paid when due or (as the case may be) within any originally applicable grace period;

(ii) any such Indebtedness becomes or is declared due and payable prior to its stated maturity otherwise than at the option of the Issuer, the Guarantor or (as the case may be) the relevant Core Subsidiary or (provided that no event of default, howsoever described, has occurred) any Person entitled to such Indebtedness; or

(iii) the Issuer, the Guarantor or any Core Subsidiary fails to pay when due any amount payable by it under any Guarantee of any Indebtedness;

provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any Guarantee referred to in sub-paragraph (iii) above individually or in the aggregate exceeds U.S.$7,500,000 (or its equivalent in any other currency or currencies);

(d) *Unsatisfied judgment*: one or more judgment(s) or order(s) for the payment of any amount is rendered against the Issuer, the Guarantor or any Core Subsidiary and continue(s) unsatisfied and unstayed for a period of 30 days after the date(s) thereof or, if later, the date therein specified for payment; or

(e) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or substantially the whole of the undertaking, assets and revenues of the Issuer, the Guarantor or any Core Subsidiary; or

(f) *Insolvency, etc.*: (i) the Issuer, the Guarantor or any Core Subsidiary becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer, the Guarantor or any Core Subsidiary or the whole or substantially the whole of the undertaking, assets and revenues of the Issuer, the Guarantor or any Core Subsidiary is appointed (or application for any such appointment is made), (iii) the Issuer, the Guarantor or any Core Subsidiary takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness or any Guarantee of any Indebtedness given by it or (iv) the Issuer, the Guarantor or any Core Subsidiary ceases or threatens to cease to carry on all or substantially the whole of its business; or

(g) *Winding up, etc.*: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer, the Guarantor or any Core Subsidiary; or

(h) Analogous event: any event occurs which under the laws of the Cayman Islands or the State of Kuwait has an analogous effect to any of the events referred to in paragraphs (d) (*Unsatisfied judgment*) to (g) (*Winding up, etc.*) above; or

(i) *Failure to take action, etc.*: any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under and in respect of the Notes and the Trust Deed, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Notes, the Coupons and the Trust Deed admissible in evidence in the courts of the Cayman Islands and the State of Kuwait is not taken, fulfilled or done; or

(j) *Unlawfulness*: it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any of its obligations under or in respect of the Notes or the Trust Deed; or

(k) *Controlling shareholder*: the Issuer ceases to be a Subsidiary of the Guarantor; or

(l) *Guarantee not in force*: the Guarantee of the Notes is not (or is claimed by the Guarantor not to be) in full force and effect.

**14. Prescription**

(a) *Bearer Notes*: claims for principal in respect of Bearer Notes shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date.

Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

(b) *Registered Notes*: claims for principal on redemption in respect of Registered Notes shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date. Claims for interest on redemption shall become void unless the relevant Note Certificates are surrendered for payment within five years of the appropriate Relevant Date.

**15. Replacement of Notes, Note Certificates and Coupons**

If any Note, Note Certificate or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent, in the case of Bearer Notes, or the Registrar, in the case of Registered Notes (and, if the Notes are then admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent in any particular place, the Paying Agent having its Specified Office in the place required by such listing authority, stock exchange and/or quotation system), subject to all applicable laws and listing authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Note Certificates or Coupons must be surrendered before replacements will be issued.

**16. Trustee, Agents and Registrar**

Under the Trust Deed, the Trustee is entitled to be indemnified to its satisfaction before taking certain actions, including taking enforcement proceedings, and is also entitled to be relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity relating to the Issuer or the Guarantor without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual Holders of Notes or Coupons as a result of such Holders being connected in any way with a particular territory or taxing jurisdiction.

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of the Issuer, the Guarantor and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Paying Agents and Registrar and their respective initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Final Terms. The Issuer and the Guarantor reserve the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Paying Agent or any Registrar and to appoint a successor Principal Paying Agent or Calculation Agent and additional or successor paying agents or Registrars; *provided, however, that*:

(a) the Issuer and the Guarantor shall at all times maintain a Principal Paying Agent and a Registrar outside the United Kingdom; and

(b) the Issuer and the Guarantor will ensure that they maintain a Paying Agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced to conform to, such Directive; and

(c) if a Calculation Agent is specified in the relevant Final Terms, the Issuer and the Guarantor shall at all times maintain a Calculation Agent for that Series of Notes; and

(d) if and for so long as the Notes are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent and/or a Registrar in any particular place, the Issuer and the Guarantor shall maintain a Paying Agent and/or a Registrar each with a Specified Office in the place required by such listing authority, stock exchange and/or quotation system.

Notice of any change in any of the Paying Agents or the Registrar or in their Specified Offices shall promptly be given to the Noteholders.

**17. Meetings of Noteholders; Modification and Waiver**

(a) *Meetings of Noteholders*: The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and the Guarantor (acting together) or by the Trustee and shall be convened by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more Persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, one or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however, that* Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which one or more Persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification and waiver*: The Trustee may, without the consent of the Noteholders or the Couponholders agree to any modification of these Conditions or the Trust Deed (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Noteholders or Couponholders authorise or waive any proposed breach or breach of the Notes or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders as soon as practicable thereafter.

(c) *Substitution*: The Trust Deed contains provisions under which the Guarantor or any other company may, without the consent of the Noteholders or Couponholders assume the obligations of the Issuer as principal debtor under the Trust Deed and the Notes provided that certain conditions specified in the Trust Deed are fulfilled.

No Noteholder or Couponholder shall, in connection with any substitution, be entitled to claim any indemnification or payment in respect of any tax consequence thereof for such Noteholder or (as the case may be) Couponholder except to the extent provided for in Condition 12 (*Taxation*) (or any undertaking given in addition to or substitution for it pursuant to the provisions of the Trust Deed).

**18. Enforcement**

The Trustee may at any time, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

(a) it has been so requested in writing by the holders of at least one quarter of the aggregate principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

(b) it has been indemnified or provided with security to its satisfaction.

No Noteholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

**19. Further Issues**

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes. The Issuer may from time to time, with the consent of the Trustee, create and issue other series of notes having the benefit of the Trust Deed.

**20. Notices**

Notices to the Holders of Bearer Notes shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

Notices to Holders of Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an overseas address) by airmail to them (or, in the case of joint Holders, to the first-named in the Register) at their respective addresses as recorded in the Register, and will be deemed to have been validly given on the fourth Business Day after the date of such mailing.

**21. Currency Indemnity**

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder and the Trustee on the written demand of such Noteholder or the Trustee addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Principal Paying Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder or the Trustee may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

**22. Rounding**

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Final Terms), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

**23. Governing Law and Jurisdiction**

(a) *Governing law*: The Notes and the Trust Deed and all matters arising from or connected with the Notes and the Trust Deed are governed by, and shall be construed in accordance with, English law.

(b) *English courts*: The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with the Notes and the Trust Deed.

(c) *Appropriate forum*: In the Trust Deed the Issuer and the Guarantor have agreed that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that they will not argue to the contrary.

(d) *Rights of the Noteholders and Trustee to take proceedings outside England*: Condition 23(b) (*English courts*) is for the benefit of the Noteholders and Trustee only. As a result, nothing in this Condition 23 (*Governing law and jurisdiction*) prevents any Noteholder or the Trustee from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.

(e) *Process agent*: In the Trust Deed the Issuer and the Guarantor have each agreed that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to United Gulf Management Limited at 7 Old Park Lane, London W1Y 3LJ or, if different, its registered office for the time being in England or at any address of the Issuer or the Guarantor (as the case may be) in Great Britain at which process may be served on it in accordance with Part XXIII of the Companies Act 1985. If such persons are not or cease to be effectively appointed to accept service of process on behalf of the Issuer or the Guarantor (as the case may be), the Issuer or the Guarantor (as the case may be) shall, on the written demand of the Trustee addressed and delivered to the Issuer or the Guarantor (as the case may be) or to the Specified Office of the Principal Paying Agent, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Trustee shall be entitled to appoint such a person by written notice addressed to the Issuer or the Guarantor (as the case may be) and delivered to the Issuer or the Guarantor (as the case may be) or to the Specified Office of the Principal Paying Agent. Nothing in this paragraph shall affect the right of any Noteholder or the Trustee to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

## FORM OF FINAL TERMS

*The Final Terms in respect of each Tranche of Notes will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue. Text in this section appearing in italics does not form part of the form of the Final Terms but denotes directions for completing the Final Terms.*

Final Terms dated [   ]

**Kuwait Projects Co. (Cayman)**
Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
Guaranteed by
**Kuwait Projects Company (Holding) K.S.C. (Closed)**
under the U.S.$2,000,000,000
**Euro Medium Term Note Programme**

## PART A - CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 17 April 2008 (the "**Base Prospectus**") [and the supplemental Base Prospectus dated [   ]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**"). This document constitutes the Final Terms relating to the issue of Notes described herein for the purposes of Article 5.4 of the Prospectus Directive. These Final Terms contain the final terms of the Notes and must be read in conjunction with the Base Prospectus [as so supplemented].

Full information on the Issuer, the Guarantor and the Notes described herein is only available on the basis of a combination of these Final Terms and the Base Prospectus. The Base Prospectus [and the supplemental Base Prospectus] is available for viewing at [[*address*] [and] [*website*]] and during normal business hours copies may be obtained from [*address*].

*The following alternative language applies if the first tranche of an issue which is being increased was issued under a base prospectus with an earlier date and the relevant terms and conditions from that base prospectus with an earlier date were incorporated by reference in this Base Prospectus.*

Terms used herein shall be deemed to be defined as such for the purposes of the [*date*] Conditions (the "**Conditions**") incorporated by reference in the Base Prospectus dated [*original date*]. These Final Terms contain the final terms of the Notes and must be read in conjunction with the Base Prospectus dated [*current date*] [and the supplemental Base Prospectus dated [*date*]] which [*together*] constitute[s] a base prospectus (the "**Base Prospectus**") for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**"), save in respect of the Conditions which are set forth in the base prospectus dated [*original date*] and are incorporated by reference in the Base Prospectus. This document constitutes the Final Terms relating to the issue of Notes described herein for the purposes of Article 5.4 of the Prospectus Directive.

Full information on the Issuer, the Guarantor(s) and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectuses dated [*original date*] and [*current date*] [and the supplemental Base Prospectuses dated ● and ●]. The Base Prospectuses [and the supplemental Base Prospectus] are available for viewing [at [*website*]] [*and*] during normal business hours at [*address*] [and copies may be obtained from [*address*]].

*[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Final Terms.]*

*[When completing any final terms, or adding any other final terms or information, consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]*

| | | | |
|---|---|---|---|
| 1. | (i) | Issuer: | **Kuwait Projects Co. (Cayman)** |
| | (ii) | Guarantor: | **Kuwait Projects Company (Holding) K.S.C. (Closed)** |
| 2. | [(i) | [Series Number:] | [●] |
| | [ii) | [Tranche Number:<br>*(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)*.] | [●] |
| 3. | Specified Currency or Currencies: | | [●] |
| 4. | Aggregate Nominal Amount: | | |
| | [(i)] | [Series:] | [●] |
| | [(ii) | Tranche: | [●]] |
| 5. | Issue Price: | | [●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*in the case of fungible issues only, if applicable*)] |
| 6. | (i) | Specified Denominations: | [●]<br>[●]<br>*Notes which are to be admitted to trading on a Regulated Market in the European Economic Area or offered in the European Economic Area in circumstances where a Prospectus is required to be published under the Prospectus Directive may not have a minimum denomination of less than EUR50,000 (or nearly equivalent in another currency).*<br>(Note – where multiple denominations above [€50,000] or equivalent are being used the following sample wording should be followed:<br>"[€50,000] and integral multiples of [€1,000] in excess thereof up to and including [€99,000]. No Notes in definitive form will be issued with a denomination above [€99,000].") |
| | (ii) | Calculation Amount: | [●]<br>(*If only one Specified Denomination, insert the Specified Denomination.*) |

| | | |
|---|---|---|
| | | *If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.*) |
| 7. | (i) Issue Date: | [●] |
| | (ii) Interest Commencement Date: | [*Specify*/Issue Date/Not Applicable]<br>(*N.B. An Interest Commencement Date will not be relevant for certain Notes, for example, Zero Coupon Notes*) |
| 8. | Maturity Date: | [*Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*]<br>[*If the Maturity Date is less than one year from the Issue Date and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, (i) the Notes must have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be sold only to "professional investors" or (ii) another applicable exemption from section 19 of the FSMA must be available.* ] |
| 9. | Interest Basis: | [● per cent. Fixed Rate]<br>[[*specify reference rate*] +/- ● per cent. Floating Rate]<br>[Zero Coupon]<br>[Index-Linked Interest]<br>[Other (*specify*)]<br>(further particulars specified below) |
| 10. | Redemption/Payment Basis: | [Redemption at par]<br>[Index-Linked Redemption]<br>[Dual Currency]<br>[Partly Paid]<br>[Instalment]<br>[Other (*specify*)] |
| 11. | Change of Interest or Redemption/Payment Basis: | *[Specify details of any provision for convertibility of Notes into another interest or redemption/ payment basis]* |
| 12. | Put/Call Options: | [Investor Put] [Investor Put – Restructuring]<br>[Issuer Call]<br>[(further particulars specified below)] |
| 13. | (i) Status of the Notes: | Senior |
| | (ii) Status of the Guarantee: | Senior |

| | | |
|---|---|---|
| [(iii)] | [Date [Board] approval for issuance of Notes [and Guarantee] obtained: | [●] [and [●], respectively]]<br>(*N.B Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes or related Guarantee)*] |
| 14. | Method of distribution: | [Syndicated/Non-syndicated] |

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

| | | |
|---|---|---|
| 15. | **Fixed Rate Note Provisions** | [Applicable/Not Applicable]<br>*(If not applicable, delete the remaining sub-paragraphs of this paragraph)* |
| (i) | Rate[(s)] of Interest: | [●] per cent. per annum [payable [annually/ semi-annually/quarterly/monthly/other (*specify*)] in arrear]<br>*(If payable other than annually consider amending Condition 6)* |
| (ii) | Interest Payment Date(s): | [●] in each year [in each year up to and including the Maturity Date/specify other]<br>*(N.B. This will need to be amended in the case of long or short coupons.)* |
| (iii) | Fixed Coupon Amount[(s)]: | [●] per Calculation Amount |
| (iv) | Broken Amount(s): | [●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●] |
| (v) | Day Count Fraction: | [30/360 / Actual/Actual (ICMA/ISDA)/other] |
| [(vi) | Determination date: | [●] in each year *(insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual ([ICMA]))* |
| (vii) | Other terms relating to the method of calculating interest for Fixed Rate Notes: | [Not Applicable/*give details*] |
| 16. | **Floating Rate Note Provisions** | [Applicable/Not Applicable]<br>(*If not applicable, delete the remaining sub-paragraphs of this paragraph.)* |
| (i) | Interest Period(s) | [●] |
| (ii) | Specified Period: | [●]<br>*(Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable")* |
| (iii) | Specified Interest Payment Dates: | [●]<br>*(Specified Period and Specified Interest* |

| | | |
|---|---|---|
| | | *Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable")* |
| (iv) | [First Interest Payment Date]: | [●] |
| (v) | Business Day Convention: | [Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/ other (*give details*)] |
| (vi) | Additional Business Centre(s): | [Not Applicable/*give details*] |
| (vii) | Manner in which the Rate(s) of Interest is/are to be determined: | [Screen Rate Determination/ISDA Determination/other (*give details)*] |
| (viii) | Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Principal Paying Agent): | [[*Name*] shall be the Calculation Agent (*no need to specify if the Principal Paying Agent is to perform this function*)] |
| (ix) | Screen Rate Determination: | |
| | – Reference Rate: | [*For example, LIBOR or EURIBOR*] |
| | – Interest Determination Date(s): | [●] |
| | – Relevant Screen Page: | [*For example, Reuters LIBOR01/EURIBOR01*] |
| | – Relevant Time: | [*For example, 11.00 a.m. London time/ Brussels time*] |
| | – Relevant Financial Centre: | [*For example, London/Euro-zone (where Euro-zone means the region comprised of the countries whose lawful currency is the euro)*] |
| (x) | ISDA Determination: | |
| | – Floating Rate Option: | [●] |
| | – Designated Maturity: | [●] |
| | – Reset Date: | [●] |
| (xi) | Margin(s): | [+/-][●] per cent. per annum |
| (xii) | Minimum Rate of Interest: | [●] per cent. per annum |
| (xiii) | Maximum Rate of Interest: | [●] per cent. per annum |
| (xiv) | Day Count Fraction: | [●] |
| (xv) | Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if | |

| | | |
|---|---|---|
| | different from those set out in the Conditions: | [●] |
| 17. | **Zero Coupon Note Provisions** | [Applicable/Not Applicable]<br>(*If not applicable, delete the remaining subparagraphs of this paragraph*) |
| (i) | [Amortisation/Accrual] Yield: | [●] per cent. per annum |
| (ii) | Reference Price: | [●] |
| (iii) | Any other formula/basis of determining amount payable: | [*Consider whether it is necessary to specify a Day Count Fraction for the purposes of Condition 10(h)*] |
| 18. | **Index-Linked Interest Note Provisions** | [Applicable/Not Applicable]<br>(*If not applicable, delete the remaining subparagraphs of this paragraph*)<br><br>(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.) |
| (i) | Index/Formula/other variable: | [*Give or annex details*] |
| (ii) | Calculation Agent responsible for calculating the interest due (if not the Principal Paying Agent): | [●]<br>[*give name (and, if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, address)*] |
| (iii) | Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable: | [●] |
| (iv) | Interest Determination Date(s): | [●] |
| (v) | Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: | [*Need to include a description of market disruption or settlement disruption events and adjustment provisions*] |
| (vi) | Interest or calculation period(s): | [●] |
| (vii) | Specified Period: | [●]<br>*(Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or* |

| | | |
|---|---|---|
| | | *Eurodollar Convention. Otherwise, insert "Not Applicable".)* |
| (viii) | Specified Interest Payment Dates: | [●]<br>*(Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable".)* |
| (ix) | Business Day Convention: | [Floating Rate Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)] |
| (x) | Additional Business Centre(s): | [●] |
| (xi) | Minimum Rate of Interest: | [●] per cent. per annum |
| (xii) | Maximum Rate of Interest: | [●] per cent. per annum |
| (xiii) | Day Count Fraction: | [●] |
| 19. | **Dual Currency Note Provisions** | [Applicable/Not Applicable]<br>*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*<br><br>(*N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.*) |
| (i) | Rate of Exchange/method of calculating Rate of Exchange: | [*Give details*] |
| (ii) | Calculation Agent, if any, responsible for calculating the principal and/or interest due (if not the Principal Paying Agent): | [●] |
| (iii) | Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: | [*Need to include a description of market disruption or settlement disruption events and adjustment provisions*] |
| (iv) | Person at whose option Specified Currency(ies) is/are payable: | [●] |

**PROVISIONS RELATING TO REDEMPTION**

| | | |
|---|---|---|
| 20. | **Call Option** | [Applicable/Not Applicable]<br>*(If not applicable, delete the remaining sub-paragraphs of this paragraph)* |
| (i) | Optional Redemption Date(s): | [●] |

| | | |
|---|---|---|
| (ii) | Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): | [●] per [Calculation Amount/*specify other/* see Appendix] |
| (iii) | If redeemable in part: | |
| | (a) Minimum Redemption Amount: | [●] per [Calculation Amount/*specify other/* see Appendix] |
| | (b) Maximum Redemption Amount: | [●] per [Calculation Amount/*specify other/* see Appendix] |
| (iv) | Notice period: | [●] |
| 21. | **Put Option** | Put Option [(Restructuring)][Applicable/Not Applicable]<br>(*If not applicable, delete the remaining sub-paragraphs of this paragraph*) |
| (i) | Optional Redemption Date(s): | [●] |
| (ii) | Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): | [●] per [Calculation Amount/*specify other/* see Appendix] |
| (iii) | Notice period: | [●] |
| 22. | **Final Redemption Amount of each Note** | [●] per [Calculation Amount/*specify other/* see Appendix] |
| | In cases where the Final Redemption Amount is Index-Linked or other variable-linked: | *(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)* |
| (i) | Index/Formula/variable: | [*give or annex details*] |
| (ii) | Calculation Agent responsible for calculating the Final Redemption Amount (if not the Principal Paying Agent): | [●]<br>[*give name (and, if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, address)*] |
| (iii) | Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable: | [●] |
| (iv) | Date for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable: | [●] |

| | | |
|---|---|---|
| (v) | Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: | [●] |
| (vi) | Minimum Final Redemption Amount: | [●] per [Calculation Amount/*specify other*/ see Appendix] |
| (vii) | Maximum Final Redemption Amount: | [●] per [Calculation Amount/*specify other*/ see Appendix] |

23. **Early Redemption Amount**

| | |
|---|---|
| Early Redemption Amount(s) of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in the Conditions): | [Not Applicable (*if both the Early Redemption Amount (Tax) and the Early Termination Amount are the principal amount of the Notes/specify the Early Redemption Amount (Tax) and/or the Early Termination Amount if different from the principal amount of the Notes*)/[●] per Calculation Amount/*specify other*/see Appendix] |

**GENERAL PROVISIONS APPLICABLE TO THE NOTES**

| | | |
|---|---|---|
| 24. | Form of Notes: | **Bearer Notes:**<br><br>[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note.]<br><br>[Temporary Global Note exchangeable for Definitive Notes on [●] days' notice.]<br><br>[Permanent Global Note exchangeable for Definitive Notes on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note].<br><br>*(N.B. In relation to any issue of Notes which are expressed in this paragraph 24 to be "Permanent Global Note exchangeable for Definitive Notes" in circumstances other than "in the limited circumstances specified in the Permanent Global Note", such Notes may only be issued in denominations equal to, or greater than, EUR50,000 (or equivalent) and integral multiples thereof.)*<br><br>[**Registered Notes** [*specify details*]] |
| 25. | Additional Financial Centre(s) or other special provisions relating to Payment Dates: | [Not Applicable/*give details. Note that this item relates to the date and place of* |

| | | |
|---|---|---|
| | | *payment, and not interest period end dates, to which items 15(ii), 16(vi) and 18(x) relate*] |
| 26. | Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): | [Yes/No. *If yes, give details]* |
| 27. | Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: | [Not Applicable/*give details*] |
| 28. | Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made: | [Not Applicable/*give details*] |
| 29. | Redenomination, renominalisation and reconventioning provisions: | [Not Applicable/The provisions annexed to these Final Terms apply] |
| 30. | [Consolidation provisions: | [Not Applicable/The provisions [in Condition 19 (*Further Issues*)] [annexed to these Final Terms] apply]] |
| 31. | Other terms or special conditions: | [Not Applicable/*give details*]<br>*(When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)* |

**DISTRIBUTION**

| | | |
|---|---|---|
| 32. | (i) If syndicated, names of Managers: | [Not Applicable/*give names*]<br>(*If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis.*) |
| | (ii) Date of [Subscription] Agreement: | [●]<br>(*The above is only relevant if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies*) |
| | (iii) Stabilising Managers (if any): | [Not Applicable/*give name*] |
| 33. | If non-syndicated, name of Dealer: | [Not Applicable/*give name*] |

| | |
|---|---|
| 34. U.S. Selling Restrictions: | [Reg. S Compliance Category];<br>(*In the case of Bearer Notes*) – [TEFRA C/ TEFRA D/ TEFRA not applicable]<br>(*In the case of Registered Notes*) – Not Applicable |
| 35. Additional selling restrictions: | [Not Applicable/*give details*] |

**PURPOSE OF FINAL TERMS**

These Final Terms comprise the final terms required for the Notes described herein to be admitted to trading on the London Stock Exchange-Regulated Market and to listing on the Official List of the FSA pursuant to the U.S.$2,000,000,000 Euro Medium Term Note Programme of Kuwait Projects Co. (Cayman) guaranteed by Kuwait Projects Company (Holding) K.S.C. (Closed).

**RESPONSIBILITY**

The Issuer and the Guarantor accept responsibility for the information contained in these Final Terms. [[*Relevant third party information, for example in compliance with Annex XII to the Prospectus Directive Regulation in relation to an index or its component*] has been extracted from [*specify source*]. Each of the Issuer and the Guarantor confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced inaccurate or misleading. ]

Signed on behalf of the Issuer:

By: ..........................................

Duly authorised

Signed on behalf of the Guarantor:

By: ............................................

Duly authorised

## PART B - OTHER INFORMATION

1. **LISTING**

| | |
|---|---|
| (i) Listing and Admission to trading: | [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [●] and listing on [●] with effect from [●].] [Not Applicable.] (*Where documenting a fungible issue need to indicate that original Notes are already admitted to trading.*) |
| (ii) Estimate of total expenses related to admission to trading: | [●]. |

2. **RATINGS**

| | |
|---|---|
| Ratings: | The Notes to be issued have been rated:<br><br>[S & P: [●]]<br>[[Other]: [●]]<br><br>(*The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*) |

3. **[INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]**

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

"Save as discussed in ["Subscription and Sale"], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer."]

*[(When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]*

[4. **REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**

| | |
|---|---|
| (i) Reasons for the offer | [*specify*] |
| [(ii)] Estimated net proceeds: | [●]. |

| | |
|---|---|
| [(iii)] Estimated total expenses: | [●]. *[Include breakdown of expenses.]*<br>*(N.B.: Delete unless the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies in which case (i) above is required where the reasons for the offer are different from making profit and/or hedging certain risks regardless of the minimum denomination of the securities and where this is the case disclosure of net proceeds and total expenses at (ii) and (iii) above are also required.)* |

5. [***Fixed Rate Notes Only* - YIELD**

| | |
|---|---|
| Indication of yield: | [●].<br>The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.] |

6. **[*INDEX-LINKED OR OTHER VARIABLE-LINKED NOTES ONLY* - PERFORMANCE OF INDEX/FORMULA/OTHER VARIABLE AND OTHER INFORMATION CONCERNING THE UNDERLYING**

*Need to include details of where past and future performance and volatility of the index/ formula/other variable can be obtained. Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information. Include other information concerning the underlying required by Paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.]*

*[(When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]*

The Issuer [intends to provide post-issuance information [*specify what information will be reported and where it can be obtained*]] [does not intend to provide post-issuance information].

7. **[*Dual Currency Notes Only* - PERFORMANCE OF RATE[S] OF EXCHANGE**

*Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained.*]

*[(When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]*

*(N.B. This paragraph only applies if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)*

8. **OPERATIONAL INFORMATION**

| | |
|---|---|
| ISIN Code: | [●] |
| Common Code: | [●] |

| | |
|---|---|
| Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking Societe Anonyme and the relevant identification number(s): | [Not Applicable/*give name(s) and number(s)*] |
| Delivery: | Delivery [against/free of] payment |
| Names and addresses of additional Paying Agent(s) (if any): | [●] |

# SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

## Clearing System Accountholders

In relation to any Tranche of Notes represented by a Global Note or a Global Note Certificate, references in the Terms and Conditions of the Notes to "Noteholder" are references to the bearer of the relevant Global Note or registered holder of a Global Note Certificate which, for so long as the Global Note or Global Note Certificate is held by, or as the case may be, registered in the name of a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary.

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note (each an "**Accountholder**") must look solely to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Issuer or the Guarantor to the bearer of such Global Note and in relation to all other rights arising under the Global Note. The extent to which, and the manner in which, Accountholders may exercise any rights arising under the Global Note will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by the Global Note, Accountholders shall have no claim directly against the Issuer or the Guarantor in respect of payments due under the Notes and such obligations of the Issuer and the Guarantor will be discharged by payment to the bearer of the Global Note.

## Exchange of Temporary Global Notes

Whenever any interest in a Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure:

(a) in the case of first exchange, the prompt delivery (free of charge to the bearer) of such Permanent Global Note, duly authenticated, to the bearer of the Temporary Global Note; or

(b) in the case of any subsequent exchange, an increase in the principal amount of such Permanent Global Note in accordance with its terms,

in each case in an aggregate principal amount equal to the aggregate of the principal amounts specified in the certificates issued by Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and received by the Principal Paying Agent against presentation and (in the case of final exchange) surrender of the Temporary Global Note at the Specified Office of the Principal Paying Agent within 7 days of the bearer requesting such exchange.

Whenever a Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note at the Specified Office of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

If:

(a) a Permanent Global Note has not been delivered or the principal amount thereof increased by 5.00 p.m. (London time) on the seventh day after the bearer of a Temporary Global Note has requested exchange of an interest in the Temporary Global Note for an interest in a Permanent Global Note; or

(b) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer of a Temporary Global Note has requested exchange of the Temporary Global Note for Definitive Notes; or

(c) a Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of a Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Temporary Global Note in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver a Permanent Global Note or increase the principal amount thereof or deliver Definitive Notes, as the case may be) will become void at 5.00 p.m. (London time) on such seventh day (in the case of (a) above) or at 5.00 p.m. (London time) on such thirtieth day (in the case of (b) above) or at 5.00 p.m. (London time) on such due date (in the case of (c) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under the Trust Deed). Under the Trust Deed, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Temporary Global Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Temporary Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/ or Clearstream, Luxembourg and/or any other relevant clearing system.

**Exchange of Permanent Global Notes and Global Note Certificates**

Whenever a Permanent Global Note or Global Note Certificate, is to be exchanged for Definitive Notes, or as the case may be Individual Note Certificates the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes and with Coupons and Talons attached (if so specified in the relevant Final Terms) duly authenticated in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note or the registered holder of a Global Note Certificate at the Specified Office of the Principal Paying Agent or as the case may be Register within 30 days of the bearer requesting such exchange.

If:

(a) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer of a Permanent Global Note has duly requested exchange of the Permanent Global Note for Definitive Notes; or

(b) a Permanent Global Note (or any part of it) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Permanent Global Note in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Trust Deed). Under the Trust Deed, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Permanent Global Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

**Exchange of Global Note Certificates**

Whenever a Global Note Certificate is to be exchanged for Individual Note Certificates, the Issuer shall procure that Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the holder of the Global Note Certificate to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note Certificate at the specified office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If:

(a) Individual Note Certificates have not been delivered by 5.00 p.m. (London time) on the thirtieth day after they are due to be issued and delivered in accordance with the terms of the Global Note Certificate; or

(b) any of the Notes represented by a Global Note Certificate (or any part of it) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the holder of the Global Note Certificate in accordance with the terms of the Global Note Certificate on the due date for payment,

then the Global Note Certificate (including the obligation to deliver Individual Note Certificates) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the holder of the Global Note Certificate will have no further rights thereunder (but without prejudice to the rights which the holder of the Global Note Certificate or others may have under the Deed of Covenant. Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note Certificate will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Global Note Certificate became void, they had been the holders of Individual Note Certificates in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

**Conditions applicable to Global Notes**

Each Global Note and Global Note Certificate will contain provisions which modify the Terms and Conditions of the Notes as they apply to such Global Note or Global Note Certificate. The following is a summary of certain of those provisions:

*Payments:* All payments in respect of the Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note at the Specified Office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the Issuer shall procure that the same is noted in a schedule thereto.

*Exercise of put option:* In order to exercise the option contained in Condition 10(e) (*Redemption at the option of Noteholders*) the bearer of the Permanent Global Note or the registered holder of a Global Note Certificate must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Principal Paying Agent or, as the case may be, the Registrar specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

*Partial exercise of call option:* In connection with an exercise of the option contained in Condition 10(c) (*Redemption at the option of the Issuer*) in relation to some only of the Notes, the Permanent Global Note may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions.

*Notices:* Notwithstanding Condition 20 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) or evidenced by a Global Note Certificate and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with or the registered holder of a Global Note Certificate is a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 20 (*Notices*) on the date of delivery to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

## DESCRIPTION OF THE ISSUER

### GENERAL

The Issuer was incorporated on 7 March 2006 under the Companies Law (2004 Revision) of the Cayman Islands as an exempted company with limited liability (with registration number WK-163693). The registered office of the Issuer is Walkers SPV Limited, Walker House, 87, Mary Street, George Town, Grand Cayman, KYI – 9002, Cayman Islands, Tel. +345 949 3727. The authorised share capital of the Issuer is U.S.$ 50,000 divided into 50,000 ordinary shares of U.S.$ 1.00 each, of which one share is issued and fully paid and held by the Guarantor.

### BUSINESS

The Issuer is a special purpose vehicle to be used as Issuer of the Notes. The objects for which the Issuer is established are, pursuant to its Memorandum of Association, unrestricted and the Issuer has full power and authority to carry out any object not prohibited by any law as provided by Section 7(4) of the Companies Law (2004 Revision).

All funds raised by the Issuer are on-lent to the Guarantor and the Issuer is therefore dependent on repayment of principal and interest from the Guarantor for the purposes of meeting its obligations under the Notes.

### DIRECTORS

The Directors of the Issuer are as follows:

| **Name** | **Function** |
|---|---|
| Sheikh Hamad Sabah Al-Ahmad Al-Sabah | Director |
| Sheikh Abdullah Nasser Sabah Al-Ahmad Al-Sabah | Director |
| Faisal Hamad Al-Ayyar | Director |
| Abdulla Yacoub Bishara | Director |

The business address of each of the Directors is P.O. Box 23982, Safat 13100, State of Kuwait. Biographies of each of the directors can be found under "Management" below (see page 92 of this Base Prospectus).

There are no potential conflicts of interest between the duties to the Issuer of the persons listed above and their private interests or other duties.

# DESCRIPTION OF THE GUARANTOR

## INTRODUCTION

### Incorporation

Kuwait Investment Projects Company K.S.C. (Closed) was incorporated as a closed shareholding company on 2 August 1975 under Article 94 of the Kuwaiti Commercial Companies Code, Law No. 15 1960, as amended (the "**Companies Law**"). It was registered under commercial registration number 23118 on 15 November 1979. On 29 September 1999, it changed its structure to that of a holding company and amended its name to Kuwait Projects Company Holding K.S.C. (Closed) (hereinafter referred to as the "**Parent Company**" or the "**Guarantor**").

### Registered Office

The Guarantor's registered office is P.O. Box 23982, Safat 13100, State of Kuwait, Tel. +965 805 885.

### Listing

The Guarantor's shares are listed on the Kuwait Stock Exchange.

At close of the Kuwait Stock Exchange on 3 April 2008, the Guarantor's share price was KD1.080 (U.S.$ 4.06[1]) per share giving it a market capitalisation of KD1,246,949,391.60 (U.S.$ 4.68 billion). The Guarantor's shares are among the most actively traded shares on the Kuwait Stock Exchange and represented 2.0 per cent. of the total market volume as of 31 December 2007 as reported by Bloomberg.[2]

## PRINCIPAL SHAREHOLDERS

### Authorised and Paid Up Capital

As of 31 December 2007, the Guarantor's authorised, issued and paid-up capital was KD104.9 million (U.S.$ 382.1 million[1]) consisting of 1,049,620,700 shares of KD0.100 (U.S.$ 0.364[1]) each. On 25 March 2008, a bonus issue of shares of 10 per cent. of the issued and paid up share capital was declared. Upon completion of the required formalities the authorised capital of the Guarantor will consist of 1,154,582,770 shares and the market capitalisation of the Guarantor will amount to approximately KD1,246,949,390.

### Ownership

The Guarantor's principal shareholder is Al Futtooh Holding Company K.S.C. (Closed) ("**AFI**"), a Kuwaiti holding company, with a direct holding of 44.3 per cent. The remainder of the shares is primarily held by financial institutions, equity funds, high net worth individuals and retail investors.

AFI was incorporated as Al Futtooh Investment Company W.L.L., a private Kuwaiti investment company, and transformed to a Kuwaiti shareholding company on 7 February 2008 under the Companies Law. The change in the corporate structure of AFI does not impact its holding in the Guarantor.

The table below sets out the percentage holdings of the Guarantor's shareholders as at 23 March 2008:

| | Per cent. Holding |
|---|---|
| Al Futtooh Holding Company K.S.C. (Closed) | 44.3 |
| Investment Companies | 31.9 |
| Retail Investors | 7.7 |
| High Net Worth Individuals | 7.2 |
| Investment Funds | 6.2 |
| Treasury Shares | 2.7 |

1 All figures in KD as of 3 April 2008 and as of 31 December 2007 have been converted into U.S.$ at the exchange rates prevailing on those dates, that is (U.S.$:KD =1:0.26620) as of 3 April 2008 and (U.S.$:KD =1:0.27455) as of 31 December 2007 respectively

The Kipco share price as of 3 April 2008 takes into account the cash dividend declared on 25 March 2008.

2 This information has been accurately reproduced and, as far as the Guarantor is aware and is able to ascertain from the information published by Bloomberg, no facts have been omitted which would render the information inaccurate or misleading.

## HISTORY

The Guarantor acquired shares in United Gulf Bank B.S.C. ("**United Gulf Bank**" or "**UGB**") in 1988. As of 31 December 2007, the effective interest held by the Guarantor and its subsidiaries (the "**Group**") in UGB was 88.0 per cent. The privatisation process initiated by the State of Kuwait in the early nineties enabled the Guarantor to pursue its expansion strategy in the financial services sector. The Guarantor acquired a significant shareholding in Burgan Bank S.A.K. ("**Burgan Bank**") in 1995 (as of 31 December 2007, the Group's effective interest in Burgan Bank was 51.0 per cent.) and Gulf Insurance Company K.S.C. ("**Gulf Insurance Company**" or "**GIC**") in 1996 (as of 31 December 2007, the Group's effective interest in GIC was 68.0 per cent.). In addition, the Guarantor built a portfolio of operating companies in the real estate, industrial and services sectors. As part of its strategy to diversify into the media and telecommunication sector, the Guarantor established Gulf DTH LDC ("**Gulf DTH (Showtime)**"), a joint venture with Viacom Inc. in 1995 (as of 31 December 2007, the Group's effective interest in the joint venture was 78.0 per cent). During 1999-2001, the Guarantor acquired a 17.0 per cent shareholding as a founding investor in a telecommunication company, National Mobile Telecommunication Company K.S.C. ("**NMTC**"). To finance some of these acquisitions, in 1996, the Guarantor increased its share capital with a capital injection of U.S.$ 161.7 million through a rights issue of shares. Following a Group-wide restructuring in 2001, the Guarantor shifted its focus primarily to the financial services and media and telecommunication sectors. It realigned some of the businesses under its Principal Companies (as defined in "**Group Structure**" below) and divested non-principal and/or mature businesses. In March 2007, a Guarantor-led consortium sold its controlling stake in NMTC to a subsidiary of Qatar Telecom.

## OPERATING ENVIRONMENT

The Group and its associates operate in the MENA region, a region characterised by a growing population, varying levels of per capita income and relatively nascent markets presenting significant opportunities.

The majority of the assets of the Group and its associates are located in the Cooperation Council for the Arab States of the Gulf ("**GCC**") economies, which include A-rated stable economies. These economies offer a market for premium goods and services deriving from their high per capita income and favourable demographic trends. A number of these countries are major oil producers and currently are benefiting from the rise in oil prices.

The following table sets out the key socio-economic indicators for the GCC economies:

| Country | Population (in millions) | Population Growth Rate (per cent. per annum) | GDP Growth Rate (per cent. per annum) | Per Capita Income (PPP in U.S.$) | Oil Reserves (Billion barrels) |
|---|---|---|---|---|---|
| Bahrain | 0.7 | 1.6 | 7.6 | 24,067.0 | 0.1 |
| Kuwait | 2.4 | 3.4 | 5.0 | 20,886.0 | 102.0 |
| Oman | 3.1 | 3.4 | 5.9 | 18,498.0 | 6.0 |
| Qatar | 0.9 | 2.8 | 10.3 | 36,632.0 | 15.0* |
| Saudi Arabia | 27.0 | 2.5 | 4.3 | 16,505.0 | 264.0 |
| UAE | 4.3 | 4.7 | 9.4 | 34,109.0 | 98.0 |

* Also have large gas reserves.

*Sources:*

The above figures have been extracted from data published by IDB Data Access, a database of the U.S. Census bureau, on 6 November 2007 (Population 2006 and the population growth rate has been calculated as the Compounded annual growth rate for the period 2001 to 2006) and World Economic Outlook, a database of the International Monetary Fund, in October 2007 (GDP Growth Rate and Per Capita Income). The above information has been accurately reproduced and, as far as the Guarantor is aware and is able to ascertain from the information published by IBD Data Access, no facts have been omitted which would render the reproduced information inaccurate or misleading.

In addition to the GCC economies, the Group and its associates also have investments in other Middle Eastern (non-GCC) and North African economies. These economies are characterised by a large population base and offer mass markets with low penetration.

The table below sets out the key socio-economic indicators for the other Middle Eastern (non-GCC) and North African economies:

| Country | Population (in millions) | Population Growth Rate (per cent. per annum) | GDP Growth Rate (per cent. per annum) | Per Capita Income (PPP in U.S.$) |
|---|---|---|---|---|
| Algeria | 32.9 | 1.3 | 3.6 | 7,747.0 |
| Egypt | 78.9 | 1.9 | 6.8 | 4,895.0 |
| Jordan | 5.9 | 2.8 | 6.3 | 5,611.0 |
| Lebanon | 3.9 | 1.3 | 0.0 | 5,775.0 |
| Syria | 18.9 | 2.4 | 4.4 | 4,324.0 |
| Tunisia | 10.2 | 1.0 | 5.4 | 8,975.0 |

*Sources:*

The above figures have been extracted from data published by IDB Data Access, a database of the U.S. Census bureau, on 6 November 2007 (Population 2006 and the population growth rate has been calculated as the Compounded annual growth rate for the period 2001 to 2006) and World Economic Outlook, a database of the International Monetary Fund, in October 2007 (GDP Growth Rate and Per Capita Income). The above information has been accurately reproduced and, as far as the Guarantor is aware and is able to ascertain from the information published by IBD Data Access, no facts have been omitted which would render the reproduced information inaccurate or misleading.

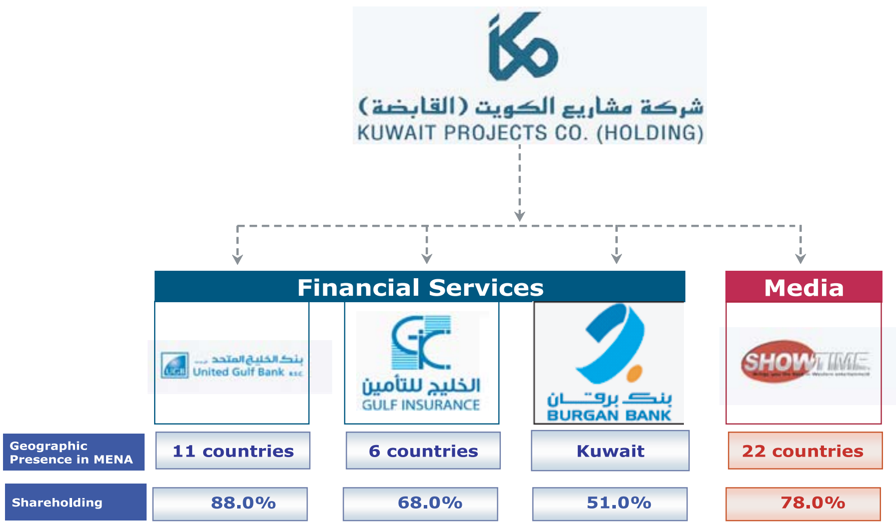
As of 31 December 2007, nearly 60 per cent. of the Guarantor's assets were concentrated in Kuwait. When it comes to matters such as accounting, auditing an reporting standards, Kuwait follows International Financial Reporting Standards ("**IFRS**") (with a few exceptions, such as the treatment of the zakat). In addition Kuwait was the first country in the Gulf region to adopt and implement Basel II.

## GROUP STRUCTURE

The Guarantor, directly or indirectly, is the ultimate holding company of 50 subsidiaries and associates (companies in which the Group holds more than 20 per cent. of the shares) operating in several business units. Its assets substantially comprise shares in the Group companies. The Guarantor is accordingly dependent on revenues received from other members of the Group.

The principal companies of the Guarantor (the "**Principal Companies**") are in the financial services and media sectors. The remaining companies of the Group and its associates operate in the real estate, food and beverages, healthcare and other sectors and are primarily controlled by the Principal Companies in the financial services sector.

The chart below sets out the Guarantor's Principal Companies:



The table below sets out the Guarantor's consolidated effective interest in its Principal Companies as of 31 December 2007:

| Company | Jurisdiction of Incorporation | Status | Year of initial investment | Group's Consolidated effective interest* (in per cent.) | Board representation** |
|---|---|---|---|---|---|
| United Gulf Bank B.S.C. ....... | Bahrain | Subsidiary | 1988 | 88.0 | 5 of 6 |
| Gulf Insurance Company K.S.C. ......................... | Kuwait | Subsidiary | 1996 | 68.0 | 5 of 9 |
| Burgan Bank S.A.K. .......... | Kuwait | Subsidiary | 1995 | 51.0 | 7 of 7 |
| Gulf DTH LDC (Showtime) .... | Cayman Islands | Subsidiary | 1995 | 78.0 | 3 of 5 |

* Effective interest is calculated by dividing the number of shares held by the Group by the paid up share capital after netting of treasury shares

** Number of the Group nominated directors on the Board of the Principal Companies

## BUSINESS OVERVIEW AND STRATEGY

### Principal Business Activities

The principal business activities of the companies in which the Guarantor has currently invested are as follows:

- **Universal banking:** United Gulf Bank invests in and provides asset management, corporate finance, private equity, real estate and treasury services to companies in the Group and its associates and to external clients. Its distribution network is growing across the MENA Region. It also has significant investments directly or through its subsidiaries in companies engaged in commercial banking, real estate and industrial activities.

- **Insurance:** Gulf Insurance Company provides life, health, motor, property, casualty, marine and aviation insurance in Kuwait, Saudi Arabia, Lebanon, Egypt, Syria and Bahrain.

- **Commercial banking:** Burgan Bank is a full service Kuwaiti bank providing consumer banking, corporate banking, private and international banking, treasury and electronic banking services.

- **Media:** Gulf DTH (Showtime) provides satellite pay TV services in the MENA region with operations in 22 countries.

### Regional presence

The Group and its associates have a presence in the following countries in the MENA region:


| Company | Present in |
|---|---|
| United Gulf Bank | Bahrain, Kuwait, Jordan, Algeria, Tunisia, Iraq, UAE, Qatar, Syria, Cyprus, Libya, and Palestine |
| Gulf Insurance Company | Kuwait, Saudi Arabia, Lebanon, Egypt, Syria and Bahrain |
| Burgan Bank | Kuwait |
| Gulf DTH (Showtime) | Operations in 22 countries in the region |

### Business Strategy

The key objective of the strategy of the Guarantor is to invest in, and build a portfolio of, companies that produce sustainable and predictable cashflow. The Guarantor provides strategic direction to these companies and ensures coherence at the Group level. The companies are expected to focus on building operating income streams through multi-year business cycles.

The key facets of the Group strategy are:

- **Focus on the MENA Region:** The Guarantor primarily invests in the MENA Region with selective investments in other markets to achieve increased global diversification. Historically, the Guarantor has sought to identify and invest in sectors of growth and in economies with favourable socio-demographic characteristics. The Guarantor plans to increase its presence in North Africa.

- **Diversified Investments:** The Guarantor aims to diversify its investments in terms of sectors of presence, geographies and stage of business cycle. The Guarantor actively pursues a roll-up strategy to introduce new products and services in the region. The Guarantor has the first mover advantage in these sectors and is able to achieve accelerated growth in market share and profitability. Investments in green field ventures are typically in partnership with global majors and may involve collaboration with leading consultants at the planning and inception stage.

- **Management Control:** The Guarantor typically acquires controlling or significant stakes in its Principal Companies and majority representation on the Board of Directors. By virtue of a controlling position, the Guarantor provides strategic direction to these companies and establishes clear financial targets.

- **Target Return:** The target for each operating business is to meet the 20 per cent. growth criteria within five years of their establishment or acquisition by implementing a strategy of revenue growth, regional expansion, acquisitions and cost efficiency. This strategy comprises:
  - achieving year-on-year revenue growth of 20 per cent. or revenue growth that is at least 2-3 times the growth in real GDP in the country of operation; and
  - achieving 20 per cent. return on equity within five years of commencement of operations.
- **Investment Horizon:** The Guarantor has a medium to long term horizon for all its investments. It typically looks at an investment horizon of not less than 5 years wherein the Guarantor invests at a stage when it feels that there is significant potential for value creation, grows and establishes a business and typically exits at a time when it believes that the company is in a stable/mature phase.
- **Exit Strategy:** The investment portfolio is continually reviewed to identify investments that are either mature, non-core (do not complement the overall strategy of the Guarantor) or investments that can be realised at a premium to their intrinsic valuation. Partial or full stake sales are carried out from time to time to benefit from favourable market sentiment. In the past exit mechanisms have been listings on the local or regional exchanges of KIPCO Asset Management Company ("**KAMCO**") and Saudi Dairy & Foodstuff Company ("**SADAFCO**") or strategic stake sales of NMTC, United Fisheries of Kuwait ("**UFK**") and United Projects Aviation Company ("**UPAC**").

**NMTC Disposal: Impact on Business Strategy**

In March 2007 NMTC was sold by a Guarantor-led consortium to QTel International Investments L.L.C. (a subsidiary of Qatar Telecom Q.S.C.) for a total sale value of KD1.1 billion (U.S.$ 3.7 billion) of which KD855.6 million (U.S.$ 2.9 billion) was realised by the Guarantor.

The NMTC sale transaction has resulted in reduced leverage, strengthened liquidity position of the Guarantor and has provided the Guarantor with significant financial flexibility.

Following the sale of NMTC, the Guarantor has increased its focus on the financial services sector by increasing its stake in principal companies in the financial services sector such as UGB, GIC and Burgan Bank. As a result of the increase in stake in Burgan Bank to 51.0 per cent., the Guarantor exercises control over Burgan Bank. Burgan Bank is now accounted as a subsidiary of the Guarantor and has been consolidated in the accounts of the Guarantor from the date of exercise of control (2 June 2007).

Going forward, the Guarantor may contribute to strengthening the capital base of these companies. This would depend on its evaluation of capital requirements to enable expansion plans in the region, achieve scalability and launch of new products. The Group also plans to enter new businesses aimed at introducing new Islamic and conventional products in the financial services sector.

## FINANCIAL SUMMARY OF THE GROUP

### General

The financial information contained in this section has been extracted from the Group's audited consolidated financial statements for the two financial years ended 31 December 2007. The consolidated financial statements are set out in full at pages F-2 to F-XX.

### Consolidated Income Statement

In 2007, the consolidated revenues of the Group were KD884.7 million compared to KD228.3 million in 2006, an increase of 287.6 per cent. The increase was primarily on account of an increase of KD497.0 million in the Group's revenues from investment income (mainly due to the revenue generated by the sale of the investment in NMTC). Excluding the effect of the sale of NMTC, the revenues have grown by 71.7 per cent. in 2007.

Consolidated profit for the year ended 31 December 2007 was KD575.8 million, compared to KD65.5 million in 2006, representing an increase of 779.3 per cent. The NMTC sale transaction contributed KD492.7 million to the Group's consolidated net profit for the year ended 31 December 2007. Excluding profit from the sale of NMTC, net profit increased by 26.8 per cent. from KD65.5 million in 2006 to KD83.0 million in 2007. Profit for the year ended 31 December 2007 attributable to equity holders of the Guarantor increased by 941.9 per cent. to KD521.7 million compared to KD50.1 million in 2006.

The following table sets out extracts from the Group's consolidated income statements for the two financial years ended 31 December 2007:

| | **2006** | **2007** |
|---|---|---|
| | *KD million* | |
| Total Revenues | 228.3 | 884.7 |
| Investment income | 57.8 | 554.8 |
| Share of profit of associates | 57.3 | 52.7 |
| Total Expenses | 162.8 | 294.3 |
| General and administrative expenses | 49.4 | 111.2 |
| Interest expense | 43.9 | 108.0 |
| Profit for the Year | 65.5 | 575.8 |
| Attributable to equity holders of the Guarantor | 50.1 | 521.7 |
| Minority interest | 15.4 | 54.1 |
| Earnings per share attributable to equity holders of the Guarantor (in fils) | 48.5 | 513.6 |

The relative predictability of the earnings of companies in the financial services sector can be attributed to organic growth and a strategy of regional expansion through acquisitions and/or establishment of green field operations. The strong deposit base, quality of assets and the prudent provisioning strategies adopted by these companies make them well positioned to capitalise on these opportunities.

In the media sector, there is a high demand for services and exclusive content. The business model is such that once break-even is achieved, revenue growth is not accompanied by a proportionate increase in fixed costs, resulting in a relatively sharp growth in profit margins.

The following table sets out the Group's consolidated revenues broken down by segments for the two financial years ended 31 December 2007:

| | Segment operating revenues | |
| --- | --- | --- |
| | 2006 | 2007 |
| | KD million | |
| Investment | 75.8 | 583.3 |
| Banking | 69.9 | 235.1 |
| Insurance | 51.1 | 87.3 |
| Digital Satellite and television services | 39.4 | 44.8 |
| Other | 12.2 | 73.0 |
| Inter-segmental eliminations | (20.1) | (138.8) |
| Total | 228.3 | 884.7 |

The following table sets out the Group's consolidated operating results broken down by segments for the two financial years ended 31 December 2007:

| | Segment results | |
| --- | --- | --- |
| | 2006 | 2007 |
| | KD million | |
| Investment | 51.4 | 536.1 |
| Banking | 34.7 | 105.5 |
| Insurance | 8.7 | 39.1 |
| Digital Satellite and television services | (16.4) | (12.0) |
| Other | 0.9 | 48.0 |
| Inter-segmental eliminations | (13.7) | (125.9) |
| Total | 65.6 | 590.7 |

Investment segment experienced a 10-fold increase in revenue for the year ended 31 December 2007 on account of the NMTC transaction.

**Consolidated Assets**

As of 31 December 2007, the consolidated total assets of the Group stood at KD4.2 billion, an increase of 209.5 per cent. compared to KD1.4 billion in 2006. The increase was primarily due to the consolidation of Burgan Bank as a subsidiary and to a lesser extent due to the sale of the investment in NMTC. Subsequent to the consolidation of Burgan Bank on 2 June 2007, the goodwill pertaining to the investment in Burgan Bank, which was previously included under investment in associates, has been reclassified under goodwill. This has partly accounted for the decrease in investments in associates and increase in goodwill in 2007 as compared to 2006. Investments in associates accounted for 5.9 per cent. of consolidated total assets in 2007. Financial assets available for sale and financial assets at joint value held through income statement (comprising investments in listed and unlisted securities) accounted for 11.1 per cent. of consolidated total assets in 2007. Goodwill relating to subsidiaries represented 6.1 per cent. of consolidated total assets in 2007.

The return on average assets increased from 5.4 per cent. in 2006 to 20.7 per cent. in 2007. Excluding the capital gains from the NMTC transaction, return on average assets for 2007 was at 3.0 per cent.

The following table sets out the Group's consolidated total assets for the two financial years ended 31 December 2007:

| | 2006 | 2007 |
|---|---|---|
| | *KD million* | |
| Total Assets | 1,358.5 | 4,204.4 |
| Financial Assets available for sale | 166.1 | 264.4 |
| Financial Assets at fair value through income statement | 112.9 | 204.3 |
| Investment in associates | 536.1 | 246.4 |
| Goodwill | 142.2 | 255.4 |
| Return on average assets | 5.4 per cent. | 20.7 per cent. |

The following table sets out the Group's consolidated total assets broken down by segments for the two financial years ended 31 December 2007:

| | 2006 | 2007 |
|---|---|---|
| | *KD million* | |
| Investment | 548.5 | 999.0 |
| Banking | 678.7 | 3,572.2 |
| Insurance | 188.7 | 223.0 |
| Digital satellite and television services | 33.1 | 43.2 |
| Other | 96.1 | 55.6 |
| Inter-segmental elimination | (186.5) | (688.5) |
| Total | 1,358.5 | 4,204.4 |

**Consolidated Liabilities and Equity:**

The consolidated total liabilities of the Group increased from KD1.0 billion in 2006 to KD3.3 billion in 2007. This increase in total liabilities was primarily caused by the consolidation of Burgan Bank as a subsidiary of the Group with effect from 2 June 2007. As of 31 December 2007, consolidated total liabilities comprised due to banks and other financial institutions (25.2 per cent. of total liabilities), deposits from customers (49.2 per cent. of total liabilities, loans payable (9.0 per cent. of total liabilities), bonds (2.0 per cent. of total liabilities), medium term notes (6.2 per cent. of total liabilities), and other liabilities (8.5 per cent. of total liabilities).

Equity attributable to the equity holders of the Guarantor increased from KD231.9 million in 2006 to KD663.4 million in 2007. The increase in equity during the year 2007 was primarily on account of net profit of KD521.7 million for 2007.

The following table sets out the Group's consolidated total liabilities and equity for the two financial years ended 31 December 2007:

| | 2006 | 2007 |
|---|---|---|
| | *KD million* | |
| Total Liabilities | 1,032.8 | 3,296.6 |
| Total Equity | 325.7 | 907.8 |
| Equity attributable to equity holders of the Guarantor | 231.9 | 663.4 |
| Minority Interest | 93.9 | 244.4 |

The following table sets out the Group's consolidated liabilities broken down by segments for the two financial years ended 31 December 2007:

| | 2006 | 2007 |
|---|---|---|
| | *KD million* | |
| Investment | 284.7 | 276.8 |
| Banking | 508.3 | 3,005.0 |
| Insurance | 114.7 | 123.4 |
| Digital satellite and television services | 85.5 | 105.0 |
| Other | 89.0 | 14.9 |
| Inter-segmental eliminations | (49.5) | (243.3) |
| Unallocated liabilities | 0.1 | 14.9 |
| Total | 1,032.8 | 3,296.6 |

**UNAUDITED UNCONSOLIDATED ADDITIONAL INFORMATION RELATING TO THE GUARANTOR**

Pursuant to a change in International Financial Reporting Standards ("**IFRS**") IAS 27 subparagraph BC28, the Guarantor does not produce Parent Company standalone audited financial statements. The additional information contained in this section is therefore based on the Guarantor's un-audited unconsolidated Parent Company accounts for the two financial years ended 31 December 2007.

The information has been included to illustrate the Guarantor's unconsolidated position in relation to the market value of its listed Principal Companies (UGB, GIC, Burgan Bank), its asset coverage ratio and its dividend coverage ratio.

**Market Value of the Guarantor's holding in listed Principal Companies:**

The following table sets out the market value of the Guarantor's holding in each of its listed Principal Companies as of 31 December 2006 and 31 December 2007, calculated by multiplying the number of shares owned by the Guarantor by the last bid price of each share quoted on the Kuwait Stock Exchange on the last trading day of the specified period:

| | Dec 2006 | | | Dec 2007 | | |
|---|---|---|---|---|---|---|
| **Company Name** | **No. of Shares Owned (Millions)** | **Price on last trading day (KD)** | **Market Value (KD Millions)** | **No. of Shares Owned (Millions)** | **Price on last trading day (KD)** | **Market Value (KD Millions)** |
| UGB | 579.6 | 0.295 | 171.0 | 688.3 | 0.460 | 316.6 |
| GIC | 39.4 | 0.550 | 21.7 | 71.6 | 0.850 | 60.9 |
| BB | 300.4 | 0.710 | 213.3 | 435.2 | 1.000 | 435.2 |
| NMTC* | 104.7 | 2.500 | 261.8 | – | – | – |

* On 1 March 2007, the Guarantor sold its entire stake in NMTC at a price of KD4.6 per share, which was at a 48 per cent premium to the closing price as of 1 March 2007 and at a 84 per cent. premium to the closing price as on 31 December 2006. The Guarantor realised approximately KD855.6 million from the sale.

As of 31 December 2007, the total market value of the Guarantor's holdings in its listed Principal Companies was KD812.7 million compared to KD667.8 million in 2006, an increase of 21.7 per cent. Despite the sale of NMTC, the increase in market value can be attributed to the increase in stakes in UGB, GIC and Burgan Bank along with the increase in their share price.

### Guarantor's asset coverage ratio

As of 31 December 2007, the Guarantor's unconsolidated debt was KD265.9 million. The Guarantor has an off-balance sheet contingent liability of KD51.6 million relating to its guaranteeing the debt of a subsidiary. The Guarantor follows an active liability management policy focused on managing debt mix, currency, maturity and cost of funds. All of the Guarantor's unconsolidated debt is unsecured.

The Guarantor has adopted a strategy of refinancing/rolling-over maturing bonds through the issue of new bonds or syndicated loans. In 2003, the Guarantor became the first company to issue Kuwait Interbank Offered Rate (KIBOR) based floating rate bonds.

The table below sets out the asset coverage ratio (i.e. the ratio of market value of listed Principal Companies to total loans and bonds outstanding) as of 31 December 2006 and 31 December 2007 respectively. The high ratio can be attributed to the significant increase in cash and cash equivalents from sale of NMTC. The Guarantor may increase its debt (including the issuance of debt securities) in the future.

| | 2006 | 2007 |
|---|---|---|
| | *KD million* | |
| Medium Term Notes | 176.3 | 175.5 |
| Loans Payable | 44.8 | 35.5 |
| Bonds | 55.0 | 55.0 |
| Total Debt | 276.1 | 265.9 |
| Cash and cash equivalents | 20.9 | 260.2 |
| Net Debt | 255.2 | 5.8 |
| Market value of listed Principal Companies | 667.8 | 812.7 |
| Asset coverage ratio | 2.6 | 140.8 |

### Guarantor's dividend coverage ratio

The primary source of the Guarantor's cash inflow is the dividend stream from the Principal Companies. The blended dividend payout ratios (i.e. aggregated proposed dividends of listed Principal Companies divided by aggregated net income of listed Principal Companies) in 2006 was 70.0 per cent. and in 2007 was 57.0 per cent. The Guarantor's majority holding in each of its Principal Companies, control of the Board of Directors and, to a certain extent, management puts it in a position to control these dividend policies. Subject to legal and regulatory requirements, the Guarantor's influence is sufficient to ensure that dividend payout policies continue at a similar level.

In 2007, following the sale of NMTC, the Guarantor invested a significant proportion of the proceeds in investment grade bonds and deposits thereby generating interest income as an additional source of recurring revenue.

For the year ended 31 December 2007, the Guarantor's share of dividends received from its Principal Companies was KD31.8 million. Net interest payments (interest paid amounted to KD18.0 million and interest income amounted to KD14.4 million) amounted to KD3.6 million. This translated into a dividend coverage ratio (i.e. ratio of share of dividends received from the listed Principal Companies to interest payments) of 8.8:1. The high ratio can be attributed to the increase in interest income from the investment of the proceeds from the sale of NMTC. The Guarantor may increase its debt (including the issuance of debt securities) in the future.

The following table sets out the dividend coverage ratio for the two financial years ended 31 December 2007:

| | 2006 | 2007 |
|---|---|---|
| | *KD million* | |
| Share of dividends received from Principal Companies* | 32.5 | 31.8 |
| Interest Payable | 17.6 | 18.0 |
| Interest Receivable | 2.4 | 14.4 |
| Net Interest payments | 15.2 | 3.6 |
| Dividend coverage ratio | 2.1 | 8.8 |

* Dividends received in the current year pertains to dividends declared for the previous year based on the number of shares held at the date of record of the annual general meeting of the shareholders

## PRINCIPAL COMPANIES

### United Gulf Bank

United Gulf Bank B.S.C. is a joint stock company incorporated in the Kingdom of Bahrain in 1980, under commercial registration number 10550, and its shares are dually listed on the Bahrain and Kuwait Stock Exchanges. The principal activities of UGB and its subsidiaries comprise investment and commercial banking, treasury operations and other investment related activities.

The address of the bank's registered office is UGB Tower, Diplomatic Area, P.O. Box 5964, Manama, Kingdom of Bahrain.

UGB was registered under an investment banking license issued by the Central Bank of Bahrain (earlier known as Bahrain Monetary Agency (BMA)). On 1 July 2006, the Central Bank of Bahrain implemented a new regulatory and supervisory framework for licensing banks in the Kingdom of Bahrain. Under the new framework, UGB is licensed as a conventional wholesale bank.

As of 31 December 2007, the Guarantor's direct effective interest in UGB was 84.6 per cent.

UGB operates across the MENA region and it offers its clients an entire range of investment banking services that include asset management, corporate finance and advisory services. In addition, UGB has investments in a portfolio of companies in the financial services and real estate sectors. These investments provide not only a recurring revenue stream but also a platform for offering UGB's services (especially investments in financial services). UGB also has a proprietary portfolio of private equity funds and structured products.

UGB through its subsidiaries KAMCO (72.0 per cent. effective interest as of 31 December 2007), UGB Securities (91.6 per cent. effective interest as of 31 December 2007) and United Gulf Financial Services (88.8 per cent. effective interest as of 31 December 2007), offers asset and wealth management and brokerage services to a diverse base of local, regional and international clients. UGB currently also has ownership interests in five commercial banks:

1. Jordan Kuwait Bank (43.8 per cent. effective interest as of 31 December 2007);
2. Algeria Gulf Bank (82.9 per cent. effective interest as of 31 December 2007);
3. Tunis International Bank (77.0 per cent. effective interest as of 31 December 2007);
4. Syria Gulf Bank (27.5 per cent. effective interest as of 31 December 2007); and
5. Bank of Baghdad (45.0 per cent. effective interest as of 31 December 2007).

The Group's strategy is to expand/deepen and integrate its commercial banking and investment banking networks in the countries where it is present. UGB's commercial banks provide banking services in Jordan, Algeria, Tunisia, Syria, and Iraq.

In line with the Group's strategy of regional expansion, Syria Gulf Bank commenced operations in June 2007. In October 2007, UGB acquired an additional stake in Bank of Baghdad. UGB also signed a 5-year management contract for Bank of Baghdad and Syria Gulf Bank.

During 2007, UGB subscribed for a 44 per cent. equity stake in Royal Capital – Abu Dhabi. Royal Capital – Abu Dhabi is yet to commence commercial operations.

As of the end of trading on 26 March 2008, the last bid price for shares of UGB was KD0.56 (U.S.$ 2.1) per share giving it a market capitalisation of KD456.3 million (U.S.$ 1.7 billion).

#### *Financial Summary*

The financial information set out below has been extracted from UGB's audited consolidated financial statements (which are reported in U.S.$) for the two financial years ended 31 December 2007:

For the years ended 31 December 2006 and 2007:

- Total income in 2007 increased to U.S.$ 441.2 million from U.S.$ 241.8 million in 2006, translating into an annual growth rate of 82.5 per cent. The sharp growth in profitability in 2007 was driven by higher investment income on the back of strong performance of the stock market and the significant gain of U.S.$ 109.4 million following the sale of NMTC and other investments (UPAC and UFK).
- Net profit increased to U.S.$ 268.3 million from U.S.$ 120.0 million in 2006, registering an annual growth of 123.5 per cent. Excluding capital gains from the sale of NMTC and other investments, net profit was U.S.$ 111.5 million.
- As of 31 December 2007, UGB had a total asset base of nearly U.S.$ 2.7 billion, which increased by 13.5 per cent. as compared to 2006. Investment in associates accounted for 29.6 per cent. of total assets as of 31 December 2007.

| | **2006** | **2007** |
|---|---|---|
| | *U.S.$ million* | |
| Total Assets | 2,350.7 | 2,667.6 |
| Total Income | 241.8 | 441.2 |
| Net Profit | 120.0 | 268.3 |
| Income attributable to equity of the parent | 101.5 | 220.9 |
| Earnings per share (in cents) | 12.8 | 27.3 |

***Recent Developments***

UGB announced on 24 March 2008 that it is considering selling some or all of its commercial banking operations. The Guarantor announced on 25 March 2008 that the Group is considering streamlining the structure of its financial services holdings as appropriate. This is expected to be completed by the end of 2008.

**Gulf Insurance Company**

Gulf Insurance Company K.S.C. is a Kuwaiti shareholding company incorporated in the State of Kuwait by Amiri Decree dated 9 April 1962. Its shares are listed on the Kuwait Stock Exchange. GIC is active in all types of insurance, indemnities, compensations and investment of capital and assets in portfolios, within and outside the State of Kuwait.

Kuwaiti insurance companies are regulated by the Ministry of Commerce and Industry.

The address of GIC's registered office is P.O. Box 1040, Safat 13011, State of Kuwait.

GIC was privatised in 1996, following the sale of the State of Kuwait's 82 per cent. shareholding in GIC. The Guarantor had a direct effective interest of 66.9 per cent.

GIC is a leading insurance provider in Kuwait in terms of premium income. GIC issues insurance policies under the broad categories of marine, aviation, property, casualty, life and health insurance.

Having established a presence in Kuwait, GIC has expanded across the MENA region by:

1. Acquiring a 90.0 per cent. stake in Saudi Pearl Insurance Company ("**SPI**") in the Kingdom of Saudi Arabia in 2000 (100.0 per cent. shareholding as of 31 December 2007);
2. Establishing Fajr Al-Gulf by a merger of International Trust Insurance Company SAL (ITI) with Al-Fajr Insurance and Reinsurance Company SAL (Al Fajr) to form Fajr Al-Gulf in 2003 (51.0 per cent. shareholding as of 31 December 2007);
3. Acquiring a 54.0 per cent. stake in Egypt's Arab Misr Insurance Group ("**AMIG**") in February 2005 (85.0 per cent. shareholding as of 31 December 2007);

4. Acquiring a 21.4 per cent. stake in Bahrain Kuwait Insurance Company ("**BKIC**") in December 2005 which was further increased to 50.2 per cent. in 2007 (50.2 per cent. shareholding as of 31 December 2007);

5. Establishing Syrian Kuwait Insurance Company ("**SKIC**") in December 2006 with an initial 44.4 per cent. direct stake. It commenced operations in 2007 (57.2 per cent. direct and indirect shareholding as of 31 December 2007); and

6. Establishing Gulf Life Insurance Company in Kuwait in which it holds an effective interest of 98.6 per cent. as of 31 December 2007.

GIC's underlying strategy is to become a regional market leader by increasing its customer focus and become the single contact for all of the insurance needs of its customers. In addition to existing economies, GIC is focusing on Jordan and North African economies (Algeria, Tunisia, Morocco, etc.) for expansion. GIC has also established a multi-phased plan for its Customer Relationship Management programme directed at gaining insight into customer purchasing behaviour.

The company will also focus on takaful products (insurance products compliant with Islamic Sharia laws) and will look for new distribution channels including bancassurance and new partner banks.

In 2007, GIC received approval from the Ministry of Insurance, Kuwait to establish the Takaful Unit and also received approval from the authorities in Saudi Arabia for the establishment of Buruj Cooperative Insurance Company.

As of the end of trading on 26 March 2008, the last bid price for shares of GIC was KD0.8 (U.S.$ 3.0) per share giving it a market capitalisation of KD135.7 million (U.S.$ 506.5 million).

***Financial Summary:***

The financial information set out below has been extracted from GIC's audited consolidated financial statements for the two financial years ended 31 December 2007.

**For the years ended 31 December 2006 and 2007**

- Gross Premiums Written ("**GPW**") increased from KD70.5 million in 2006 to KD74.1 million in 2007 registering a growth of 5.0 per cent., driven by growth of property segment, life portfolio, consolidation of BKIC accounts (for the last 6 months of 2006) and a significant growth in premiums written by AMIG.

- The retention ratio (ratio of Net Premium Written to GPW) was 52.2 per cent. for the year ending 31 December 2007 as compared to 52.9 per cent. in 2006.

- Net profit increased from KD8.7 million in 2006 to KD39.1 million in 2007, an increase of 350.4 per cent. (of which KD29.9 million relates to the capital gains realised from the sale of the stake in NMTC).

- Total cash and investments increased 15.4 per cent. to KD148.8 million in 2007 from KD128.9 million in 2006.

| | 2006 | 2007 |
|---|---|---|
| | *KD million* | |
| Total Assets | 187.4 | 223.0 |
| Gross Premium | 70.5 | 74.1 |
| Technical Profit | 3.9 | 4.5 |
| Net Profit | 8.7 | 39.1 |
| Profit attributable to the equity of the parent | 8.4 | 37.7 |
| Earnings per share (in fils) | 79.4 | 352.9 |

**Burgan Bank**

Burgan Bank S.A.K. is a public shareholding company incorporated in the State of Kuwait by Amiri Decree dated 27 December 1975 and its shares are listed on the Kuwait Stock Exchange. The bank is regulated by the Central Bank of Kuwait.

The address of the bank's registered office is P.O. Box 5389, Safat 12170, State of Kuwait.

As on 31 December 2007, the Guarantor's direct effective interest in Burgan Bank was 50.6 per cent. Wafra International Investment Company K.S.C. was the only other large shareholder with a holding of 5.7 per cent. In February 2004, the Central Bank of Kuwait imposed limits on the ownership structure of Kuwaiti banks. The maximum limit of an individual holding in a bank was set at 5 per cent. of the bank's capital, unless prior consent is obtained from the Central Bank of Kuwait. This rule, however, is not applicable to shareholdings of government entities and shareholdings existing prior to this law.

Burgan Bank offers a full range of banking services to both retail and commercial customers. The bank currently has a network of 22 branches, 79 ATM machines, 6 K-Net ATM's and 24 kiosks to serve its customer base. In addition to its retail network, Burgan Bank employs two mobile branches that deliver financial services to customers in areas where it does not have a branch. Burgan Bank remains focused on enhancing its profile in the retail segment. The bank continues to invest in increasing its network, both through the addition of new branches and the use of off-site, mobile and electronic channels. Burgan Bank's activities comprise consumer banking, corporate banking, private and international banking, investment banking, treasury and electronic banking services. In 2007, Burgan Bank launched a new brand identity and refurbished its branch network. As of 31 December 2007, Burgan Bank had over 6,000 corporate and over 100,000 retail customers.

Burgan Bank has been realigning and refocusing its business to improve profitability and asset quality. It has already succeeded in reducing the level of non-performing assets and implemented risk management provisions limiting its exposure to risks associated with loans, advances or investments. It is also focusing on liability management by changing the liability mix.

In line with the Group strategy of regional expansion, Burgan Bank is considering expansion into other markets and has established a subsidiary company, Burgan International Holding.

As of end of trading on 26 March 2008, the last bid price for shares of Burgan Bank was KD1.08 (U.S.$ 4.0) per share giving it a market capitalisation of KD1,022.4 million (U.S.$ 3.8 billion).

***Financial Summary:***

The financial information set out below has been extracted from Burgan Bank's audited consolidated financial statements for the two financial years ended 31 December 2007.

**For the years ended 31 December 2006 and 2007**

- Burgan Bank's asset base increased to KD2.8 billion in 2007 from KD2.2 billion in 2006.

- An increased retail focus resulted in an increase in customer deposits, which grew at a rate of 33.2 per cent. from 2006 to 2007 to reach KD1,648.5 million.

- For the year ended 31 December 2007, net interest income decreased by 4.3 per cent. to KD51.1 million.

- In 2007, net income was KD74.8 million. Excluding capital gains of KD23.2 million realised from the sale of investments held in UGB and GIC, net income was KD51.6 million.

| | 2006 | 2007 |
|---|---|---|
| | *KD million* | |
| Total Assets | 2,210.2 | 2,847.5 |
| Loans and Advances to customers | 946.3 | 1,421.1 |
| Operating Income | 87.6 | 105.7 |
| Net Interest Income | 53.4 | 51.1 |
| Net Income | 55.7 | 74.8 |
| Earnings per share (in fils) | 69.9 | 89.4 |

***Recent Developments***

Burgan Bank announced on 25 March 2008 that its board of directors had asked for a set of alternatives to be considered for expansion, including possible acquisitions of a substantial number of shares in a group of licensed banks in the MENA region. The Guarantor announced on 25 March 2008 that the Group is considering streamlining the structure of its financial services holdings as appropriate. This is expected to be completed by the end of 2008.

**Gulf DTH (Showtime)**

Gulf DTH LDC was incorporated in 1995 as a joint venture between United Broadcasting Company, a Group company and Viacom Inc, a leading provider of entertainment services. The Guarantor is the majority shareholder in Gulf DTH (Showtime) with an overall (direct plus indirect) equity holding of 78.0 per cent., with the balance held by Viacom. Gulf DTH (Showtime) is registered in the Cayman Islands and has its headquarters in Dubai.

The address of the principal place of business is: PO Box 502211, Dubai, United Arab Emirates.

Due to legal and tax considerations, the structure of Gulf DTH (Showtime) comprises a holding company, Gulf DTH LDC, and five wholly owned subsidiaries.

Gulf DTH (Showtime) operates under the brand name "**Showtime**" which it has licensed from Viacom for use in the MENA region. It has operations in 22 countries. As of 31 December 2007, the subscriber base of Gulf DTH (Showtime) was 251,021 customers. Gulf DTH (Showtime) provides satellite pay TV services. Its offering includes the latest western movies, premium sports (including English Premier League), sitcoms, children's programmes and fashion shows. Gulf DTH LDC (Showtime) has exclusive Pay-TV rights with 5 of the 8 Hollywood studios. These Pay-TV rights to first releases have been secured as part of long term deals that will expire between the end of 2009 and the end of 2012. The market is served by two other providers, Orbit and Arab Digital Distribution (ADD) which are primarily focused on Arabic content, thereby leaving the western entertainment genre largely to Gulf DTH LDC (Showtime).

Various strategic initiatives were taken during 2007 to reposition Gulf DTH Showtime in order to optimise the growth potential. These included re-negotiation of studio contracts to reduce costs, re-packaging initiative to re-position Gulf DTH (Showtime) among a wider audience and broadcast and launch of a bouquet of sports programmes including all English Premier League matches in English and Arabic.

***Financial Summary:***

The financial information set out below has been extracted from the Guarantor's audited consolidated financial statements for the two financial years ended 31 December 2007 (Segment Information Note 30).

| | **2006** | **2007** |
|---|---|---|
| | *KD million* | |
| Digital satellite television services operating revenue | 39.4 | 44.8 |
| Digital satellite television services result | (16.4) | (12.0) |

## MANAGEMENT

### The Board of Directors of the Guarantor

Pursuant to its Articles of Association, the Guarantor's Board of Directors consists of a minimum of three directors. At present, the Board of Directors consists of five directors. The Guarantor's Articles of Association provide that each director is elected at an ordinary general meeting of shareholders for a three-year term and is eligible for re-election upon expiration of such term. The Board of Directors has the power to appoint and remove the Chairman and Chief Executive Officer (CEO) at any time provided there is a quorum of three directors.

The members of the Board of Directors are as follows. The term of each Director on the Board of Directors expires in April 2008. Each Director was re-elected for a term of three years at the Annual General meeting on 25 March 2008. Each Director's business address is P.O. Box 23982, Safat 13100, State of Kuwait.

**Hamad Sabah Al Ahmad Al Sabah (Chairman, Age 58)**

- Chairman of Saudia Dairy and Foodstuffs Company, Saudi Arabia
- Chairman of Gulf Egypt Hotels and Tourism Company, Egypt
- Chairman of United Building Company, Egypt
- Deputy Chairman of United Gulf Bank, Bahrain
- Board Member, National Mobile Telecommunications Company, Kuwait
- Board member of Kuwait Foundation for the Advancement of Sciences, Kuwait
- Director of the Issuer

**Abdulla Yacoub Bishara (Vice Chairman, Age 71)**

- Member of G.C.C. Supreme Advisory Assembly
- President of Diplomatic Centre for Strategic Studies
- 1981-93: Secretary General of Gulf Cooperation Council
- Feb 1979: President of Security Council
- 1971-81: Ambassador of Kuwait to the United Nations
- 1964-71: Manager for the office of His Highness, the Minister of Foreign Affairs
- Director of the Issuer

**Faisal Hamad Al-Ayyar (Vice Chairman and CEO, Age 52)**

- Executive Vice Chairman KIPCO Group
- Chairman of National Mobile Telecommunications Company, Kuwait
- Chairman of United Gulf Bank, Bahrain
- Vice Chairman of Gulf Insurance Company, Kuwait
- Vice Chairman of United Assets Management Company, Luxembourg
- Vice Chairman of Jordan Kuwait Bank, Jordan
- Board member of SADAFCO Group Companies, Saudi Arabia
- Board member of Gulf Egypt Hotels and Tourism Company, Egypt
- Board member of Swiss Premium Food Company, Egypt
- Ex-fighter pilot in the Kuwait Air Force
- 2005: Winner of Arab Bankers Association of North America (ABANA) Achievement Award
- Director of the Issuer

**Sheikh Abdullah Nasser Sabah Al-Ahmed Al-Sabah (Director, Age 30)**

- 1996: Graduated from the Royal Military Academy – Sandhurst
- 2004: Bachelor of Science/Business Administration – New York Institute Of Technology
- Chairman of United Warehousing & Refrigeration Company, Kuwait
- Director of United Gulf Bank, Bahrain
- Director of the Issuer

**Sheikh Sabah Nasser Sabah Al-Sabah (Director, Age 27)**

- Chairman of The United Agriculture Production Company, Kuwait
- Director of the Issuer

There are no potential conflicts of interest between the duties to the Guarantor of the persons listed above and their private interests or other duties.

### The Executive Management of the Guarantor

The table below sets forth certain information with respect to the Executive Management of the Guarantor as of 26 March 2008. The business address of each member of the Executive Management is P.O. Box 23982, Safat 13100, State of Kuwait.

### Executive Management

| Name | Age | Position | Years with the Group |
|---|---|---|---|
| Faisal Hamad Al-Ayyar | 52 | Executive Vice Chairman | 18 |
| Samer Khanachet | 57 | Chief Operating Officer | 18 |
| Pinak Pani Maitra | 48 | Group Chief Financial Officer | 18 |
| Ahmed Essa Al-Ajeel | 44 | Vice President (Marketing/R&D/PR) | 14 |
| Antony Miles Strover | 63 | Advisor, Corporate Finance | 12 |
| Mazen Hawa | 33 | Vice President, Group Finance and Accounts | 8 |
| Mohsen Ali Hussain | 38 | Group Chief Internal Auditor | 7 |
| Lakhdar Moussi | 61 | Senior Vice President | 2 |
| Robert Drolet | 51 | Senior Vice President | 2 |
| Robert Hipkins | 48 | Group Communication Director | 1 |
| Declan Sawey | 43 | Group Treasurer | 0.5 |

There are no potential conflicts of interest between the duties to the Guarantor of the persons listed above and their private interests or other duties.

## RISK MANAGEMENT

The Guarantor carries out its risk management through a number of units, which report directly to senior management (namely Financial Control, Internal Audit and Compliance).

The Guarantor is involved in all major decisions taken by the management of its Principal Companies including strategic planning, the hiring of their respective CEO's and all persons who report directly to the CEO, major debt issuance, IPO processes, budget processes, internal audit and risk management.

Risk assessment is undertaken by the Group internal auditor, monitoring and reviewing all business units on a cyclical basis. The Board Audit Committee sets the risk levels for the Group, based on which the audit areas are characterised as high risk, medium risk and low risk. The high risk areas are audited on a yearly basis and the low risk areas once every three years.

## REGULATION

Company formation and governance is governed by the Companies Law which is administered by the Ministry of Commerce and Industry.

Consolidated financial statements and the financial statements of the Principal Companies are audited in accordance with IFRS and IAS as issued by the International Accounting Standards Board. Kuwait is a member of the International Federation of Accountants (IFAC) and adopted IAS in 1990.

# TAXATION

The following is a general description of certain Cayman Islands, Kuwaiti and other tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.

## Cayman Islands

Payments of interest and principal on Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal to any holder of Notes or will gains derived from the disposal of Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax.

No stamp duty is payable in respect of the issue of Notes. Notes themselves will be stampable if they are executed in or brought into the Cayman Islands.

The issuer has received an undertaking dated 21 March 2006 from the Governor in Cabinet of the Cayman Islands under the Tax Concessions Law (as amended) of the Cayman Islands. Such undertaking provides that for a period of 20 years from the date of the issue of such undertaking:

(a) no law which is thereafter enacted in the Cayman Islands imposing any tax or duty to be levied on the profits, income, gains or appreciations shall apply to the Issuer or its operations; and

(b) no tax in the nature of estate duty or inheritance tax will be payable on the shares, debentures or other obligations of the Issuer; or by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (as amended) of the Cayman Islands.

## Kuwait*

This summary is based upon the law and upon the understanding of the interpretations placed thereon by, and the practices of, the Kuwait Directorate of Income Tax ("**DTI**") as in effect and operation on the date of this Base Prospectus and is subject to any changes in either the law or in the interpretations and practices of the DTI (or both) that may take effect after such date.

*Payments made with respect to the Notes and Coupons*

All payments of principal and interest in respect of the Notes and Coupons may be made without withholding or deduction for or on account of present taxes, duties, assessments or governmental charges of whatsoever nature imposed or levied by or on behalf of Kuwait or any authority thereof or therein having power to tax.

*Income Tax*

Income tax is only levied on the net income and capital gains of foreign companies that conduct business in Kuwait. This would include foreign companies which are shareholders in Kuwaiti companies. Foreign companies would not be considered as conducting business in Kuwait by reason only of the holding of the Notes or Coupons, receiving any payments of principal and interest under the Notes or Coupons, or receiving any capital gain on the disposal thereof.

*Local tax counsel to update tax disclosure as necessary.

Individuals are not subject to any Kuwaiti income tax on their income or capital gains.

For the purposes of this section, the term “company” includes a partnership. The term “foreign company” would not include companies established in one of the GCC countries whose shareholders are comprised only of nationals of the GCC states. The GCC states are Kuwait, Saudi Arabia, Bahrain, Qatar, Oman and the United Arab Emirates.

**EU Savings Tax Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income, each member state is required, to provide to the tax authorities of other Member States details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg are instead required to operate a withholding system (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries).

A number of non-EU countries and territories (including Switzerland) have adopted similar measures (a withholding system in the case of Switzerland).

## SUBSCRIPTION AND SALE

Notes may be sold from time to time by the Issuer to any one or more of BNP Paribas, Dresdner Bank Aktiengesellschaft, HSBC Bank plc, CALYON, Emirates Financial Services PSC, Raiffeisen Zentralbank Österreich Aktiengesellschaft and West LB AG (the "**Dealers**"). The arrangements under which Notes may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in an amended and restated Dealer Agreement dated ● 2008 (the "**Dealer Agreement**") and made between the Issuer, the Guarantor and the Dealers. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes.

**United States of America**: *Regulation S Category 2; TEFRA D or TEFRA C as specified in the relevant Final Terms or neither if TEFRA is specified as not applicable in the relevant Final Terms.*

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Dealer has agreed that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Notes comprising the relevant Tranche, as certified to the Principal Paying Agent or the Issuer by such Dealer (or, in the case of a sale of a Tranche of Notes to or through more than one Dealer, by each of such Dealers as to the Notes of such Tranche purchased by or through it, in which case the Principal Paying Agent or the Issuer shall notify each such Dealer when all such Dealers have so certified) within the United States or to, or for the account or benefit of, U.S. persons, and such Dealer will have sent to each dealer to which it sells Notes during the distribution compliance period relating thereto a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of Notes comprising any Tranche, any offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

### Public Offer Selling Restriction Under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Prospectus as completed by the Final Terms in relation thereto (or are the subject of the offering contemplated by a Drawdown Prospectus, as the case may be) to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, all as shown in its last annual or consolidated accounts; or

(c) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive.

provided that no such offer of Notes referred to in (a) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression "**an offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

**Selling Restrictions Addressing Additional United Kingdom Securities Law**

Each Dealer has represented, warranted and agreed that and each further dealer appointed under the Programme will be required to represent, warrant and agree that:

(a) ***No deposit-taking:*** in relation to any Notes having a maturity of less than one year:

  (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and:

  (ii) it has not offered or sold and will not offer or sell any Notes other than to persons:

    (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or

    (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

  where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the Issuer;

(b) ***Financial promotion:*** it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(c) ***General compliance***: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### Cayman Islands

Notes may not be offered to the public in the Cayman Islands unless at the time of such offer the Issuer is listed on the Cayman Islands Stock Exchange.

### United Arab Emirates*

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and undertake that Notes have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities. Furthermore, the information contained in this Base Prospectus does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law (Federal Law No. 8 of 1984 (as amended)) or otherwise, and is not intended to be a public offer and the information contained in this Base Prospectus is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the United Arab Emirates.

### Kuwait*

Unless all of the approvals and licences which are required pursuant to Law No. 31/1990 are obtained from the Kuwait Ministry of Commerce and Industry no Notes may be marketed, offered for sale or sold in Kuwait, either directly or indirectly.

### General

Each Dealer agrees and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes the Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer, the Guarantor, the Trustee and any other Dealer shall have any responsibility therefor.

None of the Issuer, the Guarantor, the Trustee and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

The Dealer Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph headed “General” above.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification will be set out in the relevant Final Terms (in the case of a supplement or modification relevant only to a particular Tranche of Notes) or (in any other case) in a supplement to this Base Prospectus.

*Local counsel to confirm selling restriction language.

## GENERAL INFORMATION

### Listing

XII, 6.1

The admission of the Programme to trading on the London Stock Exchange-Regulated Market is expected to take effect on or around 21 April 2008. The price of the Notes on the price list of the London Stock Exchange will be expressed as a percentage of their principal amount (exclusive of accrued interest). Any Tranche of Notes intended to be admitted to trading on the London Stock Exchange-Regulated Market will be so admitted to trading upon submission to the London Stock Exchange of the relevant Final Terms and any other information required by the London Stock Exchange, subject to the issue of the relevant Notes. Prior to admission to trading, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day in London after the day of the transaction.

However, Notes may be issued pursuant to the Programme which will not be admitted to listing, trading and/or quotation by the London Stock Exchange or any other listing authority, stock exchange and/or quotation system or which will be admitted to listing, trading and/or quotation by such other or further listing authorities, stock exchanges and/or quotation systems as the Issuer and the relevant Dealer(s) may agree.

### Authorisations

The establishment of the Programme was authorised by written resolutions of the directors of the Issuer passed on 15 April 2008. The giving of the guarantee contained in the Trust Deed was authorised by written resolutions of the directors of the Guarantor passed on 15 April 2008. Each of the Issuer and the Guarantor has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes and the giving of the guarantee relating to them. XII, 4.1.8 XIII, 4.12

### Clearing of the Notes

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code and the International Securities Identification Number in relation to the Notes of each Series will be specified in the Final Terms relating thereto. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brusssels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

### Use of proceeds

XII, 3.2

The net proceeds of the issue of each Tranche of Notes will be applied by the Issuer and/or the Guarantor for its general corporate purposes, which include making a profit. If, in respect of any particular issue of Notes which are derivative securities for the purposes of Article 15 of the Commission Regulation 809/2004 implementing the Prospectus Directive, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

### Litigation

IX, 11.5 IV, 3

Neither the Issuer nor the Guarantor is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or the Guarantor is aware) during the 12 months before the date of this Base Prospectus which may have, or have had in the recent past, significant effects on the financial position or profitability of the Issuer or of the Guarantor and its subsidiaries taken as a whole.

**No significant change**

There has been no material adverse change in the prospects of the Issuer, the Guarantor and its Subsidiaries since 31 December 2007, nor has there been any significant change in the financial or trading position of the Guarantor and its Subsidiaries, taken as a whole, which has occurred since 31 December 2007.

**Auditors**

The financial statements of the Issuer for the period from 7 March 2006 to 31 December 2007 have been prepared in accordance with IFRS and have been audited by Ernst and Young (Al Aiban, Al Osaimi and Partners), Souk As Safat, 3rd Floor, Abdullah Mubarak Street, P.O.Box 74, Safat 13001, State of Kuwait. The consolidated financial statements of the Guarantor for the years ended 31 December 2006 and 2007 have been prepared in accordance with IFRS and have been audited by Ernst and Young (Al Aiban, Al Osaimi and Partners), Souk As Safat, 3rd Floor, Abdullah Mubarak Street, P.O. Box 74, Safat 13001, State of Kuwait, and Albazie and Co. (Member of RSM International), Public Accountants, Kuwait Airways Building, 7th Floor Shuhada Street, P.O. Box 2115, Safat 13022, State of Kuwait. Ernst and Young (Al Aiban, Al Osaimi and Partners) is a partnership incorporated under Kuwait law, which is an independent member of Ernst & Young Global Limited, a UK limited liability company which acts as the central governance body of the Ernst & Young network of independent firms.

The auditors of the Issuer and the Guarantor have no material interest in the Issuer or the Guarantor.

The Trust Deed requires the Issuer to provide to the Trustee on an annual basis a certificate to the effect that as at a date nor more than seven days before such certificate there did not exist any Event of Default or any other matter which is required to be brought to the Trustee's attention.

**Documents available for inspection**

For the period of 12 months following the date of this Base Prospectus, copies and, where appropriate, English translations of the following documents may be inspected during normal business hours at the specified office of the Principal Paying Agent and Registrar and from the registered office of the Issuer, namely:

(a) the constitutive documents of the Issuer and the Guarantor;

(b) a copy of this Base Prospectus and any supplements thereof;

(c) the Agency Agreement;

(d) the Trust Deed;

(e) the Dealer Agreement;

(f) the Programme Manual (which contains the forms of the Notes in global and definitive form);

(g) the most recent publicly available unconsolidated financial statements (if any) of the Issuer and audited consolidated financial statements of the Guarantor beginning in the case of the Guarantor with such financial statements for the years ended 2006 and 2007 together with the audit reports thereon and the most recent publicly available unaudited unconsolidated financial statements (if any) of the Issuer and consolidated financial statements of the Guarantor together with any audit report thereon;

(h) any future prospectuses, information memoranda and supplements relating to the Programme, including any Final Terms relating to Notes which are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system. (In the case of any Notes which are not admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system, copies of the relevant Final Terms will only be available for inspection by the relevant Noteholders.)

**Post Issuance Information**

The Issuer does not intend to provide any post-issuance information in relation to any Note issues.

## FINANCIAL STATEMENTS AND AUDITORS' REPORTS

Auditors' reports and audited consolidated financial statements of the Guarantor as at and for the years ended 2006 and 2007. The audited consolidated financial statements have been prepared in accordance with IFRS and applicable requirements of Kuwait Ministerial Order No. 18 of 1990.

**KUWAIT PROJECTS COMPANY HOLDING K.S.C. (CLOSED) AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2007**

ERNST & YOUNG
AL AIBAN, AL OSAIMI & PARTNERS

P.O. Box 74 Safat
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Member of RSM International

Public Accountants

Kuwait Airways Building, 7th Floor
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13022 – State of Kuwait
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F + 965 2412761
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**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT PROJECTS COMPANY HOLDING K.S.C. (CLOSED)**

We have audited the accompanying consolidated financial statements of Kuwait Projects Company Holding K.S.C. (Closed) (the "Parent Company") and subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Directors' Responsibility for the consolidated financial statements**

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

**Auditors' Responsibility**

Our responsibility is to express an opinion on these 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 the auditors' judgements, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group'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 reasonable basis for our opinion.

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**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT PROJECTS COMPANY HOLDING K.S.C. (CLOSED) (continued)**

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on Other Legal and Regulatory Matters**

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the board of directors of the Parent Company relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the Parent Company's Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the Parent Company's Articles of Association have occurred during the year ended 31 December 2007 that might have had a material effect on the business of the Parent Company or on its financial position.

WALEED A. AL OSAIMI
LICENCE NO. 68 A
OF ERNST & YOUNG

DR. SHUAIB A. SHUAIB
LICENCE NO. 33 A
Albazie & Co.
Member of RSM International

14 February 2008

State of Kuwait

## CONSOLIDATED BALANCE SHEET
At 31 December 2007

| | Notes | *2007* *KD 000's* | *2006* *KD 000's* |
|---|---|---|---|
| **ASSETS** | | | |
| Cash in hand and at banks | 3 | **878,576** | 212,381 |
| Treasury bills and bonds | 4 | **433,709** | - |
| Loans and advances | 5 | **1,696,456** | 71,870 |
| Financial assets at fair value through income statement | 6 | **204,309** | 112,856 |
| Financial assets available for sale | 7 | **264,362** | 166,117 |
| Financial assets held to maturity | | **6,872** | 8,159 |
| Investment in associates | 8 | **246,393** | 536,060 |
| Investment properties | | **7,958** | 6,792 |
| Property and equipment | | **45,268** | 22,738 |
| Other assets | 9 | **165,070** | 79,310 |
| Goodwill | 10 | **255,418** | 142,245 |
| **TOTAL ASSETS** | | **4,204,391** | 1,358,528 |
| **LIABILITIES AND EQUITY** | | | |
| **Liabilities** | | | |
| Due to banks and other financial institutions | | **829,614** | 209,199 |
| Deposits from customers | | **1,622,298** | 113,242 |
| Loans payable | 11 | **297,943** | 262,446 |
| Bonds | 12 | **64,829** | 88,123 |
| Medium term notes | 13 | **202,754** | 205,214 |
| Other liabilities | 14 | **279,126** | 154,555 |
| **Total liabilities** | | **3,296,564** | 1,032,779 |
| **Equity** | | | |
| Share capital | 15 | **104,962** | 104,962 |
| Share premium | 16 | **3,111** | 3,111 |
| Treasury shares | 16 | **(24,363)** | (3,078) |
| Statutory reserve | 17 | **74,822** | 21,161 |
| Voluntary reserve | 18 | **74,547** | 20,886 |
| Treasury shares reserve | 16 | **7,147** | 6,733 |
| Cumulative changes in fair values | | **12,259** | 26,781 |
| Foreign currency translation reserve | | **(3,766)** | 326 |
| Employee stock option plan reserve | 19 | **611** | 234 |
| Retained earnings | | **414,059** | 50,750 |
| Equity attributable to equity holders of the Parent Company | | **663,389** | 231,866 |
| Minority interest | | **244,438** | 93,883 |
| **Total equity** | | **907,827** | 325,749 |
| **TOTAL LIABILITIES AND EQUITY** | | **4,204,391** | 1,358,528 |

Faisal Hamad Al Ayyar
Managing Director

The attached notes 1 to 34 form part of these consolidated financial statements.

## CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2007

| | Notes | *2007* *KD 000's* | *2006* *KD 000's* |
|---|---|---|---|
| **Revenues:** | | | |
| Investment income | 20 | **554,847** | 57,804 |
| Fees and commission income | 21 | **56,874** | 20,572 |
| Share of results of associates | | **52,735** | 57,256 |
| Interest income | | **121,002** | 12,842 |
| Net insurance premium earned | 22 | **37,903** | 36,419 |
| Digital satellite television services income | | **44,095** | 39,355 |
| Foreign exchange gain | | **15,787** | 2,760 |
| Other income | | **1,438** | 1,244 |
| **Total revenues** | | **884,681** | 228,252 |
| **Expenses:** | | | |
| General and administrative expenses | | **111,201** | 49,375 |
| Interest expense | | **107,954** | 43,899 |
| Net insurance claims incurred | | **24,916** | 19,590 |
| Insurance related fees and commission expense | | **8,192** | 13,254 |
| Digital satellite television services expense | | **37,257** | 35,771 |
| (Reversal) provision for credit losses | 5 | **(1,546)** | 680 |
| Impairment of financial assets available for sale | | **1,939** | 67 |
| Goodwill impairment loss | 10 | **4,095** | - |
| Board of Director's remuneration | 16 | **250** | 140 |
| **Total expenses** | | **294,258** | 162,776 |
| **Profit before taxation** | | **590,423** | 65,476 |
| Taxation | 23 | **(14,671)** | - |
| **Profit for the year** | | **575,752** | 65,476 |
| **Attributable to :** | | | |
| Equity holders of the Parent Company | | **521,691** | 50,070 |
| Minority interest | | **54,061** | 15,406 |
| | | **575,752** | 65,476 |
| | | ***Fils*** | *Fils* |
| **BASIC EARNINGS PER SHARE-attributable to equity holders of the Parent Company** | **24** | **513.61** | 48.51 |
| **DILUTED EARNINGS PER SHARE-attributable to equity holders of the Parent Company** | **24** | **511.00** | 48.34 |

Faisal Hamad Al Ayyar
Managing Director

The attached notes 1 to 34 form part of these consolidated financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

| | *Notes* | ***2007*** ***KD 000's*** | *2006* *KD 000's* |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit for the year | | **575,752** | 65,476 |
| Adjustments for: | | | |
| Unrealised gain on financial assets at fair value through income statement | | **(9,172)** | (4,968) |
| Gain on sale of investments | 20 | **(538,778)** | (48,063) |
| Realised and unrealised gain from investment properties | | **(651)** | (707) |
| Share of results of associates | | **(52,735)** | (57,256) |
| Interest expense on loans and bonds | | **33,772** | 33,531 |
| Depreciation and amortisation | | **9,850** | 4,140 |
| Impairment of financial assets available for sale | | **1,939** | 67 |
| Foreign exchange gain on loans payable and medium term notes | | **(2,756)** | (1,782) |
| Provision for employee stock option plan | | **378** | 234 |
| (Reversal) provision for credit losses | | **(1,546)** | 680 |
| Provision for taxation | | **14,671** | - |
| Impairment of goodwill | | **4,095** | - |
| | | **34,819** | (8,648) |
| Changes in operating assets and liabilities: | | | |
| Deposits with original maturities exceeding three months | | **(190,388)** | 2,618 |
| Treasury bills and bonds | | **21,093** | - |
| Loans and advances | | **23,295** | (21,164) |
| Financial assets at fair value through income statement | | **(56,457)** | (30,740) |
| Financial assets available for sale | | **24,758** | 9,574 |
| Other assets | | **(53,232)** | (8,828) |
| Due to banks and other financial institutions | | **(299,009)** | 62,570 |
| Deposits from customers | | **158,051** | 44,693 |
| Other liabilities | | **52,176** | 33,425 |
| Net cash (used in) from operating activities | | **(284,894)** | 83,500 |
| **INVESTING ACTIVITIES** | | | |
| Investment properties | | **(514)** | (254) |
| Financial assets held to maturity | | **1,287** | (497) |
| Investment in associates | | **641,666** | (84,552) |
| Acquisition of a subsidiary, net of cash acquired | 26 | **366,639** | - |
| Dividends received from associates | | **17,740** | 22,658 |
| Net cash from (used in) investing activities | | **1,026,818** | (62,645) |
| **FINANCING ACTIVITIES** | | | |
| Loans Payable | | **(29,871)** | (59,062) |
| Bonds | | **(23,295)** | (31,449) |
| Medium term notes | | **-** | 206,159 |
| Purchase of treasury shares | | **(36,611)** | (2,263) |
| Proceeds from sale of treasury shares | | **15,740** | 2,028 |
| Interest Paid | | **(36,225)** | (30,850) |
| Dividends paid | | **(51,411)** | (25,764) |
| Minority interest | | **(95,884)** | (1,509) |
| Net cash (used in) from financing activities | | **(257,557)** | 57,290 |
| Foreign currency translation adjustment | | **(8,560)** | (1,263) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **475,807** | 76,882 |
| Cash and cash equivalents at 1 January | | **205,405** | 128,523 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | 3 | **681,212** | 205,405 |

The attached notes 1 to 34 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

| | *Attributable to equity holders of the Parent Company* | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Share capital KD 000's* | *Share premium KD 000's* | *Treasury shares KD 000's* | *Statutory reserve KD 000's* | *Voluntary reserve KD 000's* | *Treasury shares reserve KD 000's* | *Cumulative changes in fair values KD 000's* | *Foreign currency translation reserve KD 000's* | *ESOP reserve KD 000's* | *Retained earnings KD 000's* | *Total KD 000's* | *Minority interest KD 000's* | *Total equity KD 000's* |
| Balance at 1 January 2007 | 104,962 | 3,111 | (3,078) | 21,161 | 20,886 | 6,733 | 26,781 | 326 | 234 | 50,750 | 231,866 | 93,883 | 325,749 |
| Change in equity of associates | - | - | - | - | - | - | (1,871) | 4,425 | - | - | 2,554 | - | 2,554 |
| Changes in fair value of financial assets available for sale | - | - | - | - | - | - | 35,279 | - | - | - | 35,279 | - | 35,279 |
| Effect of sale of financial assets available for sale | - | - | - | - | - | - | (45,936) | - | - | - | (45,936) | - | (45,936) |
| Effect of sale of investment in associates and subsidiaries | - | - | - | - | - | - | (508) | 43 | - | - | (465) | - | (465) |
| Change in fair value of cash flow hedge * | - | - | - | - | - | - | (1,486) | - | - | - | (1,486) | - | (1,486) |
| Foreign currency translation adjustment | - | - | - | - | - | - | - | (8,560) | - | - | (8,560) | - | (8,560) |
| Expenses recognised directly in equity | - | - | - | - | - | - | (14,522) | (4,092) | - | - | (18,614) | - | (18,614) |
| Profit for the year | - | - | - | - | - | - | - | - | - | 521,691 | 521,691 | 54,061 | 575,752 |
| Total expenses and income for the year | - | - | - | - | - | | (14,522) | (4,092) | - | 521,691 | 503,077 | 54,061 | 557,138 |
| Dividends for 2006 at 50 fils per share (Note 16) | - | - | - | - | - | - | - | - | - | (51,723) | (51,723) | - | (51,723) |
| Transfers to reserves | - | - | - | 53,661 | 53,661 | - | - | - | - | (107,322) | - | - | - |
| Purchase of treasury shares | - | - | (36,611) | - | - | - | - | - | - | - | (36,611) | - | (36,611) |
| Sale of treasury shares | - | - | 15,326 | - | - | 414 | - | - | - | - | 15,740 | - | 15,740 |
| Employees' share based payment (Note 19) | - | - | - | - | - | - | - | - | 377 | - | 377 | - | 377 |
| Other movements in equity of subsidiaries | - | - | - | - | - | - | - | - | - | 663 | 663 | - | 663 |
| Net movement in minority interest ** | - | - | - | - | - | - | - | - | - | - | - | (59,915) | (59,915) |
| Acquisition of subsidiary (Note 26) | - | - | - | - | - | - | - | - | - | - | - | 156,409 | 156,409 |
| **Balance at 31 December 2007** | **104,962** | **3,111** | **(24,363)** | **74,822** | **74,547** | **7,147** | **12,259** | **(3,766)** | **611** | **414,059** | **663,389** | **244,438** | **907,827** |

The attached notes 1 to 34 form part of these consolidated financial statements.

Kuwait Projects Company Holding K.S.C. (Closed) and Subsidiaries

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2007

| | *Attributable to equity holders of the Parent Company* | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Share capital KD 000's* | *Share premium KD 000's* | *Treasury shares KD 000's* | *Statutory reserve KD 000's* | *Voluntary reserve KD 000's* | *Treasury shares reserve KD 000's* | *Cumulative changes in fair values KD 000's* | *Foreign currency translation reserve KD 000's* | *ESOP reserve KD 000's* | *Retained earnings KD 000's* | *Total KD 000's* | *Minority interest KD 000's* | *Total equity KD 000's* |
| Balance at 31 December 2005 | 104,962 | 3,111 | (2,470) | 16,140 | 15,865 | 6,360 | 31,826 | 1,095 | - | 34,585 | 211,474 | 76,831 | 288,305 |
| Change in equity of associates | - | - | - | - | - | - | 182 | 505 | - | 551 | 1,238 | - | 1,238 |
| Changes in fair value of financial assets available for sale | - | - | - | - | - | - | 17,941 | - | - | - | 17,941 | - | 17,941 |
| Effect of sale of financial assets available for sale | - | - | - | - | - | - | (21,968) | - | - | - | (21,968) | - | (21,968) |
| Effect of sale of investment in associates and subsidiaries | - | - | - | - | - | - | (1,122) | (11) | - | - | (1,133) | - | (1,133) |
| Change in fair value of cash flow hedge * | - | - | - | - | - | - | (78) | - | - | - | (78) | - | (78) |
| Foreign currency translation adjustment | - | - | - | - | - | - | - | (1,263) | - | - | (1,263) | - | (1,263) |
| Expenses and income recognised directly in equity | - | - | - | - | - | - | (5,045) | (769) | - | 551 | (5,263) | - | (5,263) |
| Profit for the year | - | - | - | - | - | - | - | - | - | 50,070 | 50,070 | 15,406 | 65,476 |
| Total expenses and income for the year | - | - | - | - | - | - | (5,045) | (769) | - | 50,621 | 44,807 | 15,406 | 60,213 |
| Dividends for 2005 at 25 fils per share (Note 16) | - | - | - | - | - | - | - | - | - | (25,856) | (25,856) | - | (25,856) |
| Transfers to reserves | - | - | - | 5,021 | 5,021 | - | - | - | - | (10,042) | - | - | - |
| Purchase of treasury shares | - | - | (2,263) | - | - | - | - | - | - | - | (2,263) | - | (2,263) |
| Sale of treasury shares | - | - | 1,655 | - | - | 373 | - | - | - | - | 2,028 | - | 2,028 |
| Employees' share based payment (Note 19) | - | - | - | - | - | - | - | - | 234 | - | 234 | - | 234 |
| Other movements in equity of subsidiaries | - | - | - | - | - | - | - | - | - | 1,442 | 1,442 | - | 1,442 |
| Net movement in minority interest ** | - | - | - | - | - | - | - | - | - | - | - | 1,646 | 1,646 |
| Balance at 31 December 2006 | 104,962 | 3,111 | (3,078) | 21,161 | 20,886 | 6,733 | 26,781 | 326 | 234 | 50,750 | 231,866 | 93,883 | 325,749 |

* Cumulative changes in fair values of cashflow hedge amounts to KD 1,564 thousand (2006 KD 78 thousand).

** Net movement in minority interest" includes KD 33,855 thousand (2006 KD 7,806 thousand) paid as dividend during the year.

The attached notes 1 to 34 form part of these consolidated financial statements.

## 1 INCORPORATION AND PRINCIPAL ACTIVITIES

Kuwait Projects Company Holding K.S.C. (Closed), (the "Parent Company") is a closed shareholding company registered and incorporated under the laws of the State of Kuwait on 2 August 1975, and listed on the Kuwait Stock Exchange. The address of the Parent Company's registered office is P.O. Box 23982, Safat 13100 - State of Kuwait.

The principal activities of the Group are explained in Note 30.

The major shareholder of the Parent Company is Al-Futtooh Investments Co. W.L.L.

The consolidated financial statements of the Parent Company and Subsidiaries (the "Group") were authorised for issue by the Board of Directors on 14 February 2008, and are issued subject to the approval of the Ordinary General Assembly of the shareholders' of the Parent Company. The shareholders' have the power to amend these consolidated financial statements at the Ordinary General assembly.

## 2 SIGNIFICANT ACCOUNTING POLICIES

**Basis of preparation**
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of Ministerial Order No. 18 of 1990.

The consolidated financial statements are presented in Kuwaiti Dinars (KD) which is the functional currency of the Parent Company, and all values are rounded to the nearest KD thousand except when otherwise stated.

**Measurement basis**
The consolidated financial statements have been prepared under the historical cost convention as modified for the revaluation at fair value of financial assets at fair value through income statement, financial assets available-for-sale, investment properties and derivative financial instruments.

International Accounting Standards Board (IASB) Standards and International Financial Reporting Interpretations Committee (IFRIC) Interpretations issued and adopted by the Group:

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year except that the Group has adopted the following new and amended International Accounting Standards Board (IASB) standards and International Financial Reporting Interpretations Committee (IFRIC) interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the consolidated financial statements; however, they did give rise to additional disclosures.

***IASB Standards:***
- IFRS 7 Financial Instruments: Disclosures
- Amendment to IAS 1 – Capital disclosures

***International Financial Reporting Standard (IFRS) – IFRS 7 Financial Instruments: Disclosures***
IFRS 7 *Financial Instruments: Disclosures* was issued by the IASB in August 2005, becoming effective for annual periods beginning on or after 1 January 2007.

The standard requires additional disclosures that enable users to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the consolidated financial statements.

***International Accounting Standard (IAS) - IAS 1 Presentation of Financial Statements (amended)***
Amendments to IAS 1 *Presentation of Financial Statements* were issued by the IASB as *Capital Disclosures* in August 2005. They are required to be applied for annual periods beginning on or after 1 January 2007. These amendments require the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

***IFRIC Interpretations***

The following IFRIC Interpretations have been issued and adopted by the Group:

- IFRIC Interpretation 8 *Scope of IFRS 2*
- IFRIC Interpretation 9 Reassessment of Embedded Derivatives
- IFRIC Interpretation 10 Interim Financial Reporting and Impairment
- IFRIC Interpretation 11 *IFRS 2 – Group and Treasury Share Transactions*

The application of IFRIC 8, 9, 10 and 11 does not have material impact on the consolidated financial statements of the Group.

**IASB Standards and IFRIC Interpretations issued, but not yet mandatory and have not been adopted yet**

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

- IAS 1: Presentation of Financial Statements (effective 2009)
- IFRS 8: Operating Segments (effective 2009)
- IFRIC 13: Customer Loyalty Program (effective 2008)
- IFRIC 14: IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective 2008)

The application of IAS 1 will result in amendments to the presentation of the financial statements of the Group. The application of IFRS 8, IFRIC 13 and IFRIC 14 are not expected to have material impact on the consolidated financial statements of the Group.

Additional disclosures will be made in the consolidated financial statements when these standard and interpretation becomes effective.

**Principles of consolidation**

The consolidated financial statements include the accounts of the Parent Company and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies. All material inter-group balances and transactions, including inter-group profits and unrealised profits and losses are eliminated on consolidation.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of the subsidiaries acquired or disposed off during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal, as appropriate.

Minority interests represent the portion of profit and loss and net assets not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet separately from equity attributable to the equity holders of the Parent Company. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement.

The principal subsidiaries of the Group are as follows:

| ***Name of company*** | ***Country of incorporation*** | ***Effective interest as at 31 December 2007*** | *Effective interest as at 31 December 2006* |
|---|---|---|---|
| United Gulf Bank B.S.C. ("UGB") | Bahrain | 88% | 76% |
| Burgan Bank S.A.K | Kuwait | 51% | - |
| Gulf Insurance Company K.S.C. ("GIC") | Kuwait | 68% | *37% |
| Gulf DTH L.D.C. ("Showtime") | Cayman Islands | 78% | 78% |
| United Gulf Management Incorporation | USA (Boston) | 100% | 100% |

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Principles of consolidation (continued)**

| ***Name of company*** | ***Country of incorporation*** | ***Effective interest as at 31 December 2007*** | *Effective interest as at 31 December 2006* |
|---|---|---|---|
| United Gulf Management Limited | United Kingdom | 100% | 100% |
| Hunter Capital Company | USA (Utah) | 100% | 70% |
| Kuwait United Consultancy Company K.S.C. (Closed) | Kuwait | 98% | 98% |
| Kuwait Projects Company (Cayman) | Cayman Islands | 100% | 100% |
| KIPCO Private Equity Company (Cayman) | Cayman Islands | 100% | - |
| ***Held through UGB*** | | | |
| KIPCO Asset Management Company K.S.C. (Closed) | Kuwait | 81% | 71% |
| UGB Securities Company B.S.C. (Closed) | Bahrain | 92% | 91% |
| Al Ahlia Arabian Markets Company K.S.C. (Closed) | Kuwait | 60% | 96% |
| First Arabian Markets Company K.S.C. (Closed) | Kuwait | 60% | 96% |
| KAMCO Real Estate Company S.P.C | Bahrain | 100% | 100% |
| Advantage Management Consulting K.S.C. (Closed) | Kuwait | 58% | 58% |
| Algeria Gulf Bank S.P.A. | Algeria | 83% | 83% |
| Tunis International Bank S.A. | Tunisia | 87% | 77% |
| United Gulf Financial Services Company L.C.C. | Qatar | 89% | 88% |
| Al Zad Real Estate W.L.L. | Kuwait | 100% | - |
| Al Dhiyafa United Real Estate Company W.L.L. | Kuwait | 100% | - |
| North Africa Real Estate Company W.L.L. | Kuwait | 100% | - |
| Al Raya Real Estate Projects W.L.L. | Kuwait | 100% | - |
| ***Held through GIC*** | | | |
| Saudi Pearl Insurance Company Limited (“SPI”) | Bahrain | 100% | 100% |
| Fajr Al Gulf Insurance & Reinsurance Co. S.A.L. (Owned by SPI) | Lebanon | 51% | 51% |
| Arab Misr Insurance Group Company S.A.E | Egypt | 85% | 54% |
| Syrian Kuwaiti Insurance Company S.S.C. | Syria | **45% | **45% |
| Bahrain Kuwait Insurance Company B.S.C. | Bahrain | **50% | **42% |
| ***Held through Showtime*** | | | |
| Global Direct For Satellite Services L.L.C. | Jordan | ***50% | ***50% |
| Digital Satellite L.L.C. | United Arab Emirates | ***49% | ***49% |
| Gulf DTH Entertainment L.D.C. | Cayman Islands | 100% | 100% |
| Gulf DTH FZ L.L.C. | United Arab Emirates | 100% | 100% |
| Gulf DTH Holdings L.D.C. | Cayman Islands | 100% | 100% |
| Gulf DTH Production | United Kingdom | 100% | 100% |
| The Movie Channel Middle East Partners VOF | Netherlands Antilles | 100% | 100% |
| Premier Solutions Media FZ L.L.C. | United Arab Emirates | 85% | 85% |
| Nile Communications Network (NCN) | Egypt | 53% | 53% |

* 51% of total voting power
** Control through majority board representation
***Contractual control over the financial and operating policies

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial assets and liabilities**
The Group classifies its financial assets and liabilities for the purpose of IAS 39 as "financial assets at fair value through income statement", "financial assets held to maturity", "loans and receivables", "financial assets available for sale" or "financial liabilities".

All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date the asset is delivered to the counterparty.

Financial assets and liabilities are measured initially at fair value (transaction price) plus, in case of a financial asset or financial liability not at fair value through income statement, directly attributable transaction costs. Transaction costs on financial assets and financial liabilities at fair value through income statement are expensed immediately, while on other debt instruments they are amortised.

*Financial assets at fair value through income statement*
Financial assets at fair value through income statement includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through income statement. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on financial assets held for trading are recognised in the consolidated income statement. Financial assets are designated at fair value through income statement if they are managed and their performance is evaluated on reliable fair value basis in accordance with documented investment strategy. Interest earned or incurred is accrued in interest income or finance cost, respectively, according to the terms of the contract, while dividend income is recorded in 'investment income' when the right to the payment has been established.

After initial recognition financial assets at fair value through income statement are remeasured at fair value with all changes in fair value recognised in the consolidated income statement.

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

After initial recognition, financial assets available for sale are measured at fair value with gains and losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain and loss previously reported in equity is recognised in the consolidated income statement. Financial assets whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

*Financial assets held to maturity*
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold to maturity.

After initial recognition, held to maturity financial assets are carried at amortised cost using the effective interest rate method, less impairment losses, if any. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

*Loans and receivables*
Debt instruments which do not meet the definition of held to maturity and which have fixed or determinable payments but are not quoted in an active market are classified as loans and receivables.

After initial recognition loans and receivables are carried at amortised cost using the effective interest rate method, less impairment losses, if any. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

"Treasury bills and bonds" and "Loans and advances" are classified as "Loans and receivables".

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial assets and liabilities (continued)**

*Financial liabilities*
Financial liabilities are stated at amortised cost using the effective interest rate method. "Due to banks and other financial institutions", "Deposits from customers", "Loans payable", "Bonds" and "Medium Term Notes" are classified as financial liabilities.

*Fair value*
The fair value of financial assets and liabilities traded in recognised financial markets is their quoted market price, based on the current bid price. For all other financial assets or liabilities where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current fair value of another instrument that is substantially the same; recent arm's length market transactions, discounted cash flow analysis or other valuation models.

The fair value of derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market inputs or internal pricing models.

*Derecognition*
A financial asset (in whole or in part) is derecognised either when: the contractual rights to receive the cash flows from the asset have expired; the Group retains the right to receive the cash flows from the assets, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of ownership of the asset, but has transferred control of the asset. Where the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

*Repurchase and resale agreements*
Assets sold with a simultaneous commitment to repurchase at a specified future date at an agreed price (repos) are not derecognised in the balance sheet. Amounts received under these agreements are treated as interest bearing liabilities and the difference between the sale and repurchase price treated as interest expense using the effective yield method.

Assets purchased with a corresponding commitment to resell at a specified future date at an agreed price (reverse repos) are not recognised in the balance sheet. Amounts paid under these agreements are treated as interest earning assets and the difference between the purchase and resale price treated as interest income using the effective yield method.

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

**Investment in associates**
The Group's investments in its associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, investment in an associate is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the investee. The Group recognises in the consolidated income statement its share of the total recognised profit or loss of the associate from the date that influence or ownership effectively commenced until the date that it effectively ceases. Distributions received from an associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Group's share in the associate arising from changes in the associate's equity that have not been recognised in the associate's income statement. The Group's share of those changes is recognised directly in equity.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investment in associates (continued)**
An assessment of investment in an associate is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist. Whenever impairment requirements of IAS 36, indicate that investment in an associate may be impaired, the entire carrying amount of investment is tested by comparing its recoverable amount with its carrying value. Goodwill is included in the carrying amount of an investment in associate and, therefore, is not separately tested for impairment.

Unrealised gains on transactions with an associate are eliminated to the extent of the Group's share in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

The reporting dates of the associates and the Group are identical and in case of different reporting date of an associate, which are not more than three months, from that of the Group, adjustments are made for the effects of significant transactions or events that occur between that date and the date of the Group's consolidated financial statements. The associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

**Investment properties**
Investment properties are initially measured at cost. Subsequently, all investment properties are carried at fair value that is determined based on valuation performed by independent valuers at the end of each year using valuation methods consistent with the market conditions at the balance sheet date. Gains or losses from change in the fair value are recognised in the consolidated income statement.

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

Land is not depreciated. Depreciation is computed on a straight-line basis over the estimated useful lives of other property and equipment as follows:

| | |
|---|---|
| Buildings | 10 to 50 years |
| Furniture and fixtures | 3 to 10 years |
| Motor vehicles | 3 to 4 years |
| Plant and equipment | 3 to 10 years |
| Aircraft | 15 years |

Leasehold improvements are depreciated over the period of lease.

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits arising from items of property and equipment.

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

**Business combinations and goodwill**
Business combinations are accounted for using the acquisition accounting method. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of an acquisition over the Group's share of the acquiree's fair value of the net identifiable assets as at the date of the acquisition. Following initial recognition, goodwill is measured at cost less impairment losses. Any excess, at the date of acquisition, of the Group's share in the acquiree's fair value of the net identifiable assets over the cost of the acquisition is recognised in the consolidated income statement.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Business combinations and goodwill (continued)**

Goodwill is allocated to each of the Group's cash-generating units or groups of cash generating units and is tested annually for impairment. Goodwill impairment is determined by assessing the recoverable amount of cash-generating unit, to which goodwill relates. The recoverable value is the value in use of the cash-generating unit, which is the net present value of estimated future cash flows expected from such cash-generating unit. If the recoverable amount of cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit prorated on the basis of the carrying amount of each asset in the unit. Any impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash generating units) and part of the operations within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash generation unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation difference and goodwill is recognised in the consolidated income statement.

**Provisions**
Provisions are recognised when the Group has a present obligation (legal or constructive) arising from past event and the costs to settle the obligation are both probable and reliably measurable.

**End of service indemnity**
Provision is made for amounts payable to employees under the Kuwaiti Labor Law, employee contracts and applicable labor laws in the countries where the subsidiaries operate. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on the balance sheet date.

**Insurance claims**
Insurance claims, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, are charged to income as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the Group and those not reported at the balance sheet date.

The reserve for outstanding claims comprises of the estimated cost of claims incurred but not settled at the balance sheet date, whether reported or not. Reserves for reported claims not paid as at the balance sheet date is made on the basis of individual case estimates and on management's judgement.

Amounts recoverable from reinsurers, are estimated in a manner consistent with the related claim liability.

**Liability adequacy test**
At each balance sheet date, the Group assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred policy acquisition costs) is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in income and an unexpired risk provision created.

**Product classification**
Insurance contracts are those contracts when the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Share based payment transactions**
The Group operates an equity-settled, share-based Employee Stock Option Plan (ESOP). Under the terms of the plan, share options are granted to eligible employees. The options are exercisable in future period. The fair value of the options at the date on which they are granted is recognised as an expense over the vesting period with corresponding effect to equity. The fair value of the options is determined using Black-Scholes option pricing model.

**Treasury shares**
Treasury shares consist of the Parent Company's own issued shares that have been reacquired by the Group and not yet reissued or canceled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity. When the treasury shares are reissued, gains are credited to a separate account in equity, (the "treasury shares reserve"), which is not distributable. Any realised 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 the voluntary reserve and statutory reserve. No cash dividends are paid on these shares. The issue of stock dividend shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

**Foreign currency**
Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Kuwaiti Dinars at rates of exchange prevailing on that date. Any resultant gains or losses are recognised in the consolidated income statement.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Kuwaiti Dinars at the foreign exchange rates prevailing at the dates that the values were determined. In case of non-monetary assets whose change in fair values are recognised directly in equity, foreign exchange differences are recognised directly in equity and for non-monetary assets whose change in fair value are recognised in the consolidated income statement are recognised in the consolidated income statement.

Assets including goodwill and liabilities, both monetary and non-monetary, of foreign operations are translated at the exchange rates prevailing at the balance sheet date. Operating results of such operations are translated at average exchange rates for the year. The resulting exchange differences are accumulated in a separate section of equity (foreign currency translation reserve) until the disposal of the foreign operation.

**Cash and cash equivalents**
For purposes of the statement of cash flows, cash and cash equivalents includes cash and bank balances, deposits and other short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities up to three months from the date of acquisition and that are subject to an insignificant risk of change in value.

**Impairment of financial assets**
An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in economic conditions that correlate with defaults. If such evidence exists, an impairment loss, is recognised in the consolidated income statement. Impairment is determined as follows:

- for assets carried at fair value, impairment loss is the difference between carrying value and fair value,
- for assets carried at amortised cost, impairment is based on estimated future cash flows discounted at the original effective interest rate and

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Impairment of financial assets (continued)**

- for assets carried at cost, impairment is present value of future cash flows discounted at the current market rate of return for a similar financial asset.

For non equity financial assets the carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. For available for sale equity investments, the investment is written down and subsequent increases are reflected as cumulative changes in fair value through equity.

In addition, a provision is made to cover impairment for specific groups of assets where there is a measurable decrease in estimated future cash flows.

Reversal, of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased.

**Deposits from Customers**
All customer deposits are carried at cost, less amounts repaid and adjustments for effective fair value hedges.

**Financial guarantees**
In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, being the premium received.

The premium received is recognised in the consolidated income statement in 'net fees and commission income' on a straight line basis over the life of the guarantee. Subsequent to initial recognition, the Group’s liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

**Income recognition**
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received. The following specific recognition criteria must also be met before revenue is recognised:

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

*Fees and commissions*
Fees and commissions earned for the provision of services over a period of time are accrued over that period. These fees include credit related fees and other management fees. Loan commitment fees, for loans likely to be drawn down, and originating fees that are an integral part of the effective interest rate of a loan are recognised (together with any incremental cost) as an adjustment to the effective interest rate on loan.

*Interest income & expense*
Interest income and expense are recognised in the consolidated income statement for all interest bearing instruments on effective yield basis. The calculation includes all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the interest rate, but not future credit losses.

Once a financial instrument categorised, as “financial assets available for sale”, “financial assets held to maturity”, and “loans and receivables” is impaired, interest is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Insurance income*
Insurance premiums are taken into income over the terms of the policies to which they relate on a pro-rata basis. Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage. The change in the provision for unearned premiums is taken to the income statement in order that revenue is recognised over the period of risk. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business.

*Digital satellite television services*
Digital satellite television services represent revenue from direct-to-home subscription, cable subscription and advertising activities.

**Derivative financial instruments and hedging**
The Group makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks including exposures arising from forecast transactions.

Where derivative contracts are entered into by specifically designating such contracts as a fair value hedge or a cash flow hedge of recognised asset or liability, the Group accounts them using hedge accounting principles, provided certain criteria are met.

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument is recognised immediately in the income statement. The hedged items are adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the income statement.

Where the adjustment relates to a hedged interest-bearing financial instrument, the adjustment is amortised to the income statement on a systematic basis such that it is fully amortised by maturity.

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in equity and any ineffective portion is recognised in the income statement. The gains or losses on cash flow hedges recognised initially in equity are transferred to the income statement in the period in which the hedged transaction impacts the income statement. Where the hedged transaction results in the recognition of an asset or liability, the associated gains or losses that had initially been recognised in equity are included in the initial measurement of the cost of the related asset or liability.

For hedges that do not qualify for hedge accounting, any gains or losses arising from changes in fair value of the hedging instrument are taken directly to the consolidated income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, no longer qualifies for hedge accounting or is revoked by the Group. For cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the forecasted transaction occurs. In the case of fair value hedges of interest bearing financial instruments, any adjustment relating to the hedge is amortised over the remaining term to maturity. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through the income statement. These embedded derivatives are measured at fair value with the changes in fair value recognised in the income statement.

**Fiduciary assets**
Assets and related deposits held in trust or in a fiduciary capacity are not treated as assets or liabilities of the Group and accordingly are not included in these consolidated financial statements.

**Contingencies**
Contingent liabilities are not recognised in the consolidated balance sheet, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefits is probable.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Segment information**
A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products and services within a particular economic environment (geographic segment), which is subject to risks and rewards that are different from those of other segments.

**Judgments, estimation uncertainty and assumptions**
Significant judgments made by the management and key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Classification of investments
Judgments are made in the classification of financial instruments based on management's intention at acquisition.

*Provision for outstanding claims*
Considerable judgment by management is required in the estimation of amounts due to contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgment and uncertainly and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

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

*Impairment losses on loans and advances*
The Group reviews its problem loans and advances on a quarterly basis to assess whether a provision for impairment should be recorded in the consolidated income statement. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

*Collective impairment provisions on loans and advances*
In addition to specific provisions against individually significant loans and advances, the Group also makes a collective impairment provision against loans and advances which although not specifically identified against a loan with greater risk of default than when originally granted. This collective provision is based on any deterioration in the internal grade of the loan since it was granted. The amount of the provision is based on the historical loss pattern for loans within each grade and is adjusted to reflect current economic changes.

These internal gradings take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence as well as identified structural weaknesses or deterioration in cash flows.

*Valuation of unquoted investments*
Valuation of unquoted equity investments is normally based on one of the following:

- Recent arm's length market transactions;
- Current fair value of another instrument that is substantially the same;
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; and
- Other valuation models

*Impairment of goodwill*
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Judgments, estimation uncertainty and assumptions (continued)**

*Fair values of assets and liabilities acquired*
The determination of the fair value of the assets, liabilities and contingent liabilities as a result of business combination requires significant judgement.

## 3 CASH IN HAND AND AT BANKS

| | ***2007 KD 000's*** | *2006 KD 000's* |
|---|---|---|
| Cash and bank balances | **66,496** | 28,562 |
| Deposits with original maturities up to three months | **614,716** | 176,843 |
| Cash and cash equivalents | **681,212** | 205,405 |
| Add: deposits with original maturities exceeding three months | **197,364** | 6,976 |
| | **878,576** | 212,381 |

## 4 TREASURY BILLS AND BONDS

Treasury bills and bonds are issued by the Central Bank of Kuwait on behalf of the Ministry of Finance.

## 5 LOANS AND ADVANCES

The composition of loans and advances, classified by type of borrower, is as follows:

| | ***2007 KD 000's*** | *2006 KD 000's* |
|---|---|---|
| Corporate | **1,158,719** | 54,806 |
| Banks and financial institutions | **263,192** | 19,037 |
| Retail | **273,732** | - |
| | **1,695,643** | 73,843 |
| Less: reversal (provision) for credit losses | **813** | (1,973) |
| | **1,696,456** | 71,870 |

The movement in the provision for credit losses relating to loans and advances and accounts receivable for the year is as follows:

| | ***2007 KD 000's*** | *2006 KD 000's* |
|---|---|---|
| **At 1 January** | **1,973** | 1,226 |
| Foreign exchange translation adjustments | **(145)** | 111 |
| Amounts written off | **833** | - |
| (Reversal) provision for credit losses (see below) | **(4,020)** | 636 |
| **At 31 December** | **(1,359)** | 1,973 |

The charge for the year for provision on credit losses (accounts receivable) amounts to KD 2,474 thousand (2006: KD 44 thousand) (Note 9).

## 5 LOANS AND ADVANCES (continued)

Reversal for impairment includes KD 546 thousand (2006: KD Nil) being reversal for non-cash facilities. Reversal for non-cash facilities is included under other liabilities.

The fair value of collateral that the Group holds relating to loans individually determined to be impaired at 31 December 2007 amounts to KD 4,734 thousand (2006: KD 1,174 thousand). The collateral consists of cash, securities, bank guarantees and properties. For a more detailed description see Note 31 "Collateral and other credit enhancements".

## 6 FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT

| | ***2007 KD 000's*** | *2006 KD 000's* |
|---|---|---|
| **Financial assets held for trading** | | |
| Quoted equities | **75,549** | 29,348 |
| Quoted debt securities | **-** | 414 |
| | **75,549** | 29,762 |
| **Financial assets designated at fair value through statement of income** | | |
| Managed funds | **128,760** | 83,094 |
| | **204,309** | 112,856 |

Investments in managed funds primarily represent private equity funds invested through unlisted companies and limited partnership interests. The fund managers have created these legal structures for tax efficiency and to meet other investors' requirements. The underlying investments in these funds are primarily in quoted debt and equity instruments in Kuwait and international markets. Refer to Note 31 for the geographical distribution.

## 7 FINANCIAL ASSETS AVAILABLE FOR SALE

| | ***2007 KD 000's*** | *2006 KD 000's* |
|---|---|---|
| **Quoted investments** | | |
| Equities | **66,064** | 54,284 |
| Debt securities | **1,276** | 3,467 |
| **Total** | **67,340** | 57,751 |
| **Unquoted investments** | | |
| Equities | **104,875** | 49,668 |
| Managed funds | **82,947** | 57,681 |
| Debt securities | **9,200** | 1,017 |
| **Total** | **197,022** | 108,366 |
| | **264,362** | 166,117 |

Included under unquoted equities are financial assets amounting to KD 74,278 thousand (2006: KD 47,977 thousand) that are carried at cost, less impairment if any, due to the unpredictable nature of their future cash flows and the lack of other suitable methods for arriving at a reliable fair value for these financial assets. There is no market for these investments and the Group intends to hold them for the long term.

## 8 INVESTMENT IN ASSOCIATES

| *Name of company* | *Country of incorporation* | ***Effective interest 2007*** | ***Carrying value 2007 KD 000's*** | *Effective interest 2006* | *Carrying value 2006 KD 000's* |
|---|---|---|---|---|---|
| National Mobile Telecommunications Company K.S.C. (Closed) - ("Wataniya") (a) | Kuwait | **-** | **-** | 32% | 237,110 |
| Burgan Bank S.A.K. (a) | Kuwait | **-** | **-** | 38% | 124,504 |
| Zaksat General Trading Co. W.L.L. | Kuwait | **50%** | **25** | 50% | 25 |
| United Real Estate Company K.S.C. | Kuwait | **35%** | **48,515** | 34% | 44,248 |
| United Industries Company K.S.C. | Kuwait | **45%** | **40,801** | 45% | 32,935 |
| Jordan Kuwait Bank P.S.C. | Jordan | **49%** | **52,790** | 44% | 39,995 |
| United Cables Company K.S.C. (Closed) | Kuwait | **48%** | **5,549** | 45% | 7,271 |
| United Medical Services Company K.S.C. (Closed) | Kuwait | **30%** | **7,751** | 30% | 3,790 |
| United Warehousing and Refrigeration K.S.C. (Closed) | Kuwait | **45%** | **772** | 45% | 2,163 |
| Salem Al Marzouk & Sabah Abi Hanna W.L.L. | Kuwait | **29%** | **334** | 30% | 429 |
| Manafae Investment Company K.S.C. (Closed) | Kuwait | **31%** | **7,574** | 27% | 5,560 |
| Al Dhiyafa Holding Company K.S.C. (Closed) | Kuwait | **36%** | **18,599** | 27% | 13,655 |
| Bank of Baghdad | Iraq | **45%** | **16,029** | 25% | 5,198 |
| Dhow Development Capital | UK | **20%** | **109** | 20% | 108 |
| Kuwait Private Equity Opportunities Fund | Kuwait | **45%** | **5,708** | 45% | 6,286 |
| North Africa Holding Company K.S.C. (Closed) | Kuwait | **35%** | **18,129** | 21% | 10,592 |
| Syria Gulf Bank S.A. | Syria | **28%** | **4,159** | 26% | 2,172 |
| United Universal Real Estate Company K.S.C. (Closed) | Kuwait | **20%** | **200** | 20% | 19 |
| Arab Leadership Academy Company K.S.C. (b) | Kuwait | **25%** | **150** | - | - |
| Kuwait Education Fund (b) | Kuwait | **31%** | **1,859** | - | - |
| Royal Capital Company P.S.C. (b) | U.A.E | **44%** | **9,811** | - | - |
| United Real Estate Company (Jordan) J.S.C. (c) | Jordan | **47%** | **7,529** | - | - |
| | | | **246,393** | | 536,060 |

(a) During the year, the Group sold its entire ownership interest in National Mobile Telecommunication Company K.S.C. (Closed) (Wataniya) resulting in a gain of KD 468,113 thousand (Note 20). Also during the year, the Group acquired additional equity interest in Burgan Bank S.A.K., resulting in a control, and accordingly has been consolidated; from the date control has been obtained (Note 26).

(b) These companies are newly incorporated, owned through the Parent Company's subsidiary UGB.

(c) The company is a newly incorporated company, owned through the Parent Company's subsidiaries UGB and GIC.

Investment in associates include quoted associates with a carrying value of KD 158,134 thousand (2006: KD 483,990 thousand) having a fair value of KD 222,971 thousand (2006: KD 761,915 thousand).

Investment in an associate amounting to KD Nil (2006: KD 39,812 thousand) has been pledged as collateral against certain loans (Note 11).

**8 INVESTMENT IN ASSOCIATES (continued)**

Summarised financial information of the associates is as follows:

| | *2007 KD 000's* | *2006 KD 000's* |
|---|---|---|
| **Associates' balance sheet:** | | |
| Total assets | **1,558,777** | 4,095,301 |
| Total liabilities | **1,014,136** | 3,149,694 |
| Net assets | **544,641** | 945,607 |
| **Associates' revenue and profit:** | | |
| Revenue | **124,439** | 641,563 |
| Profit for the year | **83,863** | 175,257 |

**9 OTHER ASSETS**

| | *2007 KD 000's* | *2006 KD 000's* |
|---|---|---|
| Net premiums, insurance and recoverable reinsurance balances * | **49,924** | 34,489 |
| Net accounts receivable (Note 5) | **39,307** | 14,441 |
| Accrued interest and other income | **32,050** | 3,785 |
| Prepaid expenses | **20,037** | 17,481 |
| Other | **23,752** | 9,114 |
| | **165,070** | 79,310 |

*The movement in the provision for premiums, insurance and recoverable reinsurance balances for the year is as follows:

| | *2007 KD 000's* | *2006 KD 000's* |
|---|---|---|
| **At 1 January** | **3,716** | 3,686 |
| Amounts written off | **(27)** | (78) |
| Charge for the year | **96** | 151 |
| Unused amounts reversed | **(204)** | (43) |
| **At 31 December** | **3,581** | 3,716 |

The charge for the year has been included under general and administrative expenses as the amount is immaterial.

**10 GOODWILL**

| | *2007 KD 000's* | *2006 KD 000's* |
|---|---|---|
| Opening balance | **142,245** | 135,782 |
| Foreign exchange translation adjustments | **(8,313)** | (1,155) |
| Additions (Note 26) | **125,996** | 11,987 |
| Related to disposals | **(415)** | (4,369) |
| Impairment loss (Note 30) | **(4,095)** | - |
| Closing balance | **255,418** | 142,245 |

## 10 GOODWILL (continued)

The goodwill pertaining to the additional equity interest acquired in Burgan Bank S.A.K. has been provisionally determined as the management is in the process of determining the fair values of identifiable assets, liabilities and contingent liabilities acquired.

The carrying amount of goodwill allocated to each cash-generating unit is disclosed under segment information (Note 30). The recoverable amount of each segment unit has been determined based on a value in use calculation, using cash flow projections based on financial budgets approved by senior management covering a five-year period. The discount rate (ranging 10% to 15%) applied to cash flow projections beyond the five year period are extrapolated using a projected growth rate in a range of 10% to 20%.

The calculation of value in use for each segment unit is sensitive to the following assumptions:

- Interest margins;
- Discount rates;
- Projected growth rates used to extrapolate cash flows beyond the budget period and
- Local inflation rates.

*Interest margins*
Interest margins are based on average values achieved in the three years preceding the start of the budget period. These are increased over the budget period for anticipated market conditions.

*Discount rates*
Discount rates reflect management's estimate of return on capital employed (ROCE) required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using the Weighted Average Cost of Capital (WACC).

*Market share assumptions*
These assumptions are important because, as well as using industry data for growth rates, management assess how the unit's relative position to its competitors might change over the budget period.

*Projected growth rates and local inflation rates*
Assumptions are based on published industry research.

*Sensitivity to changes in assumptions*
Management believes that reasonable possible changes in key assumptions used to determine the recoverable amount segments will not result in additional impairment of goodwill.

## 11 LOANS PAYABLE

| | ***2007*** ***KD 000's*** | *2006* *KD 000's* |
|---|---|---|
| **By the Parent Company :** | | |
| Loans with maturity within 1 year | **35,490** | 44,817 |
| | **35,490** | 44,817 |
| **By the subsidiaries :** | | |
| Loans with maturity within 1 year | **150,927** | 91,503 |
| Loans with maturity above 1 year | **137,867** | 157,392 |
| | **288,794** | 248,895 |
| Less: inter-group borrowings | **(26,341)** | (31,266) |
| | **297,943** | 262,446 |

Certain loans amounting to KD Nil (2006: KD 32,000 thousand) payable by a subsidiary are secured by investment in an associate (Note 8).

## 12 BONDS

| | ***2007*** ***KD 000's*** | *2006* *KD 000's* |
|---|---|---|
| ***Bonds issued by the Parent Company :*** | | |
| Fixed interest of 6% per annum for the period until 5 November 2006 and 5.75% per annum for the period from 5 November 2006 to the final maturity on 5 November 2009 | **40,000** | 40,000 |
| Fixed interest of 5.75% per annum and maturing on 12 November 2008* | **15,000** | 15,000 |
| ***Issued by subsidiaries:*** | | |
| Denominated in US $ bearing floating interest of 1% per annum over the 3 month LIBOR in effect on the rate fixing date, and maturing on 30 September 2008 | **-** | 17,348 |
| Fixed interest of 5.5% per annum and maturing on 21 June 2009 | **9,748** | 10,000 |
| Floating interest of 1.5% per annum over the 3 month KIBOR and maturing on 21 June 2009 | **10,000** | 10,000 |
| | **74,748** | 92,348 |
| Less: Bonds issued by the Group and owned by subsidiaries | **(9,919)** | (4,225) |
| | **64,829** | 88,123 |

*The maturity of the bond has been extended from 12 November 2007 to 12 November 2008.

## 13 MEDIUM TERM NOTES

| | ***2007*** ***KD 000's*** | *2006* *KD 000's* |
|---|---|---|
| ***Euro medium term notes (EMTN) issued by the Parent Company :*** | | |
| Floating rate notes amounting to US$ 350 million having a term of 5 years maturing on 12 April 2011 and carrying a coupon interest of 3 month US$ LIBOR plus 90 bps per annum. The notes are listed on the London Stock Exchange. | **95,149** | 100,661 |
| Floating rate notes amounting to Euro 200 million notes having a term of 2 years maturing on 27 November 2008 and carrying a coupon interest of 3 month Euribor plus 37.5 bps per annum payable on a quarterly basis. The notes are listed on the London Stock Exchange. | **80,305** | 75,639 |
| ***Issued by subsidiary:*** | | |
| Floating rate subordinated debt note amounting to US$ 100 million having a term of 10 years maturing on 12 October 2016 and carrying a coupon interest of 3 months US $ LIBOR plus 190 bps per annum payable on a quarterly basis. The notes are listed on the Singapore Stock Exchange | **27,300** | 28,914 |
| | **202,754** | 205,214 |

## 14 OTHER LIABILITIES

| | ***2007*** ***KD 000's*** | *2006* *KD 000's* |
|---|---|---|
| Accounts payable | **70,963** | 26,328 |
| Technical reserves and other insurance balances | **76,232** | 84,452 |
| Accrued interest and expenses | **78,549** | 30,871 |
| Taxation payable | **14,671** | - |
| Other | **38,711** | 12,904 |
| | **279,126** | 154,555 |

Technical reserves represent reserves for unexpired risks, outstanding claims, life insurance funds and additional reserves.

## 15 SHARE CAPITAL

Authorised, issued and paid-up capital consists of 1,049,620,700 shares (2006: 1,049,620,700 shares) of 100 (2006: 100) fils per share.

## 16 RESERVES AND APPROPRIATIONS

a) Treasury shares

| | *2007* | *2006* |
|---|---|---|
| Number of treasury shares | **43,034,881** | 17,478,443 |
| Percentage of capital | **4.10%** | 1.67% |
| Cost - KD 000's | **24,363** | 3,078 |
| Market value – KD 000's | **37,440** | 8,564 |

b) The share premium and treasury shares reserve are not available for distribution.

c) Proposed dividend and directors remuneration

The Board of Directors have recommended the distribution of cash dividend of 90 fils per share (2006: 50 fils) on outstanding shares excluding treasury shares and a stock dividend of 10%. Subject to being approved, the dividend shall be payable to the shareholders registered in the Parent Company's records as of the date of the Annual General Assembly meeting. Dividends for 2006 were approved at the annual general assembly of the shareholders held on 20 March 2007.

Directors' remuneration for 2007 is subject to the approval of the shareholders at the annual general assembly meeting. Directors' remuneration for 2006 was approved at the annual general assembly of the shareholders held on 20 March 2007.

## 17 STATUTORY RESERVE

In accordance with the Commercial Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year attributable to equity holders of the Parent Company before contribution to KFAS, NLST, Zakat and Board of Directors' remuneration has been transferred to the statutory reserve. The Company may resolve to discontinue such annual transfers, when the reserve equals 50% of share capital by a resolution of the shareholders' Annual General Assembly. The statutory reserve is not available for distribution except in certain circumstances stipulated by Law.

## 18 VOLUNTARY RESERVE

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

## 19 EMPLOYEE STOCK OPTION PLAN

During the year the employees of the Parent Company were granted 4,143,863 (2006: 2,259,875) equity-settled stock options to eligible employees. These shares vest over a period of three years from the grant date. The fair value of stock options granted is amortised over the vesting period.

The Parent Company recognised expense of KD 702,790 (2006: KD 233,827) related to equity-settled share-based payment transactions during the year. Options outstanding and options exercisable at 31 December 2007 were 5,891,800 (2006: 2,177,222) and 354,605 (2006: Nil) respectively at weighted average exercise price of 361 fils (2006: 392 fils) per share. The remaining contractual life for the share options outstanding as at 31 December 2007 is 2 to 3 years (2006: 2 years).

**19 EMPLOYEE STOCK OPTION PLAN (continued)**

The weighted average fair value of options granted during the year was KD 541 thousand (2006: KD 409 thousand).

The following table lists the inputs to the Black-Scholes option pricing model for the stock options granted during 2006 and 2007:

| | ***2007*** | *2006* |
|---|---|---|
| Dividend yield (%) | **10** | 5 |
| Expected volatility (%) | **38** | 28 |
| Risk – free interest rate (%) | **6.25** | 6.00 |
| Expected life of option (years) | **3** | 3 |
| Stock price on the date of grant (fils) | **495** | 560 |
| Weighted average exercise price of stock options granted (fils) | **361** | 392 |

**20 INVESTMENT INCOME**

| | ***2007 KD 000's*** | *2006 KD 000's* |
|---|---|---|
| **Financial assets at fair value through income statement** | | |
| *Financial assets held for trading* | | |
| Gain on sale | **8,910** | 1,488 |
| Unrealised (loss) gain | **(720)** | 485 |
| | **8,190** | 1,973 |
| *Financial assets designated at fair value through income statement* | | |
| Gain on sale | **9,316** | 2,878 |
| Unrealised gain | **9,892** | 4,483 |
| | **19,208** | 7,361 |
| **Others** | | |
| Dividend income | **6,246** | 4,065 |
| Gain on sale of financial assets available for sale | **45,936** | 21,968 |
| Gain on sale of investment in associates | **473,198** | 19,601 |
| Gain on sale of investment in subsidiaries | **1,418** | 2,129 |
| Gain on sale of investment properties | **176** | 314 |
| Changes in fair value of investment properties | **475** | 393 |
| | **527,449** | 48,470 |
| | **554,847** | 57,804 |

During the year, the Group companies led and administered a group of sellers (the sellers) holding, in the aggregate, a majority share interest in National Mobile Telecommunication Company K.S.C. (Wataniya); the sellers sold their 51% interest in Wataniya to Qtel International Investments L.L.C, a subsidiary of Qatar Telecom Q.S.C. This sale resulted in a gain to the Group of KD 468,113 thousand (after deducting transaction costs).

## 21 FEES AND COMMISSION INCOME

| | 2007 KD 000 | 2006 KD 000 |
|---|---|---|
| Fees from fiduciary activities | **10,697** | 5,850 |
| Commission and other insurance related income | **7,092** | 5,918 |
| Credit related fees and commissions | **10,051** | 2,694 |
| Advisory fees | **25,627** | 5,506 |
| Other fees | **3,407** | 604 |
| **Total fees and commission income** | **56,874** | 20,572 |

These include the net income attributable to the Group amounting to KD 24,609 thousand received from the sellers for advisory and other services performed by the Group in relation to the Wataniya disposal (Note 20).

## 22 NET INSURANCE PREMIUM EARNED

Net insurance income comprises of the following insurance related activities:

| | 2007 KD 000's | 2006 KD 000's |
|---|---|---|
| **Revenue** | | |
| Premiums written | **74,085** | 70,548 |
| Reinsurance premiums ceded | **(35,385)** | (33,261) |
| Net premiums written | **38,700** | 37,287 |
| Movement in unearned premiums | **(797)** | (868) |
| Net premium earned | **37,903** | 36,419 |

## 23 TAXATION

| | 2007 KD 000's | 2006 KD 000's |
|---|---|---|
| National labour support tax* | **11,007** | - |
| Contribution to Kuwait Foundation for the Advancement of Sciences ** | **3,412** | - |
| Zakat *** | **252** | - |
| | **14,671** | - |

* The Parent Company calculated the National Labour Support Tax (NLST) in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the year. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST have been deducted from the profit for the year. Accordingly, no profit was determined to be taxable for the year ended 31 December 2006.

** The Parent Company calculated the contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) at 1% in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that income from associates and subsidiaries, Board of Directors' remuneration, transfer to statutory reserve should be excluded from profit for the year when determining the contribution. Accordingly, there was no income base upon which the contribution to KFAS could be calculated for the year ended 31 December 2006.

*** Contribution to Zakat is calculated at 1% of the profit of the Parent Company in accordance with the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

## 24 EARNINGS PER SHARE

***Basic:***

Basic earnings per share is computed by dividing the profit for the year by the weighted average number of shares outstanding during the year less treasury shares, as follows:

| | ***2007*** | *2006* |
|---|---|---|
| | ***KD 000's*** | *KD 000's* |
| Basic earnings per share: | | |
| Profit for the year attributable to the equity holders of the Parent Company | **521,691** | 50,070 |
| | ***Shares*** | *Shares* |
| Number of shares outstanding: | | |
| Weighted average number of paid up shares | **1,049,620,700** | 1,049,620,700 |
| Weighted average number of treasury shares | **(33,881,599)** | (17,564,632) |
| Weighted average number of outstanding shares | **1,015,739,101** | 1,032,056,068 |
| | ***Fils*** | *Fils* |
| Basic earnings per share | **513.61** | 48.51 |

***Diluted***

Diluted earnings per share is calculated by dividing the Profit for the year attributable to the equity holders of the Parent Company, adjusted for the effect of conversion of employees stock option, by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all employees stock options. The Parent Company has outstanding share options, issued under the Employee Stock Options Plan, which have dilutive effect on earnings.

| | ***2007*** | *2006* |
|---|---|---|
| | ***KD 000's*** | *KD 000's* |
| Diluted earnings per share: | | |
| Profit for the year attributable to the equity holders of the Parent Company | **521,691** | 50,070 |
| Decrease in profit due to exercise of potential ordinary shares of subsidiaries | **(974)** | (154) |
| Earnings for the purpose of diluted earnings per share | **520,717** | 49,916 |
| | ***Shares*** | *Shares* |
| Weighted average number of outstanding shares | **1,015,739,101** | 1,032,056,068 |
| Effect of share options on issue | **3,279,761** | 465,426 |
| | **1,019,018,862** | 1,032,521,494 |
| | ***Fils*** | *Fils* |
| Diluted earnings per share | **511.00** | 48.34 |

## 25 STAFF COST

At 31 December 2007, staff costs amounted to KD 34,638 thousand (2006: KD 18,075 thousand).

## 26 BUSINESS COMBINATION

During the second quarter of 2007, the Group acquired additional equity interest of 12.3% in Burgan Bank S.A.K. (previously classified as an associate and equity accounted); accordingly the effective equity interest increased to 50.3% at 2 June 2007. This investment has hence been accounted for as a subsidiary and has been consolidated from the date of exercise of control.

The acquisition has been accounted for using the purchase method of accounting, as required by International Financial Reporting Standards (IFRS) 3: Business Combinations. The carrying value of identifiable assets and liabilities of Burgan Bank S.A.K. and the provisional goodwill arising from the acquisition are as follows. These carrying values will be reviewed within one year of the acquisition as the management is in the process of determining the fair values of identifiable assets, liabilities and contingent liabilities acquired.

| | ***KD 000's*** |
|---|---|
| **Assets** | |
| Cash in hand and at banks | 456,709 |
| Treasury bills and bonds | 454,802 |
| Loans and advances | 1,646,335 |
| Financial assets at fair value through income statement | 7,599 |
| Financial assets available for sale | 78,818 |
| Other assets | 66,099 |
| | **2,710,362** |
| **Liabilities** | |
| Due to banks and other financial institutions | 919,424 |
| Deposits from customers | 1,351,004 |
| Loans payable | 65,369 |
| Other liabilities | 59,867 |
| Minority interest | 156,409 |
| | **2,552,073** |
| Net assets acquired | 158,289 |
| Goodwill arising on acquisition | 90,070 |
| Cost of acquisition | 248,359 |
| Less: Carrying value included earlier under investment in associates (net of goodwill) | (158,289) |
| Less: Cash and cash equivalents acquired | (456,709) |
| Cash inflow on acquisition | **(366,639)** |

The carrying value of Burgan Bank S.A.K on 2 June 2007 was KD 248,359 thousand having a market value of KD 449,473 thousand.

As a result of Burgan Bank S.A.K. becoming a subsidiary of the Group, the consolidated income statement of the Group includes the following income and expenses of the Bank for the period from 2 June 2007 to 31 December 2007.

**26 BUSINESS COMBINATION (continued)**

| | *KD 000's* |
|---|---|
| **Revenues:** | |
| Interest income | 99,261 |
| Investment income | 743 |
| Net fees and commissions | 10,716 |
| Foreign exchange gain | 3,439 |
| Other income | 509 |
| **Total revenues** | **114,668** |
| **Expenses:** | |
| Interest expense | 71,203 |
| General and administrative expenses | 16,159 |
| Reversal of credit losses | (4,905) |
| **Total expenses** | **82,457** |
| **PROFIT FOR THE PERIOD** | **32,211** |

Subsequent to the acquisition of Burgan Bank S.A.K., the Parent Company increased its investment in Burgan Bank S.A.K from 50.3% to 51.36% resulting in an additional goodwill of KD 3,870 thousand. Also during the period, the Group increased its investment in United Gulf Bank B.S.C. and Gulf Insurance Company K.S.C. to 87.80% (2006: 75.36%) and 66.95% (2006: 34.88%) respectively by acquiring an additional equity interest of 12.44% (2006: 2%) and 32.07% (2006: Nil) respectively resulting in an additional goodwill of KD 24,735 thousand (2006: KD 907 thousand). The balance of additional goodwill amounting to KD 7,321 thousand represents goodwill arising as a result of acquisition and reclassification of additional equity interest in other subsidiaries (Note 10).

**27 RELATED PARTY TRANSACTIONS**

These represent transactions with related parties, i.e. shareholders, associates, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management. Related party balances and transactions consist of the following:

| | *Associates KD 000's* | *Other shareholders KD 000's* | ***Total 2007 KD 000's*** | *Total 2006 KD 000's* |
|---|---|---|---|---|
| **Consolidated balance sheet** | | | | |
| Cash in hand and at banks | 2,901 | 12,551 | **15,452** | 15,025 |
| Loans and advances | 90,605 | 8,446 | **99,051** | 9,778 |
| Financial assets held to maturity | 1,250 | - | **1,250** | 1,250 |
| Other assets | 2,545 | 1,615 | **4,160** | 8,121 |
| Due to banks and other financial institutions | 7,318 | 37,545 | **44,863** | 10,406 |
| Deposit from customers | 35,347 | 35,343 | **70,690** | 16,737 |
| Loans payable | - | - | **-** | 56,603 |
| Other liabilities | 11 | 2,124 | **2,135** | 5,017 |
| **Consolidated income statement** | | | | |
| Gain on sale of financial assets at fair value through income statement | 2 | 5,004 | **5,006** | - |
| Dividend income | 94 | 683 | **777** | 495 |
| Gain on sale of financial assets available for sale | - | - | **-** | 3,570 |
| Gain on sale of investments in associate | - | - | **-** | 2,133 |
| Net fees and commissions | 1,150 | 25,953 | **27,103** | 2,820 |
| Interest income | 8,827 | 4,255 | **13,082** | 2,711 |
| Net insurance premium earned | - | 2,549 | **2,549** | 2,698 |
| Other income | 630 | 50 | **680** | 367 |
| Interest expense | 3,073 | 4,458 | **7,531** | 2,123 |
| Provision for credit losses | 65 | 1,751 | **1,816** | - |
| **Off balance sheet items** | | | | |
| Letters of credit | 71 | 62,762 | **62,833** | 4,021 |
| Guarantees | 20,498 | 10,701 | **31,199** | 14,549 |

## 27 RELATED PARTY TRANSACTIONS (continued)

**Key management compensation**
Remuneration paid or accrued in relation to "key management" (deemed for this purpose to comprise Directors in relation to their committee service, the Chief Executive Officer and other Senior Officers) was as follows:

| | ***2007*** ***KD 000's*** | *2006* *KD 000's* |
|---|---|---|
| Short-term employee benefits | **7,511** | 3,286 |
| Termination benefits | **3,720** | 1,235 |
| Share based payment | **1,562** | 331 |
| **Total compensation paid to 'key management'** | **12,793** | 4,852 |

## 28 OFF BALANCE SHEET ITEMS

***Credit-related commitments***
Credit-related commitments include commitments to extend credit, standby letters of credit, guarantees and acceptances which are designed to meet the requirements of a subsidiary's customers.

Letters of credit, guarantees (including standby letters of credit) commit the subsidiary to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry the same credit risk as loans.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

The Group has the following credit and investment related commitments:

| | ***2007*** ***KD 000's*** | *2006* *KD 000's* |
|---|---|---|
| **Credit related commitments** | | |
| Letters of credit | **296,590** | 3,712 |
| Guarantees | **321,589** | 28,859 |
| | **618,179** | 32,571 |
| Irrevocable undrawn commitments | **219,671** | 18,453 |
| **Investment related commitments** | **90,207** | 11,242 |
| | **928,057** | 62,266 |

***Fiduciary assets***
Certain of the Group's subsidiaries manage portfolios on behalf of clients with an aggregate market value of KD 2,093,247 thousand (2006: KD 1,370,552 thousand) out of which KD 187,374 thousand (2006: KD 374,295 thousand) is managed on behalf of related parties.

***Derivatives***
In the ordinary course of business the Group enters in to various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price of one or more underlying financial instruments, reference rate or index.

**28 OFF BALANCE SHEET ITEMS (continued)**

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts analysed by the terms of maturity. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

| | | | | *Notional amounts by term to maturity* | |
|---|---|---|---|---|---|
| **31 December 2007** | *Positive fair value KD 000's* | *Negative fair value KD 000's* | *Notional amount Total KD 000's* | *Within 1 year KD 000's* | *1 - 5 years KD 000's* |
| ***Derivatives held for trading: (including non-qualifying hedges)*** | | | | | |
| **Forward foreign exchange contracts** | **31** | **3,574** | **124,901** | **124,901** | **-** |
| **Interest rate swap** | **-** | **546** | **27,300** | **-** | **27,300** |
| ***Derivatives held for hedging:*** | | | | | |
| **Forward foreign exchange contracts** | **12** | **(23)** | **83,397** | **83,397** | **-** |
| **Interest rate swap** | **93** | **-** | **100,967** | **13,650** | **87,317** |
| **31 December 2006** | | | | | |
| *Derivatives held for trading: (including non-qualifying hedges)* | | | | | |
| Forward foreign exchange contracts | 10 | (33) | 91,061 | 91,061 | - |
| *Derivatives held for hedging:* | | | | | |
| Interest rate swap | 2,476 | - | 97,680 | - | 97,680 |

As of 31 December 2007, the Group has positions in the following types of derivatives:

**Derivatives held for trading**
Derivatives held for trading include the Group's derivative positions held with the expectation of profiting from favourable movements in prices, rates or indices. Derivatives which do not meet IAS 39 hedging requirements are also included under derivatives held for trading.

**Forward foreign exchange contracts**
Forward foreign exchange contracts are contractual agreements to either buy or sell a specified currency, at a specific price and date in the future, and are customised contracts transacted in the over-the-counter market.

**Swaps**
Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counter parties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

**Fair value hedges**
Fair value hedges are used by the Group to protect against changes in the fair value of financial assets and financial liabilities due to movements in exchange rates. The Group uses forward foreign exchange contracts to hedge against specifically identified currency risks.

At 31 December 2007, the Parent Company had a forward foreign exchange contract in place with a notional amount of KD 80,492 thousand (Euro 200,000 thousand) whereby it receives variable rate equal to 3 months Euribor +0.375% and on the notional amount pays a fixed rate of interest of 5.37% per annum.

**28 OFF BALANCE SHEET ITEMS (continued)**

**Cash flow hedges**
The Group is exposed to variability in future interest cash flows on non-trading assets and liabilities which bear interest at a variable rate. The Group uses interest rate swaps as cash flow hedges of these interest rate risks. A schedule indicating as at 31 December 2007 the periods when the hedged cash flows are expected to occur and when they are expected to affect the consolidated income statement is as follows:

| | ***Within 1 year KD 000's*** | ***1-3 years KD 000's*** |
|---|---|---|
| Cash outflows (liabilities) | **580** | 290 |
| Income statement | **60** | 32 |

The ineffectiveness on cash flow hedges on reclassification from equity to income statement is not material.

**29 CONTINGENT LIABILITY**

There is a lawsuit against one of the Group's subsidiary, Burgan Bank S.A.K., demanding it to pay an amount of KD 20,000 thousand plus interest. The subsidiary has launched a counter lawsuit requesting the appointment of an expert for which the case is still in court. The subsidiary has recently entered into an irrevocable settlement agreement with the counterparty according to which both parties have agreed to suspend the legal proceedings and consequently legal cases shall be dropped upon the fulfilment of a certain specified terms in the agreement. The fulfilment of the specified terms in the agreement is currently in process and accordingly no provision has been made.

**30 SEGMENT INFORMATION**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products and services within a particular economic environment (geographic segment), which is subject to risks and rewards that are different from those of other segments.

The Group operates in several geographic locations and in various business lines.

**a) Primary Segment**

Management of the Parent Company uses business segment information for the purpose of primary segment reporting. Management has classified the Group's business lines into the following business segments:

Investment: Trading in bonds and equities including investment in associates and other strategic investments;
Banking: Commercial and investment banking and other associated activities;
Insurance: Insurance and insurance related activities;
Digital satellite television services: Provision of digital satellite television services.

Segment results include revenue and expenses directly attributable to a segment and an allocation of cost of funds based on the daily weighted average balance of segment assets. Primary segmental information for the years ended 31 December is as follows:

**30 SEGMENT INFORMATION (continued)**

**a) Primary Segment (continued)**

| | *Investment KD 000's* | *Banking KD 000's* | *Insurance KD 000's* | *Digital satellite television Services KD 000's* | *Other KD 000's* | *Inter-segmental eliminations KD 000's* | ***Total KD 000's*** |
|---|---|---|---|---|---|---|---|
| **For the year ended 31 December 2007** | | | | | | | |
| Segment operating revenues | 583,267 | 235,128 | 87,250 | 44,786 | 73,022 | (138,772) | **884,681** |
| Segment results | 536,083 | 105,450 | 39,052 | (12,014) | 47,996 | (125,894) | **590,673** |
| Unallocated expenses | | | | | | | **(14,921)** |
| Profit for the year | | | | | | | **575,752** |
| **As at 31 December 2007** | | | | | | | |
| **Assets and liabilities** | | | | | | | |
| Segment assets | 998,956 | 3,572,203 | 223,031 | 43,154 | 55,555 | (688,508) | **4,204,391** |
| Segment liabilities | 276,783 | 3,004,977 | 123,376 | 104,953 | 14,873 | (243,319) | **3,281,643** |
| Unallocated liabilities | | | | | | | **14,921** |
| Total liabilities | | | | | | | **3,296,564** |
| Other segmental information:- | | | | | | | |
| Goodwill | - | 137,301 | 13,701 | 77,880 | - | 26,536 | **255,418** |
| Reversal of credit losses (Note 5) | - | (1,546) | - | - | - | - | **(1,546)** |
| Impairment of financial assets available for sale | 893 | 1,046 | - | - | - | - | **1,939** |
| Impairment of goodwill (Note 10) | - | - | - | 4,095 | - | - | **4,095** |
| Depreciation charge for the year | 282 | 2,008 | 1,165 | 6,090 | 9 | - | **9,554** |

**30 SEGMENT INFORMATION (continued)**

**a) Primary Segment (continued)**

| | *Investment KD 000's* | *Banking KD 000's* | *Insurance KD 000's* | *Digital satellite television services KD 000's* | *Other KD 000's* | *Inter-segmental eliminations KD 000's* | ***Total KD 000's*** |
|---|---|---|---|---|---|---|---|
| **For the year ended 31 December 2006** | | | | | | | |
| Segment operating revenues | 75,811 | 69,923 | 51,063 | 39,384 | 12,180 | (20,109) | **228,252** |
| Segment results | 51,398 | 34,708 | 8,670 | (16,375) | 894 | (13,679) | **65,616** |
| Unallocated expenses | | | | | | | **(140)** |
| Profit for the year | | | | | | | **65,476** |
| **As at 31 December 2006** | | | | | | | |
| **Assets and liabilities** | | | | | | | |
| Segment assets | 548,483 | 678,670 | 188,686 | 33,079 | 96,125 | (186,515) | **1,358,528** |
| Segment liabilities | 284,688 | 508,274 | 114,650 | 85,531 | 89,021 | (49,525) | **1,032,639** |
| Unallocated liabilities | | | | | | | **140** |
| Total liabilities | | | | | | | **1,032,779** |
| Other segmental information:- | | | | | | | |
| Goodwill | - | 24,953 | 9,681 | 86,822 | - | 20,789 | **142,245** |
| Provision for credit losses (Note 5) | - | 680 | - | - | - | - | **680** |
| Impairment of financial assets available for sale | 67 | - | - | - | - | - | **67** |
| Impairment of goodwill (Note 10) | - | - | - | - | - | - | - |
| Depreciation charge for the year | 35 | 376 | 1,035 | 1,597 | 10 | - | **3,053** |

**30 SEGMENT INFORMATION (continued)**

**b) Secondary segment information**

The Group operates in four geographic markets: Middle East and North Africa (MENA), Europe, North America and Asia. The following tables show the distribution of the Group's total assets, total liabilities and off-balance sheet items by geographical segment, allocated based on the location in which the assets, liabilities and off-balance sheet items are located, for the years ended 31 December 2007 and 2006:

| **2007** | | | ***Off-balance*** |
|---|---|---|---|
| | ***Assets*** | ***Liabilities*** | ***sheet items*** |
| **Geographical regions** | ***KD 000's*** | ***KD 000's*** | ***KD 000's*** |
| **Middle East and North Africa** | **3,847,535** | **2,840,056** | **918,825** |
| **Europe** | **245,143** | **438,996** | **252,159** |
| **North America** | **106,698** | **6,680** | **92,201** |
| **Asia** | **5,015** | **10,832** | **1,435** |
| | **4,204,391** | **3,296,564** | **1,264,620** |

| 2006 | | | *Off-balance* |
|---|---|---|---|
| | *Assets* | *Liabilities* | *sheet items* |
| Geographical regions | *KD 000's* | *KD 000's* | *KD 000's* |
| Middle East and North Africa | 1,106,129 | 751,383 | 94,310 |
| Europe | 97,212 | 272,245 | 149,566 |
| North America | 153,070 | 1,882 | 6,774 |
| Asia | 2,117 | 7,269 | 356 |
| | 1,358,528 | 1,032,779 | 251,006 |

As the Group's majority of assets and operation are located in Middle East and North Africa (MENA) region, the segment revenue and results earned by the assets and operation outside MENA region are not material.

**31 RISK MANAGEMENT**

**31.1 INTRODUCTION**

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability.

Each subsidiary of the Group is responsible for managing its own risks and has its own Board Committees, including Audit and Executive Committees in addition to other management Committees such as Credit / Investment Committee and (in the case of major subsidiaries) Asset Liability Committee (ALCO), or equivalent, with responsibilities generally analogous to the Group's committees.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

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

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected geographic and industrial sectors. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

**31 RISK MANAGEMENT (continued)**

**31.1 INTRODUCTION (continued)**

The operations of certain Group subsidiaries are also subject to regulatory requirements within the jurisdictions where it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of the banking and insurance companies to meet unforeseen liabilities as these arise.

As a part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currency transactions.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Group.

The Group classifies the risks faced as part of its monitoring and controlling activities into certain categories of risks and accordingly specific responsibilities have been given to various officers for the identification, measurement, control and reporting of these identified categories of risks. The categories of risks are:

A. Risks arising from financial instruments:
   - i. Credit risk which includes default risk of clients and counterparties
   - ii. Market risk which includes interest rate, foreign exchange and equity price risks
   - iii. Liquidity risk

B. Other risks
   - iv. Insurance risk
   - v. Prepayment risk
   - vi. Operational risk which includes risks due to operational failures

Derivative transactions result, to varying degrees, in credit as well as market risks.

Market risk arises as interest rates, foreign exchange rates and equity prices fluctuate affecting the value of a contract. For risk management purposes and to control these activities, the Group has established appropriate procedures and limits approved by the Board of Directors.

**31.2 CREDIT RISK**

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a regular basis and are subject to regular review. Limits on the level of credit risk by product, industry sector and by country are approved by the Board.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

**31 RISK MANAGEMENT (continued)**

***31.2.1 Gross maximum exposure to credit risk:***

The table below shows the gross maximum exposure to credit risk across financial assets before and after taking into consideration the effect of credit risk mitigation.

| | ***2007 Gross exposure KD 000's*** | *2006 Gross exposure KD 000's* |
|---|---|---|
| Cash at banks | **859,695** | 203,343 |
| Treasury bills and bonds | **433,709** | - |
| Loans and advances | **1,696,456** | 71,870 |
| Financial assets at fair value through income statement | - | 414 |
| Financial assets available for sale | **10,480** | 4,484 |
| Financial assets held to maturity | **6,872** | 3,966 |
| Other assets | **131,437** | 87,199 |
| **Total** | **3,138,649** | 371,276 |
| **Credit related commitments and contingencies** | **837,849** | 51,024 |
| **Total** | **3,976,498** | 422,300 |

For on-balance sheet financial assets, the exposures set above are based on net carrying amounts as reported in the balance sheet.

***31.2.2 Collateral and other credit enhancements***

The amount, type and valuation of collateral is based on guidelines specified in the risk management framework. The main types of collateral accepted includes real estate, quoted shares, cash collateral and bank guarantees. The revaluation and custody of collaterals are performed independent of the business units.

Management monitors the market value of collaterals, requests additional collaterals in accordance with the underlying agreement, and monitors the market value of collaterals obtained on a regular basis.

The Group can file a court case against a default borrower and can sell the collateral if the case is in favour to the Group. The Group has an obligation to return the collateral on the settlement of the loan or at the closure of the borrowers' portfolio with the Group. The Group also makes use of master netting agreements with counterparties.

***31.2.3 Credit quality of financial assets neither past due nor impaired***

The credit quality of financial assets are summarised by reference to public ratings given to the clients/counterparties by recognised and approved External Credit rating agencies.

| | ***2007 KD 000's*** | *2006 KD 000's* |
|---|---|---|
| **Risk rating** | | |
| Investment grade | **1,119,293** | 146,030 |
| Non-investment grade | **191,775** | 37,541 |
| Unrated | **1,785,304** | 187,705 |
| **Total** | **3,096,372** | 371,276 |

As of 31 December 2007 and 31 December 2006, there are no significant exposures whose terms have been renegotiated that would be otherwise past due or impaired.

**31 RISK MANAGEMENT (continued)**

***31.2.4 Financial assets past due but not impaired***

For credit risk related exposures, a past due exposure is considered to be one where the client or counterparty has failed to meet his contractual obligation to the Group towards payment of the interest or the principal or a part thereof on the date on which such payment is due.

| *2007* | *Carrying value KD 000's* | *Fair value of collateral held KD 000's* |
|---|---|---|
| **Past due 1 to 45 days** | **27,455** | **6,357** |
| **Past due 45 to 90 days** | **7,873** | **1,543** |
| **Total** | **35,328** | **7,900** |

***31.2.5 Impaired financial assets***

The Group considers an asset to be impaired if the realisable value of the asset is less than the value at which it is carried in the books of the Group before it considers the necessity of making a specific provision for the same.

| | *2007 KD 000's* |
|---|---|
| **Total** | **29,028** |
| **Provision** | **22,079** |
| **Fair value of collateral held** | **3,550** |

The financial assets past due but not impaired and impaired financial assets pertains only to one of the Group's subsidiary, Burgan Bank S.A.K (acquired during the year), as the carrying amounts pertaining to other subsidiaries is not material to the overall Group exposure and consequently no comparative information has been disclosed.

***31.2.6 Credit risk concentration***

Concentrations of credit risk arise from exposure to customers having similar characteristics in terms of the geographic location in which they operate or the industry sector in which they are engaged, such that their ability to discharge contractual obligations may be similarly affected by changes in political, economic or other conditions.

Credit risk can also arise due to a significant concentration of Group's assets to any single counterparty. This risk is managed by diversification of the portfolio. The 10 largest loans outstanding as a percentage of gross loans as at 31 December 2007 is 13.06% (2006: 62.98%).

The Group's financial assets and off-balance sheet items, before taking into account any collateral held or credit enhancements can be analysed by the following geographic regions:

| ***Region*** | ***Assets 2007 KD 000's*** | ***Off balance sheet items 2007 KD 000's*** | *Assets 2006 KD 000's* | *Off balance sheet items 2006 KD 000's* |
|---|---|---|---|---|
| MENA | **2,922,447** | **834,199** | 290,157 | 51,024 |
| North America | **1,256** | **-** | 4,578 | - |
| Europe | **202,629** | **84** | 76,461 | - |
| Asia | **45** | **-** | 76 | - |
| Others | **12,272** | **3,566** | 4 | - |
| **Total** | **3,138,649** | **837,849** | 371,276 | 51,024 |

**31 RISK MANAGEMENT (continued)**

***31.2.6 Credit risk concentration (continued)***

The Group's financial assets and off balance sheet items, before taking into account any collateral held or credit enhancements can be analysed by the following industry sector:

| | ***2007*** ***KD 000's*** | *2006* *KD 000's* |
|---|---|---|
| Sovereign | **446,299** | 5,931 |
| Banking | **1,011,763** | 262,543 |
| Investment | **208,751** | 7,887 |
| Trade and commerce | **199,899** | 52,887 |
| Real estate | **830,020** | 1,121 |
| Personal | **483,935** | 1,334 |
| Manufacturing | **157,835** | 6,525 |
| Construction | **95,286** | 3,833 |
| Others | **542,710** | 79,825 |
| | **3,976,498** | 421,886 |

**31.3 LIQUIDITY RISK**

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis.

The table below shows an analysis of financial liabilities based on the remaining undiscounted contractual maturities. See Note 33 'Maturity analysis of assets and liabilities' for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

| | ***1 to 3 months KD 000*** | ***3 to 12 months KD 000*** | ***1 to 5 years KD 000*** | ***Total KD 000*** |
|---|---|---|---|---|
| **2007** | | | | |
| ***Financial liabilities*** | | | | |
| Due to banks and other financial institutions | 651,684 | 219,400 | - | 871,084 |
| Deposits from customers | 1,553,260 | 236,416 | 146 | 1,789,822 |
| Loans payable | 64,600 | 166,973 | 112,990 | 344,563 |
| Bonds | - | 17,021 | 64,955 | 81,976 |
| Medium term notes | - | 87,119 | 158,135 | 245,254 |
| Other liabilities | 95,216 | 117,710 | 59,927 | 272,853 |
| | 2,364,760 | 844,639 | 396,153 | 3,605,552 |

**31 RISK MANAGEMENT (continued)**

**31.3 LIQUIDITY RISK (continued)**

| | *1 to 3 months* *KD 000* | *3 to 12 months* *KD 000* | *1 to 5 years* *KD 000* | *Total* *KD 000* |
|---|---|---|---|---|
| 2006 | | | | |
| *Financial liabilities* | | | | |
| Due to banks and other financial institutions | 141,747 | 68,728 | - | 210,475 |
| Deposits from customers | 105,371 | 8,218 | - | 113,589 |
| Loans payable | 45,580 | 115,945 | 130,617 | 292,142 |
| Bonds | - | 18,102 | 84,356 | 102,458 |
| Medium term notes | - | 2,103 | 259,725 | 261,828 |
| Other liabilities | 37,613 | 69,606 | 43,929 | 151,148 |
| | 330,311 | 282,702 | 518,627 | 1,131,640 |

**31.4 MARKET RISK**

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

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

***31.4.1 Interest rate risk***

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value or cash flows of the financial instruments. Each subsidiary of the Group manages the internal rate risk at their entity level. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. This arises as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Group manages this risk by matching the repricing of assets and liabilities through risk management strategies.

The Group is exposed to interest rate risk on its interest bearing assets and liabilities (treasury bills and bonds, loans and advances, due to banks and other financial institutions, deposits from customers, loans payable, bonds and medium term notes).

The following table demonstrates the sensitivity of the profit before tax to reasonably possible changes in interest rates, with all other variables held constant.

Based on the Group's financial assets and liabilities held at the year end, an assumed 25 basis points increase in interest rate, with all other variables held constant, would equally impact the Group's profit before tax as follows:

| **Currency** | ***Increase of 25 basis points*** *Effect on profit before tax* | |
|---|---|---|
| | **2007** ***KD 000's*** | 2006 *KD 000's* |
| KD | **1,968** | 222 |
| USD | **978** | 1,283 |
| EUR | **366** | 287 |
| GBP | **(4)** | 5 |

The decrease in the basis points will have an opposite impact on the net interest income. Also there are no material interest bearing financial assets available for sale, hence no sensitivity of equity has been disclosed.

**31 RISK MANAGEMENT (continued)**

***31.4.2 Foreign currency risk***

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

The table below analyses the effect on profit before tax, (due to change in the fair value of monetary assets and liabilities) and equity of an assumed 5% strengthening / weakening in the value of the currency rate against the Kuwaiti Dinar from levels applicable at the year end, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit or equity, whereas a positive amount reflects a net potential increase.

| | ***Change in currency rate by + 5%*** | | | |
|---|---|---|---|---|
| *Currency* | *Effect on equity* | | *Effect on profit before tax* | |
| | **2007** | 2006 | **2007** | 2006 |
| | ***KD 000's*** | *KD 000's* | ***KD 000's*** | *KD 000's* |
| USD | **(4,094)** | (2,220) | **5,237** | (633) |
| EURO | **(455)** | (28) | **(2,725)** | (5,179) |
| GBP | **(8)** | (4) | **239** | 29 |
| JOD | **(2,438)** | (2,008) | **7** | 2 |

***31.4.3 Equity price risk***

Equity price risk arises from changes in the fair values of equity investments. The unquoted equity price risk exposure arises from the Group's investment portfolio. The Group manages this through diversification of investments in terms of geographical distribution and industry concentration.

The Group's financial assets available for sale and financial assets at fair value through income statement in different geographical regions and industry sectors are as follows:

**31 RISK MANAGEMENT (continue)**

**31.4 MARKET RISK (continue)**

***31.4.3 Equity price risk (continue)***

**Geographical distribution**

| | *MENA 2007 KD 000's* | *Europe 2007 KD 000's* | *North America 2007 KD 000's* | *Asia 2007 KD 000's* | *Total 2007 KD 000's* | *Total 2006 KD 000's* |
|---|---|---|---|---|---|---|
| **Financial assets at fair value through income statement** | | | | | | |
| Quoted equities | **73,012** | **26** | **2,391** | **121** | **75,549** | 29,348 |
| Managed funds | **91,305** | **23,001** | **14,454** | **-** | **128,760** | 83,094 |
| | **164,317** | **23,027** | **16,845** | **121** | **204,309** | 112,442 |
| **Financial assets available for sale** | | | | | | |
| Equities – Quoted | **65,036** | **856** | **171** | **-** | **66,064** | 54,284 |
| Equities – Unquoted | **81,270** | **13,045** | **10,560** | **-** | **104,875** | 49,668 |
| Managed funds | **64,004** | **3,258** | **15,686** | **-** | **82,947** | 57,681 |
| | **210,310** | **17,159** | **26,417** | **-** | **253,886** | 161,633 |
| **Financial assets held to maturity** | **5,989** | **546** | **337** | **-** | **6,872** | 8,159 |

For unquoted investments carried at cost the impact of the changes in the equity prices will only be reflected in the consolidated income statement when the investment is sold or deemed to be impaired. Managed funds are carried at their net assets value provided by the fund manager at balance sheet date.

**31 RISK MANAGEMENT (continue)**

**31.4 MARKET RISK (continue)**

**Industrial distribution**

**31 December 2007**

| | ***Financial assets at fair value through income statement KD 000's*** | ***Financial assets available for sale KD 000's*** | ***Financial assets held to maturity KD 000's*** |
|---|---|---|---|
| Sovereign | 5,502 | - | 883 |
| Banking | 70,931 | 169,579 | 2,618 |
| Investment | 90,292 | 27,925 | - |
| Trade and commerce | 5,958 | 17,096 | - |
| Real estate | 6,668 | 18,871 | - |
| Manufacturing | 2,924 | - | - |
| Construction | 37 | 1,810 | - |
| Others | 21,997 | 18,605 | 3,371 |
| | **204,309** | **253,886** | **6,872** |

31 December 2006

| | *Financial assets at fair value through income statement KD 000's* | *Financial assets available for sale KD 000's* | *Financial assets held to maturity KD 000's* |
|---|---|---|---|
| Sovereign | 4,366 | - | 2,497 |
| Banking | 74,656 | 121,423 | 1,318 |
| Investment | 8,678 | 10,981 | - |
| Trade and commerce | 13,651 | 11,712 | - |
| Real estate | 2,701 | 7,880 | - |
| Manufacturing | 1,564 | - | - |
| Construction | 20 | 1,892 | - |
| Others | 6,806 | 7,745 | 4,344 |
| | 112,442 | 161,633 | 8,159 |

Any percentage change in equity price index of the above financial instruments will have a direct impact on income or equity.

**31 RISK MANAGEMENT (continued)**

**31.5 INSURANCE RISK**

Insurance risk is the risk that actual claims and benefits payments or the time thereof, differ from their expectation. The insurance polices are well diversified across various lines of business. In order to minimise financial exposure arising from large claims, the Group, in the normal course of business, enters into agreements with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth.

In the normal course of business, the Group cedes and assumes certain levels of risk in various areas of exposure with other insurance companies or reinsurers. Such reinsurance includes quota share, excess of loss, facultative and other forms of reinsurance on essentially all lines of business. Reinsurance contracts do not relieve the Group from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Group; consequently, allowances are established for amounts deemed uncollectible.

**31.6 PREPAYMENT RISK**

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rate fall. The fixed rate assets of the Group are not significant compared to the total assets. Moreover, other market conditions causing prepayment is not significant in the markets in which the Group operates. Therefore the Group considers the effect of prepayment on net interest income is not material after taking in to account the effect of any prepayment penalties.

**32 FAIR VALUE OF FINANCIAL INSTRUMENTS**

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of cash at banks, treasury bills and bonds, loans and advances, financial assets at fair value through income statement, financial assets available for sale and financial assets held to maturity. Financial liabilities consist of due to banks and other financial institutions, deposits from customers, loans payable, bonds and medium term notes.

Fair values of all financial instruments, except for financial assets available for sale as stated in Note 7 and bonds with fixed interest rates amounting to KD 64,748 thousand (2006: KD 65,000 thousand), are not materially different from their carrying values.

As of 31 December 2007 fair values of financial instruments based on quoted market prices and observable market data amounted to KD 1,582,717 thousand (2006: KD 354,178 thousand). Also certain financial instruments are recorded at fair value using valuation techniques as current market transactions or observable market data are not available. Their fair value is determined using a valuation technique and using the Group’s best estimate of the most appropriate techniques inputs. These are adjusted to reflect the marketability, earnings spread of these instruments and limitations of the techniques.

Fair value of financial assets carried at fair value through income statement - quoted and financial assets available for sale - quoted are based on quoted bid price and financial assets through income statement – managed funds are based on the net asset value (NAV) of the fund. The fair value of certain unquoted financial assets available for sale is determined using valuation techniques, where all the model inputs are observable in the market.

The methodologies and assumptions used to determine fair values of financial instruments is described in fair value section of Note 2: Significant Accounting Policies.

## 33 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the Group's assets and liabilities. The maturities of financial assets and financial liabilities have been determined according to when they are expected to be recovered or settled. The maturity profile for financial assets at fair value through income statement and financial assets available for sale is determined based on management's estimate of liquidation of those financial assets.

| | *Up to 3 months* *KD 000's* | *3 to 12 months* *KD 000's* | *Over 1 year* *KD 000's* | *Total* *KD 000's* |
|---|---|---|---|---|
| **2007** | | | | |
| **Financial assets** | | | | |
| Cash in hand and at banks | **785,212** | **89,276** | **4,088** | **878,576** |
| Treasury bills and bonds | **152,428** | **242,043** | **39,238** | **433,709** |
| Loans and advances | **386,245** | **762,297** | **547,914** | **1,696,456** |
| Financial assets at fair value through income statement | **112,515** | **84,747** | **7,047** | **204,309** |
| Financial assets available for sale | **70,761** | **-** | **193,601** | **264,362** |
| Financial assets held to maturity | **302** | **1,148** | **5,422** | **6,872** |
| Other assets | **77,620** | **44,620** | **42,830** | **165,070** |
| **TOTAL FINANCIAL ASSETS** | **1,585,083** | **1,224,131** | **840,140** | **3,649,354** |
| **Financial liabilities** | | | | |
| Due to banks and other financial institutions | **628,052** | **201,562** | **-** | **829,614** |
| Deposits from customers | **1,399,397** | **222,763** | **138** | **1,622,298** |
| Loans payable | **49,238** | **136,914** | **111,791** | **297,943** |
| Bonds | **-** | **15,000** | **49,829** | **64,829** |
| Medium term notes | **-** | **80,305** | **122,449** | **202,754** |
| Other liabilities | **98,896** | **119,766** | **60,464** | **279,126** |
| **TOTAL FINANCIAL LIABILITIES** | **2,175,583** | **776,310** | **344,671** | **3,296,564** |

| | *Up to 3 months* *KD 000's* | *3 to 12 months* *KD 000's* | *Over 1 year* *KD 000's* | *Total* *KD 000's* |
|---|---|---|---|---|
| 2006 | | | | |
| *Financial assets* | | | | |
| Cash in hand and at banks | 188,062 | 21,886 | 2,433 | 212,381 |
| Loans and advances | 26,224 | 24,603 | 21,043 | 71,870 |
| Financial assets at fair value through income statement | 105,312 | 2,524 | 5,020 | 112,856 |
| Financial assets available for sale | 27,900 | - | 138,217 | 166,117 |
| Financial assets held to maturity | - | 973 | 7,186 | 8,159 |
| Other assets | 25,999 | 22,657 | 30,654 | 79,310 |
| TOTAL FINANCIAL ASSETS | 373,497 | 72,643 | 204,553 | 650,693 |
| *Financial liabilities* | | | | |
| Due to banks and other financial institutions | 140,735 | 68,464 | - | 209,199 |
| Deposits from customers | 105,079 | 8,163 | - | 113,242 |
| Loans payable | 44,817 | 110,586 | 107,043 | 262,446 |
| Bonds | - | 15,000 | 73,123 | 88,123 |
| Medium term notes | - | - | 205,214 | 205,214 |
| Other liabilities | 38,320 | 70,743 | 45,492 | 154,555 |
| TOTAL FINANCIAL LIABILITIES | 328,951 | 272,956 | 430,872 | 1,032,779 |

**34 CAPITAL MANAGEMENT**

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, issue new shares or purchase/sale of treasury shares.

No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

The Group monitors capital at the level of the Parent Company and at each of the subsidiaries.

Based on considerations of various stakeholders (shareholders, rating agencies, debt markets) capital at the Parent Company is monitored in terms of a) Leverage and b) Net debt to portfolio value.

Leverage is defined as total debt at the Parent Company level divided by the equity attributable to the equity holders of the Parent. The ability to take on leverage provides the Parent Company with the financial flexibility to effect investment decisions in a timely manner. The Parent Company expects that the leverage does not exceed the target of 2.5 times over the medium term. The Parent Company includes within total debt, loans payable, bonds and medium term notes and accrued interest thereon.

| | ***2007*** | *2006* |
|---|---|---|
| | ***KD'000*** | *KD'000* |
| Loans payable | **35,490** | 44,817 |
| Bonds | **55,000** | 55,000 |
| Medium term notes | **175,454** | 176,300 |
| Accrued interest thereon | **2,318** | 2,567 |
| Total debt | **268,262** | 278,684 |
| Equity attributable to the equity holders of the Parent | **663,389** | 231,866 |
| Leverage | **0.40** | 1.20 |

At the parent level, net debt to portfolio value is a measure of the capacity to borrow and is defined as the ratio of gross debt, net of cash and cash equivalents to the portfolio value of investments. Portfolio value is computed as the sum of market value of listed investments and the fair value of unlisted investments. The Parent Company would not expect that the net debt to portfolio value would be outside the 20% to 30% target range over the medium term.

Each subsidiary in the Group maintains level of capital that is adequate to support the business and in terms of its financial exposure. Further, the regulated subsidiaries are governed by the capital adequacy and/or regulatory requirements in the jurisdictions in which they operate.

**KUWAIT PROJECTS COMPANY HOLDING K.S.C. (CLOSED) AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2006**

ERNST & YOUNG
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## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT PROJECTS COMPANY HOLDING K.S.C. (CLOSED)

We have audited the accompanying consolidated financial statements of Kuwait Projects Company Holding K.S.C. (Closed) (the "Parent Company") and subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated statement of income, consolidated statement of cash flows and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Directors' Responsibility for the consolidated financial statements**

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

**Auditors' Responsibility**

Our responsibility is to express an opinion on these 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 the auditors' judgements, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 reasonable basis for our opinion.

ERNST & YOUNG
AL AIBAN, AL OSAIMI & PARTNERS

Albazie & Co.
Member of RSM International
Public Accountants

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT PROJECTS COMPANY HOLDING K.S.C. (CLOSED) (continued)**

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2006 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on Other Legal and Regulatory Matters**

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the board of directors of the Parent Company relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the Parent Company's Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the Parent Company's Articles of Association have occurred during the year ended 31 December 2006 that might have had a material effect on the business of the Group or on its financial position.

WALEED A. AL OSAIMI
LICENCE NO. 68 A
OF ERNST & YOUNG

DR. SHUAIB A. SHUAIB
LICENCE NO. 33 A
Albazie & Co.
Member of RSM International

12 February 2007

State of Kuwait

## CONSOLIDATED BALANCE SHEET

31 December 2006

| | Notes | *2006 KD* | *2005 KD* |
|---|---|---|---|
| **ASSETS** | | | |
| Cash in hand and at banks | 3 | **212,380,845** | 138,116,307 |
| Investments at fair value through statement of income | 4 | **112,855,824** | 72,782,667 |
| Investments available for sale | 5 | **166,117,481** | 157,817,786 |
| Investments held to maturity | | **8,158,788** | 7,661,317 |
| Loans and advances | 6 | **71,870,261** | 51,386,069 |
| Investment properties | 7 | **6,792,006** | 5,829,828 |
| Investment in associates | 8 | **536,060,290** | 396,941,385 |
| Other assets | 9 | **102,047,490** | 97,388,585 |
| Goodwill | 10 | **142,245,331** | 135,782,128 |
| **TOTAL ASSETS** | | **1,358,528,316** | 1,063,706,072 |
| **LIABILITIES AND EQUITY** | | | |
| **Liabilities** | | | |
| Deposits | | **322,441,176** | 215,178,513 |
| Loans payable | 11 | **262,445,826** | 322,294,538 |
| Bonds | 12 | **88,123,479** | 119,572,511 |
| Medium term notes | 13 | **205,214,119** | - |
| Other liabilities | 14 | **154,554,322** | 118,355,641 |
| **Total liabilities** | | **1,032,778,922** | 775,401,203 |
| **Equity** | | | |
| Share capital | 15 | **104,962,070** | 104,962,070 |
| Share premium | | **3,111,028** | 3,111,028 |
| Treasury shares | 16 | **(3,078,298)** | (2,470,032) |
| Statutory reserve | 17 | **21,160,919** | 16,139,961 |
| Voluntary reserve | 18 | **20,885,978** | 15,865,020 |
| Treasury shares reserve | | **6,732,769** | 6,360,176 |
| Cumulative changes in fair values | | **26,781,378** | 31,825,669 |
| Foreign currency translation reserve | | **326,152** | 1,094,468 |
| ESOP reserve | | **233,827** | - |
| Retained earnings | | **50,750,613** | 34,585,441 |
| **Equity attributable to equity holders of the Parent Company** | | **231,866,436** | 211,473,801 |
| **Minority interest** | | **93,882,958** | 76,831,068 |
| **Total equity** | | **325,749,394** | 288,304,869 |
| **TOTAL LIABILITIES AND EQUITY** | | **1,358,528,316** | 1,063,706,072 |

**Faisal Hamad Al Ayyar**
**Managing Director & CEO**

The attached notes 1 to 37 form part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2006

| | *Notes* | ***2006 KD*** | *2005 KD* |
|---|---|---|---|
| **Revenues:** | | | |
| Investment income | 19 | **57,803,872** | 37,998,927 |
| Fees and commissions | | **14,653,271** | 12,568,723 |
| Share of results of associates | | **57,256,390** | 42,315,899 |
| Interest income | | **12,841,746** | 8,473,889 |
| Net insurance income | 20 | **9,493,805** | 8,440,744 |
| Net subscription income | 21 | **3,584,469** | 5,191,760 |
| Foreign exchange gain | | **2,759,933** | 1,040,630 |
| Other income | 22 | **1,243,305** | 2,476,254 |
| **Total revenues** | | **159,636,791** | 118,506,826 |
| **Expenses:** | | | |
| General and administrative expenses | | **49,375,214** | 32,268,251 |
| Interest expense | | **43,898,816** | 25,782,825 |
| Provision for loan loss | 6 & 14 | **680,237** | 441,100 |
| Impairment of investments available for sale | | **66,556** | 3,054,954 |
| Goodwill impairment loss | 10 | **-** | 676,352 |
| Board of Directors' remuneration | | **140,000** | 140,000 |
| **Total expenses** | | **94,160,823** | 62,363,482 |
| **PROFIT FOR THE YEAR** | | **65,475,968** | 56,143,344 |
| **Attributable to :** | | | |
| **Equity holders of the Parent Company** | | **50,069,582** | 38,011,320 |
| Minority interest | | **15,406,386** | 18,132,024 |
| | | **65,475,968** | 56,143,344 |
| | | ***Fils*** | *Fils* |
| **BASIC EARNINGS PER SHARE-attributable to equity holders of the Parent Company** | **23** | **48.51** | 37.20 |
| **DILUTED EARNINGS PER SHARE-attributable to equity holders of the Parent Company** | **23** | **48.34** | 37.10 |

**Faisal Hamad Al Ayyar**
**Managing Director & CEO**

The attached notes 1 to 37 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2006

| | Note | ***2006*** ***KD*** | *2005* *KD* |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit for the year attributable to equity holders of the Parent Company | | **50,069,582** | 38,011,320 |
| Adjustments for: | | | |
| Unrealised gain on investments at fair value through statement of income | | **(4,967,789)** | (8,109,600) |
| Gain on sale of investments | | **(48,062,805)** | (21,300,805) |
| Realised and unrealised gain from investment properties | | **(707,937)** | (153,390) |
| Share of results of associates | | **(57,256,390)** | (42,315,899) |
| Interest expense on loans and bonds | | **33,530,930** | 19,197,374 |
| Depreciation and amortization | | **4,139,792** | 3,152,591 |
| Provision for loan loss | | **680,237** | 441,100 |
| Impairment of investments available for sale | | **66,556** | 3,054,954 |
| Goodwill impairment loss | | **-** | 676,352 |
| Foreign exchange gain on loans payable and medium term notes | | **(1,781,546)** | - |
| Provision for employee stock option plan | | **233,827** | - |
| | | **(24,055,543)** | (7,346,003) |
| Changes in operating assets and liabilities: | | | |
| Deposits with original maturities exceeding three months | | **2,618,141** | 878,772 |
| Investments at fair value through statement of income | | **(30,740,160)** | (3,963,149) |
| Investments available for sale | | **9,574,350** | (20,260,493) |
| Loans and advances | | **(21,164,429)** | (3,105,385) |
| Other assets | | **(8,826,824)** | (37,133,555) |
| Deposits | | **107,262,663** | 596,996 |
| Other liabilities | | **33,426,017** | 33,780,593 |
| Net cash from (used in) operating activities | | **68,094,215** | (36,552,224) |
| **INVESTING ACTIVITIES** | | | |
| Investments held to maturity | | **(497,471)** | (945,167) |
| Investment in associates | | **(84,551,519)** | (63,590,708) |
| Dividends received from associates | | **22,657,776** | 15,939,776 |
| Investment properties | | **(254,241)** | (1,110,351) |
| Net cash used in investing activities | | **(62,645,455)** | (49,706,450) |
| **FINANCING ACTIVITIES** | | | |
| Loans payable | | **(59,062,212)** | 183,763,850 |
| Medium term notes | | **206,158,869** | - |
| Bonds | | **(31,449,032)** | (15,731,344) |
| Purchase of treasury shares | | **(2,263,285)** | (106,119) |
| Proceeds from sale of treasury shares | | **2,027,612** | 7,219,956 |
| Interest paid | | **(30,849,777)** | (16,616,694) |
| Dividends paid to equity holders of the Parent Company | | **(25,764,133)** | (18,421,919) |
| Minority interest | | **13,898,958** | (37,408,854) |
| Net cash from financing activities | | **72,697,000** | 102,698,876 |
| Foreign currency translation adjustment | | **(1,263,081)** | (49,682) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **76,882,679** | 16,390,520 |
| Cash and cash equivalents at 1 January | | **128,522,752** | 112,132,232 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | 3 | **205,405,431** | 128,522,752 |

The attached notes 1 to 37 form part of these consolidated financial statements.

# STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

| | *Attributable to equity holders of the Parent Company* | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Share capital KD* | *Share premium KD* | *Treasury shares KD* | *Statutory reserve KD* | *Voluntary reserve KD* | *Treasury shares reserve KD* | *Cumulative changes in fair values KD* | *Foreign currency translation reserve KD* | *ESOP reserve KD* | *Retained earnings KD* | *Total KD* | *Minority interest KD* | *Total equity KD* |
| Balance at 31 December 2004 | 104,962,070 | 3,111,028 | (7,288,230) | 12,324,829 | 12,049,888 | 4,064,537 | 14,222,506 | 2,078,612 | - | 20,480,703 | 166,005,943 | 70,427,389 | 236,433,332 |
| Change in equity of associates | - | - | - | - | - | - | 5,052,335 | (931,294) | - | 472,361 | 4,593,402 | - | 4,593,402 |
| Changes in fair value of investments available for sale | - | - | - | - | - | - | 12,644,909 | - | - | - | 12,644,909 | - | 12,644,909 |
| Effect of sale of investment available for sale | - | - | - | - | - | - | (590,426) | - | - | - | (590,426) | - | (590,426) |
| Change in fair value of interest rate swap | - | - | - | - | - | - | 563,272 | - | - | - | 563,272 | - | 563,272 |
| Foreign currency translation adjustment | - | - | - | - | - | - | - | (49,682) | - | - | (49,682) | - | (49,682) |
| Other movements in equity of subsidiaries | - | - | - | - | - | - | - | - | | 1,591,524 | 1,591,524 | - | 1,591,524 |
| Effect of sale of investments in associate and subsidiary companies | - | - | - | - | - | - | (66,927) | (3,168) | - | - | (70,095) | - | (70,095) |
| Gain on sale of treasury shares | - | - | - | - | - | 2,295,639 | - | - | - | - | 2,295,639 | - | 2,295,639 |
| Effect of adopting IFRS 3 | - | - | - | - | - | - | - | - | - | 218,261 | 218,261 | - | 218,261 |
| Income and expenses recognised directly in equity | - | - | - | - | - | 2,295,639 | 17,603,163 | (984,144) | - | 2,282,146 | 21,196,804 | - | 21,196,804 |
| Profit for the year | - | - | - | - | - | - | - | - | - | 38,011,320 | 38,011,320 | 18,132,024 | 56,143,344 |
| Total income and expenses for the year | - | - | - | - | - | 2,295,639 | 17,603,163 | (984,144) | - | 40,293,466 | 59,208,124 | 18,132,024 | 77,340,148 |
| Dividends for 2004 at 18 fils per share | - | - | - | - | - | - | - | - | - | (18,558,464) | (18,558,464) | - | (18,558,464) |
| Transfers to reserves | - | - | - | 3,815,132 | 3,815,132 | - | - | - | - | (7,630,264) | - | - | - |
| Purchase of treasury shares | - | - | (106,119) | - | - | - | - | - | - | - | (106,119) | - | (106,119) |
| Sale of treasury shares | - | - | 4,924,317 | - | - | - | - | - | - | - | 4,924,317 | - | 4,924,317 |
| Net movement in minority interest | - | - | - | - | - | - | - | - | - | - | - | (11,728,345) | (11,728,345) |
| Balance at 31 December 2005 | 104,962,070 | 3,111,028 | (2,470,032) | 16,139,961 | 15,865,020 | 6,360,176 | 31,825,669 | 1,094,468 | - | 34,585,441 | 211,473,801 | 76,831,068 | 288,304,869 |
| Change in equity of associates | - | - | - | - | - | - | 182,778 | 506,171 | - | 551,101 | 1,240,050 | - | 1,240,050 |
| Changes in fair value of investments available for sale | - | - | - | - | - | - | 8,453,351 | - | - | - | 8,453,351 | - | 8,453,351 |
| Change in fair value of interest rate swap | - | - | - | - | - | - | (78,423) | - | - | - | (78,423) | - | (78,423) |
| Effect of sale of investment available for sale | - | - | - | - | - | - | (12,479,999) | - | - | - | (12,479,999) | - | (12,479,999) |
| Foreign currency translation adjustment | - | - | - | - | - | - | - | (1,263,081) | - | - | (1,263,081) | - | (1,263,081) |
| Other movements in equity of subsidiaries | - | - | - | - | - | - | - | - | - | 1,442,049 | 1,442,049 | - | 1,442,049 |
| Effect of sale of investments in associate and subsidiary companies | - | - | - | - | - | - | (1,121,998) | (11,406) | - | - | (1,133,404) | - | (1,133,404) |
| Gain on sale of treasury shares | - | - | - | - | - | 372,593 | - | - | - | - | 372,593 | - | 372,593 |
| Employee share option plan (ESOP) reserve (Note 25) | - | - | - | - | - | - | - | - | 233,827 | - | 233,827 | - | 233,827 |
| Income and expenses recognised directly in equity | - | - | - | - | - | 372,593 | (5,044,291) | (768,316) | 233,827 | 1,993,150 | (3,213,037) | - | (3,213,037) |
| Profit for the year | - | - | - | - | - | - | - | - | - | 50,069,582 | 50,069,582 | 15,406,386 | 65,475,968 |
| Total income and expenses for the year | - | - | - | - | - | 372,593 | (5,044,291) | (768,316) | 233,827 | 52,062,732 | 46,856,545 | 15,406,386 | 62,262,931 |
| Dividends for 2005 at 25 fils per share (Note 24) | - | - | - | - | - | - | - | - | - | (25,855,644) | (25,855,644) | - | (25,855,644) |
| Transfers to reserves | - | - | - | 5,020,958 | 5,020,958 | - | - | - | - | (10,041,916) | - | - | - |
| Purchase of treasury shares | - | - | (2,263,285) | - | - | - | - | - | - | - | (2,263,285) | - | (2,263,285) |
| Sale of treasury shares | - | - | 1,655,019 | - | - | - | - | - | - | - | 1,655,019 | - | 1,655,019 |
| Net movement in minority interest | - | - | - | - | - | - | - | - | - | - | - | 1,645,504 | 1,645,504 |
| Balance at 31 December 2006 | **104,962,070** | **3,111,028** | **(3,078,298)** | **21,160,919** | **20,885,978** | **6,732,769** | **26,781,378** | **326,152** | **233,827** | **50,750,613** | **231,866,436** | **93,882,958** | **325,749,394** |

The attached notes 1 to 37 form part of these consolidated financial statements.

## 1 INCORPORATION AND PRINCIPAL ACTIVITIES

Kuwait Projects Company Holding K.S.C. (Closed), (the "Parent Company") is a closed shareholding company organised under the laws of the State of Kuwait, and listed on the Kuwait Stock Exchange. The address of the Parent Company's registered office is P.O. Box 23982, Safat 13100 - State of Kuwait.

The principal activities of the Parent Company comprise the following:

- Owning stocks and shares in Kuwaiti or non-Kuwaiti companies and shares in Kuwaiti or non-Kuwaiti limited liability companies and participating in the establishment of, lending to and managing of these companies and acting as a guarantor for these companies.
- Lending money to companies in which it owns shares, guaranteeing them with third parties where the holding Parent Company owns 20% or more of the capital of the borrowing company.
- Owning industrial equities such as patents, industrial trademarks, royalties, or any other related rights, and franchising them to other companies or using them within or outside the State of Kuwait.
- Owning real estate and moveable property to conduct its operations within the limits as stipulated by law.
- Employing excess funds available with the Parent Company by investing them in investment and real estate portfolios managed by specialised companies.

The major shareholder of the Parent Company is AlFuttooh Investments Co. W.L.L.

The consolidated financial statements of the Parent Company and Subsidiaries (the Group) were authorised for issue by the Board of Directors on 12 February 2007, and are issued subject to the approval of the Ordinary General Assembly of the shareholders of the Parent Company.

## 2 SIGNIFICANT ACCOUNTING POLICIES

**Basis of preparation**
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of Ministerial Order No. 18 of 1990.

The consolidated financial statements are presented in Kuwaiti Dinars.

The consolidated financial statements have been prepared under the historical cost convention as modified for the revaluation at fair value of investments at fair value through statement of income, investments available-for-sale, investment properties and derivative financial instruments.

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year.

**International Accounting Standards Board ('IASB') Standards and International Financial Reporting Interpretations Committee ('IFRIC') Interpretations issued but not yet effective**
At the date of authorisation of these consolidated financial statements, the following IASB Standards and Interpretations have been issued but are not yet effective.

***Amendments to IAS 1 – Capital Disclosures***
Amendments to IAS 1 *Presentation of Financial Statements* were issued by the IASB as *Capital Disclosures* in August 2005. They are required to be applied for periods beginning on or after 1 January 2007. When effective, these amendments will require disclosure of information enabling evaluation of the Parent Company's objectives, policies and processes for managing capital.

***IFRS 7 Financial Instruments: Disclosures***
IFRS 7 *Financial Instruments: Disclosures* was issued by the IASB in August 2005, becoming effective for periods beginning on or after 1 January 2007. The new standard will require additional disclosure of the significance of financial instruments for the Parent Company's financial position and performance and information about exposure to risks arising from financial instruments.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

***IFRS 8 Operating Segments***
IFRS 8 *Operating Segments* was issued by the IASB in November 2006, becoming effective for periods commencing on or after 1 January 2009. The new standard may require changes in the way the Parent Company discloses information about its operating segments.

***IFRIC Interpretations***
During 2006 IFRIC issued the following interpretations:

- IFRIC Interpretation 8 *Scope of IFRS 2*
- IFRIC Interpretation 9 *Reassessment of Embedded Derivatives*
- IFRIC Interpretation 11 *IFRS 2 – Group and Treasury Share Transactions*

Management do not expect these interpretations to have a significant impact on the Parent Company's financial statements when implemented in 2007.

**Principles of consolidation**
The consolidated financial statements include the accounts of the Parent Company and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

All material inter-company balances and transactions, including inter-company profits and unrealised profits and losses are eliminated on consolidation.

Subsidiaries are fully consolidated from the date on which control is transferred to the Parent Company. Control is achieved where the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of the subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

Minority interest represents the portion of profit and loss and net assets not held by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet separately from equity attributable to the equity holders of the Parent Company. Acquisitions of minority interest are accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

The principal subsidiaries of the Group are as follows:

| ***Name of company*** | ***Country of incorporation*** | ***Effective interest as at 31 December 2006*** | *Effective interest as at 31 December 2005* |
|---|---|---|---|
| United Gulf Bank B.S.C. (UGB) | Bahrain | 76% | 74% |
| Gulf Insurance Company K.S.C. (GIC) | Kuwait | *37% | *37% |
| Gulf DTH L.D.C. (Showtime) | Cayman Islands | 78% | 78% |
| United Gulf Management Inc. | USA (Boston) | 100% | 100% |
| United Gulf Management Ltd. | United Kingdom | 100% | 100% |
| Hunter Capital Company | USA (Utah) | 70% | 70% |
| Kuwait United Consultancy Company K.S.C. (Closed) | Kuwait | 98% | 98% |
| Kuwait Projects Company (Cayman) | Cayman Islands | 100% | - |
| ***Held through UGB*** | | | |
| KIPCO Asset Management Company K.S.C. (Closed) | Kuwait | 71% | 72% |
| UGB Securities Company B.S.C. (Closed) | Bahrain | 91% | 92% |
| Al Ahlia Arabian Markets Company K.S.C. (Closed) | Kuwait | 96% | 96% |
| First Arabian Markets Company K.S.C. (Closed) | Kuwait | 96% | 96% |

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

| ***Name of company*** | ***Country of incorporation*** | ***Effective interest as at 31 December 2006*** | *Effective interest as at 31 December 2005* |
|---|---|---|---|
| KAMCO Real Estate Company SPC | Bahrain | 100% | 100% |
| Advantage Management Consulting K.S.C. (Closed) | Kuwait | 58% | 58% |
| Algeria Gulf Bank | Algeria | 83% | 83% |
| Tunis International Bank | Tunisia | 77% | 77% |
| United Gulf Financial Services Company | Qatar | 88% | - |
| ***Held through GIC*** | | | |
| Saudi Pearl Insurance Company Limited (SPI) | Bahrain | 100% | 90% |
| Fajr Al Gulf Insurance & Reinsurance Co. SAL (Owned by SPI) | Lebanon | 51% | 51% |
| Arab Misr Insurance Group Company S.A.E | Egypt | 54% | 54% |
| Syrian Kuwaiti Insurance Company S.S.C. | Syria | **45% | - |
| Bahrain Kuwait Insurance Company B.S.C. | Bahrain | **42% | 21% |

* Holds 51% (2005: 51%) of total voting power
**Control through majority board representation

**Financial assets and liabilities**
The Group classifies its financial assets and liabilities as investments at fair value through statement of income, investments held to maturity, loans and receivables, investments available for sale or financial liabilities.

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instruments. A regular way purchase of financial assets is recongnised using the trade date accounting. Financial liabilities are not recognised unless one of the parties has performed or the contract is a derivative contract.

Financial assets and liabilities are measured initially at fair value (transaction price) plus, in case of a financial asset or financial liability not at fair value through statement of income, directly attributable transaction costs. Transaction costs on financial assets and financial liabilities at fair value through statement of income are expensed immediately.

*Investments at fair value through statement of income*
The Group upon initial recognition classifies investments as investments at fair value through statement of income if they acquired principally for the purpose of selling in the short term or if they are managed and their performance is evaluated on a reliable fair value basis in accordance with a documented investment strategy.

After initial recognition investments at fair value through statement of income are remeasured at fair value with all changes in fair value recognised in the consolidated statement of income.

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

After initial recognition, investments available for sale are measured at fair value with gains and losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain and loss previously reported in equity is recognised in the statement of income. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial assets and liabilities (continued)**

*Investments held to maturity*
The Group classifies investments as held to maturity if the requirements of IAS 39 are met and in particular the Group has the intention and ability to hold these investments to maturity.

After initial recognition investments held to maturity are carried at amortised cost using the effective interest rate method, less impairment losses, if any.

*Loans and receivables*
Debt instruments which do not meet the definition of held to maturity and which have fixed or determinable payments but are not quoted in an active market are classified as loans and receivables.

Loans and advances are classified as “Loans and receivables” and are carried at amortised cost, less any amounts written off, and net of suspended interest and provision for impairment.

*Financial liabilities*
Financial liabilities are stated at amortised cost. “Deposits”, “Loans payable”, “Medium Term Notes”, and “Bonds” are classified as financial liabilities.

*Fair value*
The fair value of investments traded in recognised financial markets is their quoted market price, based on the current bid price. For investments where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current market value of another instrument that is substantially the same or is based on discounted cash flow analysis.

*Derecognition*
A financial asset (in whole or in part) is derecognised either when: the contractual rights to receive the cash flows from the asset have expired; the Group retains the right to receive the cash flows from the assets, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass through’ arrangement; or Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of ownership of the asset, but has transferred control of the asset. Where the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

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

**Investment in associates**
An associate is one over which the Group has significant influence but not control over its operations, generally accompanying, directly or indirectly, a shareholding of between 20% and 50% of the outstanding share capital and is accounted for by the equity method.

Under the equity method, investment in an associate is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group’s share of net assets of the investee. The Group recognises in the consolidated statement of income its share of the total recognised profit or loss of the associate from the date that influence or ownership effectively commenced until the date that it effectively ceases. Distributions received from an associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Group’s share in the associate arising from changes in the associate’s equity that have not been recognised in the associate's statement of income. The Group's share of those changes is recognised directly in equity.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investment in associates (continued)**
Whenever impairment requirements of IAS 36, indicate that investment in an associate may be impaired, the entire carrying amount of investment is tested by comparing its recoverable amount with its carrying value. Goodwill is included in the carrying amount of an investment in associate and, therefore, is not separately tested for impairment.

Unrealised gains on transactions with an associate are eliminated to the extent of the Group's share in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred. An assessment of investment in an associate is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist.

**Investment properties**
Investment properties are initially measured at cost. Subsequently, all investment properties are carried at fair value that is determined based on valuation performed by independent valuers at the end of each year using valuation methods consistent with the nature and usage of the investment properties. Gains or losses from change in the fair value are recognised in the consolidated statement of income. Land for development is valued at cost less impairment losses.

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

Land is not depreciated. Depreciation is computed on a straight-line basis over the estimated useful lives of other property and equipment as follows:

| | |
|---|---|
| Buildings | 10 to 50 years |
| Furniture and fixtures | 1 to 10 years |
| Motor vehicles | 1 to 4 years |
| Leasehold improvements | 7 to 10 years |
| Plant and equipment | 3 to 10 years |

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits arising from items of property and equipment.

**Business combinations and goodwill**
Business combinations are accounted for using the acquisition accounting method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of an acquisition over the Group's share of the acquiree's fair value of the net identifiable assets as at the date of the acquisition. Following initial recognition, goodwill is measured at cost less impairment losses. Any excess, at the date of acquisition, of the Group's share in the acquiree's fair value of the net identifiable assets over the cost of the acquisition is recognised as negative goodwill. Negative goodwill arising on an acquisition is recongnised directly in the consolidated statement of income.

Goodwill is allocated to each of the Group's cash-generating units or groups of cash generating units and is tested annually for impairment. Goodwill impairment is determined by assessing the recoverable amount of cash-generating unit, to which goodwill relates. The recoverable value is the value in use of the cash-generating unit, which is the net present value of estimated future cash flows expected from such cash-generating unit. If the recoverable amount of cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit prorated on the basis of the carrying amount of each asset in the unit. Any impairment loss recognised for goodwill is not reversed in a subsequent period.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Business combinations and goodwill (continued)**
Where goodwill forms part of a cash-generating unit (group of cash generating units) and part of the operations within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash generation unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation difference and goodwill is recognised in the consolidated statement of income.

**Provisions**
Provisions are recognised when the Group has a present obligation (legal or constructive) arising from past event and the costs to settle the obligation are both probable and reliably measurable.

**End of service indemnity**
Provision is made for amounts payable to employees under the Kuwaiti Labor Law, employee contracts and applicable labor laws in the countries where the subsidiaries operate. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on the balance sheet date.

**Insurance claims**
Insurance claims, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, are charged to income as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the Group and those not reported at the balance sheet date.

The reserve for outstanding claims comprises of the estimated cost of claims incurred but not settled at the balance sheet date, whether reported or not. Reserves for reported claims not paid as at the balance sheet date is made on the basis of individual case estimates and on management's judgement.

**Reinsurance**
In the normal course of business, the Group cedes and assumes certain levels of risk in various areas of exposure with other insurance companies or reinsurers. Such reinsurance includes quota share, excess of loss, facultative and other forms of reinsurance on essentially all lines of business. Reinsurance contracts do not relieve the Group from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Group; consequently, allowances are established for amounts deemed uncollectable. Amounts recoverable from reinsurers, are estimated in a manner consistent with the related claim liability.

**Liability adequacy test**
At each balance sheet date, the Group assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred policy acquisition costs) is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in income and an unexpired risk provision created.

**Share based payment transactions**
The Group operates an equity-settled, share-based Employee Stock Option Plan (ESOP). Under the terms of the plan, share options are granted to eligible employees. The options are exercisable in future period. The fair value of the options at the date on which they are granted is recognised as an expense over the vesting period with corresponding effect to equity. The fair value of the options is determined using Black-Scholes option pricing model.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Treasury shares**
Treasury shares consist of the Parent Company's own issued shares that have been reacquired by the Group and not yet reissued or canceled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity. When the treasury shares are reissued, gains are credited to a separate account in equity, (the "treasury shares reserve"), which is not distributable. Any realised 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 the voluntary reserve and statutory reserve. Gains realised 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 account. No cash dividends are paid on these shares. The issue of stock dividend shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

**Foreign currency**
Foreign currency transactions are recorded in Kuwaiti Dinars at rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Kuwaiti Dinars at rates of exchange prevailing on that date. Any resultant gains or losses are recognised in the consolidated statement of income.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Kuwaiti Dinars at the foreign exchange rates prevailing at the dates that the values were determined. In case of non-monetary assets whose change in fair values are recognised directly in equity, foreign exchange differences are recognised directly in equity and for non-monetary assets whose change in fair value are recognised in the consolidated statement of income are recognised in the consolidated statement of income.

Assets including goodwill and liabilities, both monetary and non-monetary, of foreign operations are translated at the exchange rates prevailing at the balance sheet date. Operating results of such operations are translated at average exchange rates for the year. The resulting exchange differences are accumulated in a separate section of equity (foreign currency translation reserve) until the disposal of the foreign operation.

**Income recognition**
Revenues and expenses are recognised on the accrual basis.

Interest income and related fees are recognised using the effective yield method.

Management fees and commission income are recognised when earned.

Insurance premiums are recognised as revenue on a pro rata basis over the policy term. The portion of premiums that will be earned in the future are deferred and reported as unearned premiums.

Gains and losses on the sale of investments are recognised upon completion of the sale transaction. Dividend income is recognised when the right to receive payment is established.

Subscription revenue is recognised as the services are provided.

**Cash and cash equivalents**
For purposes of the statement of cash flows, cash and cash equivalents includes cash and bank balances, deposits and other short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities up to three months from the date of acquisition and that are subject to an insignificant risk of change in value.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Derivative financial instruments**
Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, Derivative financial instruments are stated at fair value. The resultant gain or loss on remeasurement to fair value is recognised in the consolidated statement of income. However, where derivative financial instruments qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

**Hedging**
For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows of a recognised asset or liability or a forecasted transaction.

In relation to fair value hedges that qualify for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value, as well as related changes in fair value of the item being hedged, are recognised immediately in the consolidated statement of income.

In relation to cash flow hedges that qualify for hedge accounting, the gain or loss on the hedging instrument is recognised initially in equity and either transferred to the consolidated statement of income for the period in which the hedged transaction impacts the consolidated statement of income, or included as part of the cost of the related asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. For fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of income.

**Impairment of assets**
The carrying amounts of the Group’s assets are reviewed at each balance sheet date to determine whether there is any indication or objective evidence of impairment or when annual impairment testing for an asset is required. If any such indication or evidence exists, the asset’s recoverable amount is estimated and an impairment loss is recognised in the consolidated statement of income whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable value of investments held to maturity and loans and advances is based on the net present value of future cash flows discounted at original interest rates. The provision for impairment of loans and advances also covers losses where there is objective evidence that probable losses are present in components of the loans and advances portfolio at the balance sheet date. Assets with a short duration are not discounted. The recoverable amount of the Group’s investments available for sale is their fair value.

Reversal, of impairment losses except for impairment losses relating to goodwill recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal of impairment losses are recognised in the consolidated statement of income except for available for sale equity investments which are recognised in the cumulative changes in fair values.

**Contingencies**
Contingent liabilities are not recognised in the consolidated financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefits is probable.

**Judgments and estimation uncertainty**
Significant judgments made by the management and key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

*Classification of investments*
Judgments are made in the classification of financial instruments based on management's intention at acquisition.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Judgments and estimation uncertainty (continued)**

*Provision for outstanding claims*
Considerable judgment by management is required in the estimation of amounts due to contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgment and uncertainly and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

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

*Impairment losses on loans and advances*
The Group reviews its problem loans and advances on a quarterly basis to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

*Collective impairment provisions on loans and advances*
In addition to specific provisions against individually significant loans and advances, the Group also makes a collective impairment provision against loans and advances which although not specifically identified against a loan with greater risk of default than when originally granted. This collective provision is based on any deterioration in the internal grade of the loan since it was granted. The amount of the provision is based on the historical loss pattern for loans within each grade and is adjusted to reflect current economic changes.

These internal gradings take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence as well as identified structural weaknesses or deterioration in cash flows.

*Valuation of unquoted investments*
Valuation of unquoted equity investments is normally based on one of the following:

- Recent arm's length market transactions;
- Current fair value of another instrument that is substantially the same;
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; and
- Other valuation models

*Impairment of goodwill*
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

**3 CASH IN HAND AND AT BANKS**

| | ***2006*** ***KD*** | *2005* *KD* |
|---|---|---|
| Cash and bank balances | **28,562,463** | 10,240,795 |
| Deposits with original maturities up to three months | **176,842,966** | 118,281,957 |
| Cash and cash equivalents | **205,405,431** | 128,522,752 |
| Add: Deposits with original maturities exceeding three months | **6,975,414** | 9,593,555 |

| | |
|---|---|
| **212,380,845** | 138,116,307 |

## 4 INVESTMENTS AT FAIR VALUE THROUGH STATEMENT OF INCOME

| | *2006* *KD* | *2005* *KD* |
|---|---|---|
| Quoted debt securities | **414,072** | 7,928 |
| Quoted equities | **29,347,690** | 27,587,946 |
| Managed funds | **83,094,062** | 45,186,793 |
| | **112,855,824** | 72,782,667 |

Investments in managed funds primarily represent funds invested through unlisted companies and limited partnership interests. The fund managers have created these legal structures for tax efficiency and to meet other investor requirements. The underlying investments in these funds are primarily in publicly traded debt and equity instruments.

## 5 INVESTMENTS AVAILABLE FOR SALE

| | *2006* *KD* | *2005* *KD* |
|---|---|---|
| **Quoted** | | |
| Equities | **32,401,179** | 47,393,674 |
| Debt securities | **3,467,230** | 2,628,955 |
| Others | **4,074,235** | 9,036,180 |
| **Unquoted** | | |
| Equities | **67,318,053** | 46,842,305 |
| Debt securities | **1,017,028** | 1,510,517 |
| Managed funds | **54,851,922** | 48,389,912 |
| Others | **2,987,834** | 2,016,243 |
| | **166,117,481** | 157,817,786 |

Included under unquoted equities are investments amounting to KD 50,039,225 (2005: KD 20,141,496) are carried at cost, less impairment if any, due to the unpredictable nature of their future cash flows and the lack of other suitable methods for arriving at a reliable fair value for these investments.

## 6 LOANS AND ADVANCES

The composition of loans and advances, classified by type of borrower, is as follows:

| | *2006* *KD* | *2005* *KD* |
|---|---|---|
| Government and related institutions | **-** | 265,183 |
| Banks and financial institutions | **19,037,491** | 11,650,132 |
| Corporate business and others | **54,805,834** | 40,696,783 |
| | **73,843,325** | 52,612,098 |
| Less: Provision for loan loss | **(1,973,064)** | (1,226,029) |
| | **71,870,261** | 51,386,069 |

## 6 LOANS AND ADVANCES (continued)

The movement in the provision for loan loss for the year is as follows:

| | *2006* *KD* | *2005* *KD* |
|---|---|---|
| Opening balance | **1,226,029** | 2,733,208 |
| Foreign exchange translation adjustment | **110,747** | (66,804) |
| Provision made during the year | **762,020** | 196,789 |
| Provision released | **(125,732)** | - |
| Provision written-off | **-** | (1,637,164) |
| Closing balance | **1,973,064** | 1,226,029 |

As at 31 December 2006 loans and advances on which interest income is not being recognised amounted to KD 1,973,064 ( 2005: KD 1,898,000).

## 7 INVESTMENT PROPERTIES

| | *2006* *KD* | *2005* *KD* |
|---|---|---|
| Buildings | **4,320,037** | 4,109,138 |
| Land | **2,471,969** | 1,720,690 |
| | **6,792,006** | 5,829,828 |

Investment properties are stated at fair value determined based on valuations performed by external professional valuers at year end on the basis of open market value, supported by market evidence. Fair values of properties for which no reliable valuation is available by external professional valuers, are based on management's valuation.

**8 INVESTMENT IN ASSOCIATES**

| ***Name of company*** | ***Country of incorporation*** | ***Effective interest 2006*** | ***Carrying value 2006*** | *Effective interest 2005* | *Carrying value 2005* |
|---|---|---|---|---|---|
| Burgan Bank S.A.K. | Kuwait | 38% | 124,503,943 | 37% | 105,982,612 |
| National Mobile Telecommunications Company K.S.C. (Closed) | Kuwait | 32% | 237,110,137 | 27% | 164,475,607 |
| United Real Estate Company K.S.C. (Closed) | Kuwait | 34% | 44,247,644 | 34% | 43,514,143 |
| United Industries Co. K.S.C. (Closed) | Kuwait | 45% | 32,934,665 | 44% | 23,790,448 |
| Jordan Kuwait Bank J.P.S.C. | Jordan | 44% | 39,995,245 | 44% | 21,085,429 |
| Gulf Egypt for Hotels and Tourism Company S.A.E. (Closed) | Egypt | - | - | 44% | 10,872,013 |
| United Cables Company K.S.C. (Closed) | Kuwait | 45% | 7,270,629 | 48% | 8,077,309 |
| United Medical Services Co. K.S.C. (Closed) | Kuwait | 30% | 3,790,101 | 27% | 2,096,798 |
| United Warehousing and Refrigeration Company K.S.C. (Closed) | Kuwait | 45% | 2,162,515 | 45% | 2,213,070 |
| Salem Al Marzouk & Sabah Abi Hanna W.L.L. | Kuwait | 30% | 428,655 | 30% | 330,563 |
| Zaksat General Trading Co. W.L.L. | Kuwait | 50% | 25,000 | 50% | 25,000 |
| Bahrain Kuwait Insurance Company B.S.C. (BKIC) (see note below) | Bahrain | - | - | 21% | 4,014,000 |
| Manafae Investment Company K.S.C. (Closed) | Kuwait | 27% | 5,560,132 | 27% | 5,324,485 |
| Al Dhiyafa Holding Company K.S.C. (Closed) | Kuwait | 27% | 13,654,660 | 40% | 400,137 |
| Bank of Baghdad | Iraq | 25% | 5,197,989 | 25% | 4,739,771 |
| Dhow Development Capital | United Kingdom | 20% | 108,808 | - | - |
| Kuwait Private Equity Opportunity Fund | Kuwait | 45% | 6,286,156 | - | - |
| North Africa Holding Company K.S.C. (Closed) | Kuwait | 21% | 10,592,306 | - | - |
| Syria Gulf Bank | Syria | 26% | 2,172,310 | - | - |
| United Universal Real Estate Co. K.S.C. (Closed) | Kuwait | 20% | 19,395 | - | - |
| | | | **536,060,290** | | 396,941,385 |

Gulf Egypt for Hotels and Tourism Company (GEHT) was sold to another associate during the year and realized a net gain of KD 2,132,697.

During the year, one of the subsidiaries (Gulf Insurance Company K.S.C) acquired additional equity interest of 21.3% in Bahrain Kuwait Insurance Company B.S.C. (an associate) for KD 4,709,087. This has resulted in Group acquiring control over BKIC; accordingly it has been classified as a subsidiary company and has been consolidated from the date control was acquired.

The investment in National Mobile Telecommunications Company K.S.C. (Closed) includes an amount of KD 74,677,827 (2005: KD 51,913,833), net of amortisation in respect of its operating license. This amount is amortised over a period of 50 years, from the date of creation. Amortisation expense for the year is KD 1,422,849 (2005: KD 884,958).

Investment in associates include quoted associates with a carrying value of KD 483,989,623 (2005: KD 367,602,010) having a fair value of KD 761,915,345 (2005: KD 655,750,418).

Investment in an associate amounting to KD 39,811,722 (2005: KD 17,135,581) has been pledged as collateral against certain loans (Note 11).

**8 INVESTMENT IN ASSOCIATES (continued)**

| | ***2006*** | *2005* |
|---|---|---|
| | ***KD*** | *KD* |
| **Associates' balance sheet:** | | |
| Total Assets | **4,095,301,138** | 3,702,167,631 |
| Total Liabilities | **3,149,693,972** | 2,879,160,884 |
| Net assets | **945,607,166** | 823,006,747 |
| **Associates' revenue and profit:** | | |
| Revenue | **641,562,741** | 479,458,652 |
| Profit for the year | **175,256,692** | 132,582,488 |

**9 OTHER ASSETS**

| | ***2006*** | *2005* |
|---|---|---|
| | ***KD*** | *KD* |
| Premiums, insurance and recoverable reinsurance balances | **34,488,513** | 27,931,339 |
| Accounts receivable | **12,907,613** | 24,309,103 |
| Property and equipment – net | **22,738,047** | 25,638,024 |
| Accrued interest and other income | **3,785,102** | 528,067 |
| Prepaid expenses | **17,480,503** | 12,267,039 |
| Other | **10,647,712** | 6,715,013 |
| | **102,047,490** | 97,388,585 |

**10 GOODWILL**

| | ***2006*** | *2005* |
|---|---|---|
| | ***KD*** | *KD* |
| Opening balance | **135,782,128** | 23,753,887 |
| Foreign exchange translation adjustment | **(1,155,103)** | 3,982 |
| Additions | **11,987,110** | 115,365,808 |
| Related to disposals | **(4,368,804)** | (2,665,197) |
| Impairment loss | **-** | (676,352) |
| Closing balance | **142,245,331** | 135,782,128 |

Additions to goodwill during the year include goodwill resulting on acquisition of new subsidiaries by GIC amounting to KD 2,102,000. The balance of additions and related disposals of goodwill relate to purchase and sale of shares in UGB.

**11 LOANS PAYABLE**

| | ***2006*** | *2005* |
|---|---|---|
| | ***KD*** | *KD* |
| **By the Parent Company:** | | |
| Loans with maturity within 1 year | **44,816,700** | 68,897,595 |
| Loans with maturity above 1 year | **-** | 80,300,000 |
| | **44,816,700** | 149,197,595 |
| **By the subsidiaries:** | | |
| Loans with maturity within 1 year | **110,297,281** | 85,051,324 |
| Loans with maturity above 1 year | **138,597,596** | 92,083,395 |
| | **248,894,877** | 177,134,719 |
| Less: Inter-group borrowings | **(31,265,751)** | (4,037,776) |
| | **262,445,826** | 322,294,538 |

Certain loans payable by a subsidiary are secured by investment in an associate (Note 8).

## 12 BONDS

| | 2006 KD | 2005 KD |
|---|---|---|
| ***Bonds issued by the Parent Company :*** | | |
| Floating interest of 1.25% per annum over the three month KIBOR rate in effect on the rate fixing date, at a minimum of 3.25% per annum, and matured on 28 April 2006 | **-** | 14,000,000 |
| Fixed interest of 6% per annum for the period until 5 November 2006 and 5.75% per annum for the period from 5 November 2006 to the final maturity on 5 November 2009 | **40,000,000** | 40,000,000 |
| Interest of 1.25% per annum above the Central Bank of Kuwait discount rate in effect on the rate fixing date, at a minimum of 6% per annum, and matured on 27 December 2006 | **-** | 20,000,000 |
| Bonds bearing a fixed interest of 5.75% per annum and maturing on 12 November 2007 | **15,000,000** | 15,000,000 |
| ***Issued by subsidiaries:*** | | |
| Denominated in US $ bearing floating interest of 1% per annum over the three month LIBOR in effect on the rate fixing date, and maturing on 30 September 2008 | **17,348,400** | 17,520,000 |
| Fixed interest of 5.5% per annum and maturing on 21 June 2009 | **10,000,000** | 10,000,000 |
| Interest of 1.5% per annum over the 3 month KIBOR rate and maturing on 21 June 2009 | **10,000,000** | 10,000,000 |
| | **92,348,400** | 126,520,000 |
| Less: Bonds issued by the Group and owned by subsidiaries | **(4,224,921)** | (6,947,489) |
| | **88,123,479** | 119,572,511 |

## 13 MEDIUM TERM NOTES

During the year, Kuwait Projects Company (Cayman) a wholly owned special purpose entity of the Parent Company issued floating rate notes amounting to US$ 350 million and Euro 200 million as part of US$ 2 billion Euro Medium Term Note (EMTN) programme guaranteed by the Parent Company. These notes are listed on the London Stock Exchange. The US$ 350 million notes have a term of 5 years maturing on 12 April 2011 and carry coupon interest of 3 month US$ LIBOR plus 90 bps per annum payable on a quarterly basis and the Euro 200 million notes have a term of 2 years maturing on 27 November 2008 and carry coupon interest of 3 month Euribor plus 37.5 bps per annum payable on a quarterly basis.

During the year one of the subsidiaries, United Gulf Bank B.S.C issued a subordinated debt in the form of floating rate notes amounting to US $ 100 million. These notes are listed on the Singapore Stock Exchange. These notes have a term of 10 years maturing on 12 October 2016 and carry coupon interest of 3 months US $ LIBOR plus 190 bps per annum payable on a quarterly basis.

## 14 OTHER LIABILITIES

| | 2006 KD | 2005 KD |
|---|---|---|
| Accounts payable | **26,328,497** | 27,886,714 |
| Technical reserves and other insurance balances | **84,451,943** | 57,597,053 |
| Accrued interest and expenses | **30,870,845** | 23,847,617 |
| Other | **12,903,037** | 9,024,257 |
| | **154,554,322** | 118,355,641 |

## 14 OTHER LIABILITIES (continued)

Technical reserves represent reserves for unexpired risks, outstanding claims, life insurance funds and additional reserves.

Included in accrued interest and expenses is provision for guarantees comprising charge for the year of KD 43,949 less write off of KD 86,000 (2005: KD 244,311 less write off of KD 217,786).

## 15 SHARE CAPITAL

Authorised, issued and paid-up capital consists of 1,049,620,700 shares (2005: 1,049,620,700 shares) of 100 (2005: 100) fils each.

## 16 TREASURY SHARES

| | ***2006*** | *2005* |
|---|---|---|
| Number of treasury shares | **17,478,443** | 17,643,443 |
| Percentage of capital | **1.67%** | 1.68% |
| Cost – KD | **3,078,298** | 2,470,032 |
| Market value – KD | **8,564,437** | 9,703,894 |

Part of the reserves created or appropriated and retained earnings equivalent to the cost of treasury shares is not available for distribution throughout the period these shares are held by the Group.

## 17 STATUTORY RESERVE

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

## 18 VOLUNTARY RESERVE

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

## 19 INVESTMENT INCOME

| | ***2006 KD*** | *2005 KD* |
|---|---|---|
| Dividend income | **4,065,341** | 8,435,132 |
| Gain on sale of investments at fair value through statement of income | **4,365,208** | 4,882,066 |
| Gain on sale of investments available for sale | **21,967,249** | 9,257,115 |
| Gain on sale of investment in associates and subsidiaries | **21,730,348** | 7,161,624 |
| Gain on sale of investment properties | **314,152** | 63,376 |
| Changes in fair value of investment properties | **393,785** | 90,014 |
| Unrealised gain on investments at fair value through statement of income | **4,967,789** | 8,109,600 |
| | **57,803,872** | 37,998,927 |

**19 INVESTMENT INCOME (continued)**

During the year the Group purchased and sold shares in certain associates and subsidiaries with no material dilution in effective interest.

**20 NET INSURANCE INCOME**

Net insurance income represents operating results of Gulf Insurance Co. K.S.C and its subsidiaries from insurance activities.

| | ***2006*** ***KD*** | *2005* *KD* |
|---|---|---|
| Operating income from insurance activities | **42,337,384** | 28,284,400 |
| Less: operating cost of insurance activities | **(32,843,579)** | (19,843,656) |
| | **9,493,805** | 8,440,744 |

**21 NET SUBSCRIPTION INCOME**

Net subscription income represents operating results of Gulf DTH L.D.C. (Showtime) from direct-to-home subscription, cable subscription and advertising activities.

| | ***2006*** ***KD*** | *2005* *KD* |
|---|---|---|
| Subscription and other revenues | **39,355,135** | 20,340,720 |
| Less: operating cost | **(35,770,666)** | (15,148,960) |
| | **3,584,469** | 5,191,760 |

**22 OTHER INCOME**

| | ***2006*** ***KD*** | *2005* *KD* |
|---|---|---|
| Management fees | **274,469** | 1,014,374 |
| Investment and advisory services | **290,420** | 291,714 |
| Others | **678,416** | 1,170,166 |
| | **1,243,305** | 2,476,254 |

**23 EARNINGS PER SHARE**

The information necessary to calculate basic and diluted earnings per share based on weighted average number of shares outstanding during the year, less treasury shares, are as follows:

| | ***2006*** | *2005* |
|---|---|---|
| | ***KD*** | *KD* |
| Basic earnings per share: | | |
| Profit for the year attributable to the equity holders of the Parent Company | **50,069,582** | 38,011,320 |
| | ***Shares*** | *Shares* |
| Number of shares outstanding: | | |
| Weighted average number of paid up shares | **1,049,620,700** | 1,049,620,700 |
| Weighted average number of treasury shares | **(17,564,632)** | (27,819,196) |
| Weighted average number of outstanding shares | **1,032,056,068** | 1,021,801,504 |
| | ***Fils*** | *Fils* |
| Basic earnings per share | **48.51** | 37.20 |

| | ***2006*** | *2005* |
|---|---|---|
| | ***KD*** | *KD* |
| Diluted earnings per share: | | |
| Profit for the year attributable to the equity holders of the Parent Company | **50,069,582** | 38,011,320 |
| Decrease in profit due to exercise of potential ordinary shares of subsidiaries | **(153,182)** | (150,860) |
| Earnings for the purpose of diluted earnings per share | **49,916,400** | 37,860,460 |
| | ***Shares*** | *Shares* |
| Weighted average number of outstanding shares | **1,032,056,068** | 1,021,801,504 |
| Effect of share options on issue | **465,426** | - |
| | **1,032,521,494** | 1,021,801,504 |
| | ***Fils*** | *Fils* |
| Diluted earnings per share | **48.34** | 37.10 |

**24 PROPOSED DIVIDEND**

The Board of Directors have proposed a cash dividend of 30 fils (2005: 25 fils) per share excluding treasury shares for the year ended 2006. The proposed dividend is subject to the approval of the Annual General Assembly of the shareholders of the Parent Company.

The cash dividend for the year ended 31 December 2005 were approved by the Annual General Assembly of the Parent Company held on 22 April 2006 and paid during the year.

**25 STAFF COST**

At 31 December 2006, staff costs amounted to KD 18,074,509 (2005: KD 18,083,485).

During the year, the Parent Company granted its employees options to acquire 2,259,875 of the Parent Company's shares (2005: 2,868,269 shares). The Parent Company recognised expense of KD 233,827 (2005: 119,320) related to equity-settled share-based payment transactions during the year. Options outstanding and options exercisable at 31 December 2006 were 2,177,222 (2005: Nil) and Nil (2005: Nil) respectively at weighted average exercise price of 392 fils per share.

## 26 RELATED PARTY TRANSACTIONS

These represent transactions with related parties, i.e. shareholders, associates, directors and senior management of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management. Related party balances and transactions consist of the following:

| | *Associates* | *Other related parties* | ***Total 2006*** | *Total 2005* |
|---|---|---|---|---|
| | *KD* | *KD* | ***KD*** | *KD* |
| **Consolidated balance sheet** | | | | |
| Cash in hand and at banks | 2,622,778 | 12,402,569 | **15,025,347** | 7,183,107 |
| Investments held to maturity | 1,250,000 | - | **1,250,000** | 1,250,000 |
| Loans and advances | 5,710,069 | 4,067,802 | **9,777,871** | 5,508,463 |
| Other assets | 3,930,399 | 4,190,126 | **8,120,525** | 8,238,835 |
| Deposits | 10,442,117 | 16,700,835 | **27,142,952** | 11,006,723 |
| Loans payable | 56,602,692 | - | **56,602,692** | 26,338,207 |
| Other liabilities | 657,299 | 4,359,437 | **5,016,736** | 4,555,533 |
| **Consolidated statement of income** | | | | |
| Gain on sale of investments available for sale | 64,748 | 3,505,680 | **3,570,428** | 2,062,448 |
| Gain on sale of investments in associates and subsidiaries | 2,132,697 | - | **2,132,697** | - |
| Dividend income | 227,673 | 267,623 | **495,296** | 4,450,306 |
| Interest income | 977,409 | 1,733,195 | **2,710,604** | 2,011,223 |
| Operating income from insurance activities | - | 2,697,813 | **2,697,813** | 2,212,913 |
| Other income | - | 366,525 | **366,525** | 5,856,136 |
| Interest expense | 2,000,975 | 122,509 | **2,123,484** | 1,946,327 |
| **Off balance sheet items** | | | | |
| Letters of credit | - | 4,021,283 | **4,021,283** | 2,437,295 |
| Guarantees | - | 14,548,749 | **14,548,749** | 7,131,484 |

In the previous year the Group purchased investments amounting to KD 13,079,576 from a related party.

Key management personnel compensation

| | ***2006*** | *2005* |
|---|---|---|
| | ***KD*** | *KD* |
| Short-term employee benefits | **3,285,702** | 3,860,285 |
| Termination benefits | **1,235,432** | 1,208,427 |
| Share based payment | **331,105** | 293,058 |

## 27 OFF BALANCE SHEET ITEMS

***Credit-related commitments***

Credit-related commitments include commitments to extend credit, standby letters of credit, guarantees and acceptances which are designed to meet the requirements of a subsidiary's customers.

Letters of credit, guarantees (including standby letters of credit) and acceptances commit the subsidiary to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

**27 OFF BALANCE SHEET ITEMS (continued)**

The Group has the following credit and investment related commitments:

| | ***2006*** | *2005* |
|---|---|---|
| | ***KD*** | *KD* |
| **Commitments on behalf of customers:** | | |
| Letters of credit | **3,712,121** | 6,659,335 |
| Guarantees | **28,859,442** | 32,950,871 |
| | **32,571,563** | 39,610,206 |
| Other guarantees | **18,452,862** | 8,428,970 |
| Investment related commitments | **11,241,593** | 17,886,896 |
| | **62,266,018** | 65,926,072 |

The Group does not anticipate any material losses in respect of the above.

***Other off-balance sheet financial instruments***
Group does not engage in derivatives trading or market-making activities. Derivatives which do not meet the criteria for hedge accounting are treated as 'Derivative held for trading'. The main off-balance sheet financial instruments used to cover interest risk, foreign exchange risks, and funding requirements are interest rate swaps, forward foreign exchange purchases and sales contracts

| **31 December 2006** | | | | *Notional amounts by term to maturity* | |
|---|---|---|---|---|---|
| | *Positive fair value KD* | *Negative fair value KD* | *Notional amount Total KD* | *Within 3 months KD* | *1 - 5 years KD* |
| *Derivatives held for trading:* | | | | | |
| Forward foreign exchange contracts | 10,466 | (33,464) | 91,060,571 | 91,060,571 | - |
| *Derivatives held for hedging:* | | | | | |
| Interest rate swap | 2,476,215 | - | 97,679,500 | - | 97,679,500 |
| **31 December 2005** | | | | | |
| *Derivatives held for trading:* | | | | | |
| Forward foreign exchange contracts | 43,022 | 38,490 | 68,658,903 | 68,658,903 | - |
| *Derivatives held for hedging:* | | | | | |
| Interest rate swap | 858,788 | - | 36,500,000 | - | 36,500,000 |

Forward foreign exchange contracts are contractual agreements to either buy or sell a specified currency, at a specific price and date in the future, and are customized contracts transacted in the over-the-counter market.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counter parties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

**Fiduciary assets**
One of the company's subsidiaries manages portfolios on behalf of clients with an aggregate market value of KD 1,370,551,848 (2005: KD 1,221,541,379) out of which KD 374,294,800 (2005: KD 302,441,834) is managed on behalf of related parties.

## 28 SEGMENT INFORMATION

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products and services within a particular economic environment (geographic segment), which is subject to risks and rewards that are different from those of other segments.

The Group operates in several geographic locations and in various business lines. Management of the Parent Company uses business segment information for the purpose of primary segment reporting. Management has classified the Group's business lines into the following business segments:

Investment: Trading in bonds and equities including investment in associates and other strategic investments;
Banking: Commercial and investment banking and other associated activities;
Insurance: Insurance and associated fund and investment management activities;
Digital satellite television services: Provision of digital satellite television services

| | *Investment KD* | *Banking KD* | *Insurance KD* | *Digital satellite television services KD* | *Other KD* | *Inter-segmental eliminations KD* | ***Total KD*** |
|---|---|---|---|---|---|---|---|
| **For the year ended 31 December 2006** | | | | | | | |
| Segment operating revenues | 75,811,436 | 69,922,738 | 18,218,888 | 3,613,094 | 12,179,768 | (20,109,133) | **159,636,791** |
| Segment results | 51,397,769 | 34,708,271 | 8,669,904 | (16,374,865) | 893,450 | (13,678,561) | **65,615,968** |
| Unallocated expenses | | | | | | | **(140,000)** |
| Profit for the year | | | | | | | **65,475,968** |
| **As at 31 December 2006** | | | | | | | |
| **Assets and liabilities** | | | | | | | |
| Segment assets | 548,482,992 | 678,670,372 | 188,686,006 | 33,078,773 | 96,124,940 | (186,514,767) | **1,358,528,316** |
| Segment liabilities | 284,688,435 | 508,274,173 | 114,650,198 | 85,530,503 | 89,020,993 | (49,525,380) | **1,032,638,922** |
| Unallocated liabilities | | | | | | | **140,000** |
| Total liabilities | | | | | | | **1,032,778,922** |

**28 SEGMENT INFORMATION (continued)**

| | *Investment KD* | *Banking KD* | *Insurance KD* | *Digital satellite and television services KD* | *Other KD* | *Inter-segmental eliminations KD* | ***Total KD*** |
|---|---|---|---|---|---|---|---|
| **For the year ended 31 December 2005** | | | | | | | |
| Segment operating revenues | 64,890,393 | 58,040,406 | 14,824,622 | 5,191,760 | 2,552,635 | (26,992,990) | **118,506,826** |
| Segment results | 47,853,823 | 31,243,691 | 7,136,466 | (2,565,282) | (1,073,805) | (26,311,549) | **56,283,344** |
| Unallocated expenses | | | | | | | **(140,000)** |
| Profit for the year | | | | | | | **56,143,344** |
| **As at 31 December 2005** | | | | | | | |
| **Assets and liabilities** | | | | | | | |
| Segment assets | 482,506,206 | 491,232,469 | 136,893,156 | 38,077,244 | 69,338,578 | (154,341,581) | **1,063,706,072** |
| Segment liabilities | 244,312,986 | 354,717,200 | 74,441,681 | 72,965,527 | 56,713,645 | (27,889,836) | **775,261,203** |
| Unallocated liabilities | | | | | | | **140,000** |
| Total liabilities | | | | | | | **775,401,203** |

**Secondary segment information**

The Group's majority of assets and operation are located in Middle East and North Africa (MENA) region. The segment revenue earned by the assets and operation outside MENA region is immaterial.

The geographic distribution of the assets, liabilities and off-balance sheet items is disclosed in Note 29.

## 29 CREDIT RISK CONCENTRATION OF ASSETS, LIABILITIES, AND OFF-BALANCE SHEET ITEMS

**Credit risk**
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group manages credit risk by setting limits for individual counter-parties, and groups of counter-parties and for geographical and industry segments. The Group also monitors credit exposures, and continually assesses the creditworthiness of counterparties. In addition, the Group obtains security where appropriate, enters into master netting agreements and collateral arrangements with counterparties, and limits the duration of exposures.

The assets, liabilities and off balance sheet items of the Group are distributed over the following geographical regions:

| **2006** Geographical regions | ***Assets KD*** | ***Liabilities KD*** | ***Off-balance sheet items KD*** |
|---|---|---|---|
| North America | **153,070,169** | **1,882,007** | **6,773,619** |
| Europe | **97,212,434** | **272,245,134** | **149,566,329** |
| Middle East and North Africa | **1,106,128,667** | **751,383,317** | **94,309,830** |
| Asia | **2,117,046** | **7,268,464** | **356,311** |
| | **1,358,528,316** | **1,032,778,922** | **251,006,089** |

| 2005 Geographical regions | *Assets KD* | *Liabilities KD* | *Off-balance sheet items KD* |
|---|---|---|---|
| North America | 54,053,070 | 25,900,315 | 8,251,415 |
| Europe | 59,926,512 | 130,937,727 | 63,026,018 |
| Middle East and North Africa | 948,549,526 | 611,263,161 | 94,828,307 |
| Asia | 1,176,964 | 7,300,000 | - |
| | 1,063,706,072 | 775,401,203 | 166,105,740 |

## 30 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis.

The table below summaries the maturity profile of the Group's assets and liabilities based on contractual repayment arrangements and does not take account of the effective maturities as indicated by the Group's deposit retention history.

| | ***2006*** | | *2005* | |
|---|---|---|---|---|
| | ***Assets KD*** | ***Liabilities KD*** | *Assets KD* | *Liabilities KD* |
| Within 3 months | **378,551,417** | **351,121,177** | 291,115,845 | 295,937,709 |
| 3 months to 1 year | **92,344,865** | **163,775,902** | 63,088,168 | 157,580,858 |
| 1 to 5 years | **186,460,464** | **475,343,934** | 172,018,558 | 313,066,549 |
| Over 5 years | **701,171,570** | **42,537,909** | 537,483,501 | 8,816,087 |
| | **1,358,528,316** | **1,032,778,922** | 1,063,706,072 | 775,401,203 |

**31 INTEREST RATE RISK**

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. The Group reduces this risk by matching the repricing of assets and liabilities through various means. The effective interest rates and the periods in which interest bearing financial assets and liabilities are repriced or mature which ever is earlier are as follows:

**Interest rate risk as at 31 December 2006**

| | *Up to 1 Month KD* | *1 – 3 Months KD* | *3 - 12 Months KD* | *Over 1 year KD* | *Non-interest bearing items KD* | *Total KD* |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash in hand and at banks | 29,062,359 | 168,105,835 | 6,960,078 | 15,336 | 8,237,237 | 212,380,845 |
| Investments at fair value through statement of income | - | 414,072 | - | - | 112,441,752 | 112,855,824 |
| Investments available for sale | - | 3,467,230 | - | - | 162,650,251 | 166,117,481 |
| Investments held to maturity | - | 3,814,452 | - | 4,344,336 | - | 8,158,788 |
| Loans and advances | - | 8,958,384 | 39,667,087 | 23,178,308 | 66,482 | 71,870,261 |
| Investment properties | - | - | - | - | 6,792,006 | 6,792,006 |
| Investment in associates | - | - | - | - | 536,060,290 | 536,060,290 |
| Other assets | 85,948 | 411,272 | 870,076 | 1,402,689 | 99,277,505 | 102,047,490 |
| Goodwill | - | - | - | - | 142,245,331 | 142,245,331 |
| | **29,148,307** | **171,458,180** | **60,937,443** | **26,038,061** | **1,070,946,325** | **1,358,528,316** |
| **LIABILITIES** | | | | | | |
| Deposits | - | 251,478,921 | 54,623,367 | 12,649,759 | 3,689,129 | 322,441,176 |
| Loans payable | 19,301,459 | 111,187,631 | 76,447,061 | 55,509,675 | - | 262,445,826 |
| Bonds | - | 25,523,479 | 15,000,000 | 48,600,000 | - | 88,123,479 |
| Medium term notes | - | 205,214,119 | - | - | - | 205,214,119 |
| Other liabilities | - | 205,348 | 616,045 | - | 153,732,929 | 154,554,322 |
| | **19,301,459** | **409,134,300** | **162,461,552** | **284,459,553** | **157,422,058** | **1,032,778,922** |

**31 INTEREST RATE RISK (continued)**

Interest rate risk as at 31 December 2005

| | *Up to 1 Month KD* | *1 – 3 Months KD* | *3 - 12 Months KD* | *Over 1 year KD* | *Non-interest bearing items KD* | *Total KD* |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash in hand and at banks | 12,905,974 | 112,040,701 | 4,786,774 | 15,488 | 8,367,370 | 138,116,307 |
| Investments at fair value through statement of income | 5,765,418 | 7,745 | - | - | 67,009,504 | 72,782,667 |
| Investments available for sale | - | 1,240,517 | - | - | 156,577,269 | 157,817,786 |
| Investments held to maturity | 152,348 | 288,744 | 2,054,000 | 5,166,225 | - | 7,661,317 |
| Loans and advances | 268,127 | 22,640,534 | 16,741,805 | 11,141,955 | 593,648 | 51,386,069 |
| Investment properties | - | - | - | - | 5,829,828 | 5,829,828 |
| Investment in associates | - | - | - | - | 396,941,385 | 396,941,385 |
| Other assets | 413,354 | 9,600 | 1,743,009 | - | 95,222,622 | 97,388,585 |
| Goodwill | - | - | - | - | 135,782,128 | 135,782,128 |
| | 19,505,221 | 136,227,841 | 25,325,588 | 16,323,668 | 866,323,754 | 1,063,706,072 |
| **LIABILITIES** | | | | | | |
| Deposits | - | 183,223,198 | 21,546,322 | - | 10,408,993 | 215,178,513 |
| Loans payable | 31,229,595 | 171,945,238 | 91,400,224 | 1,284,800 | 26,434,681 | 322,294,538 |
| Bonds | - | - | 64,572,511 | 55,000,000 | - | 119,572,511 |
| Other liabilities | - | 10,290,895 | 8,499,880 | 15,283,811 | 84,281,055 | 118,355,641 |
| | 31,229,595 | 365,459,331 | 186,018,937 | 71,568,611 | 121,124,729 | 775,401,203 |

**31 INTEREST RATE RISK (continued)**

Currency wise interest rates are as follows:

| | **2006** **%** | 2005 % |
|---|---|---|
| ***United States Dollar*** | | |
| Assets | **3.25 - 9.50** | 3.25 - 9.50 |
| Liabilities | **0.00 - 6.64** | 0.00 - 6.50 |
| ***Euro*** | | |
| Assets | **2.50 - 7.50** | 2.16 - 6.74 |
| Liabilities | **2.00 - 4.30** | 1.25 - 2.96 |
| ***Kuwaiti Dinar*** | | |
| Assets | **6.25 - 9.00** | 0.00 - 7.00 |
| Liabilities | **0.00 - 8.00** | 0.00 - 9.00 |
| ***Pound Sterling*** | | |
| Assets | **5.20 - 5.85** | 4.50 - 5.85 |
| Liabilities | **0.00 - 4.75** | 1.72 - 4.25 |

**32 FOREIGN CURRENCY RISK**

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

| | ***2006*** ***KD*** ***Long/(short)*** | *2005* *KD* *Long/(short)* |
|---|---|---|
| US Dollar | **(268,665,141)** | (105,592,646) |
| Euro | **8,830,744** | 12,122,714 |
| Jordanian Dinar | **40,291,445** | 21,097,441 |
| Bahraini Dinar | **8,253,662** | 9,494,122 |
| Others | **19,084,206** | 14,175,394 |

**33 EQUITY PRICE RISK**

Equity price risk arises from changes in the fair values of equity investments. The Group manages this through diversification of investments in terms of geographical distribution and industry concentration.

**34 INSURANCE RISK**

Insurance risk is the risk that actual claims payable to contract holders in respect of insured events exceed the carrying amount of insurance liabilities. This could occur because the frequency or amounts of claims are more than expected. The insurance polices are well diversified across various lines of business. In order to minimise financial exposure arising from large claims, the Group, in the normal course of business, enters into agreements with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth.

## 35 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 forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and other models as appropriate. At balance sheet date, the carrying values of financial instruments approximated their fair values except for certain unquoted equity investments available for sale (Refer note 5).

## 36 NATIONAL LABOR SUPPORT TAX (NLST)

The Parent Company calculated the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the year. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST have been deducted from the profit for the year. Accordingly, no profit was determined to be taxable for the year ended 31 December 2006.

## 37 CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES

The Parent Company calculated the contribution to Kuwait Foundation for the Advancement of Sciences in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that income from associates and subsidiaries, Board of Directors' remuneration, transfer to statutory reserve should be excluded from profit for the year when determining the contribution. Accordingly, there was no income base upon which the contribution to Kuwait Foundation for the Advancement of Sciences could be calculated.

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