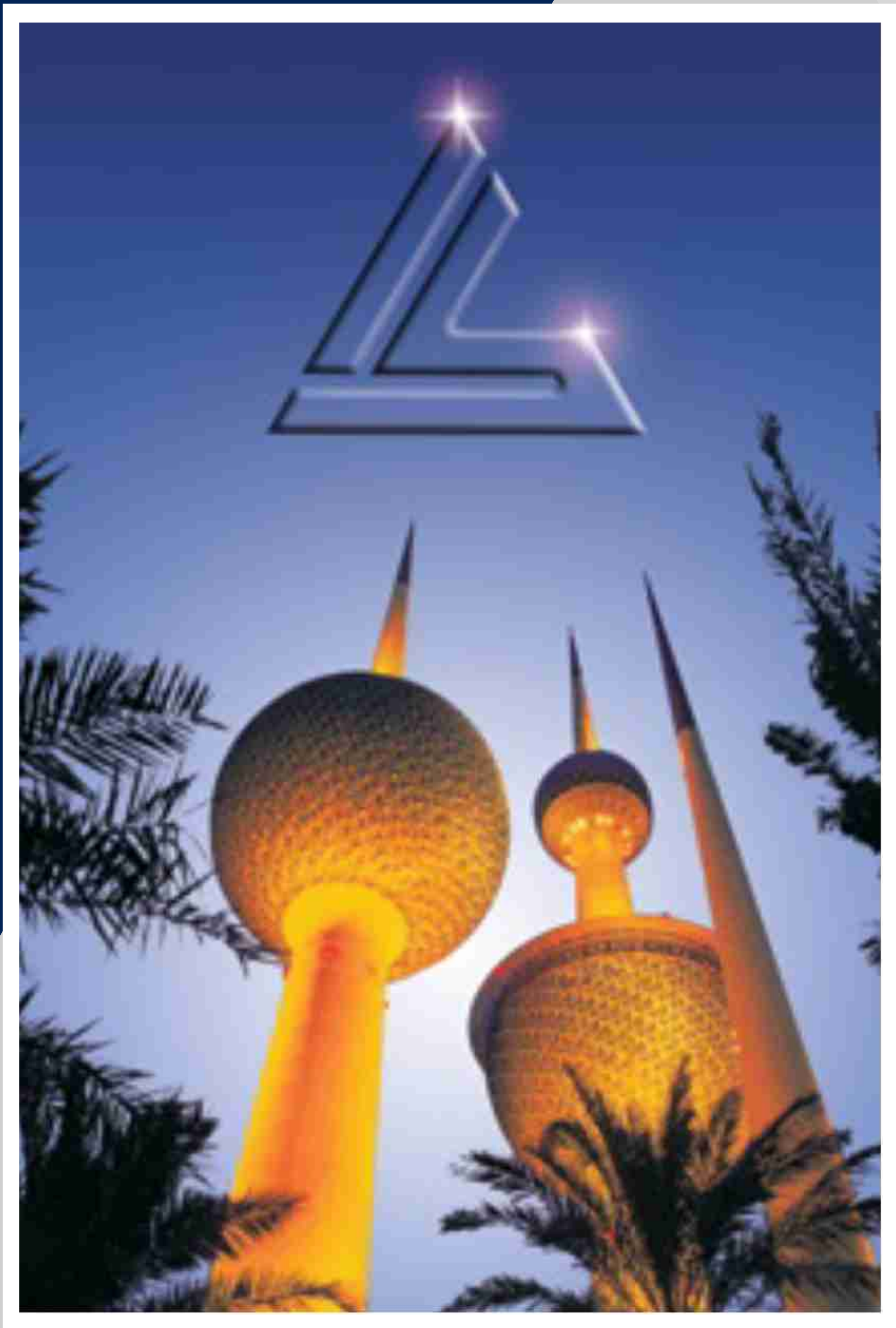
Annual Report
2004

الشـــركة الكويتيـة للإســتـثـمار (ش.م.ك)

KUWAIT INVESTMENT COMPANY (S.A.K)

Contents



Kuwait Investment Company, Experience You Can Trust

His Highness

Sheikh Jaber Al-Ahmed Al-Jaber Al-Sabah

The Amir of the State of Kuwait

His Highness

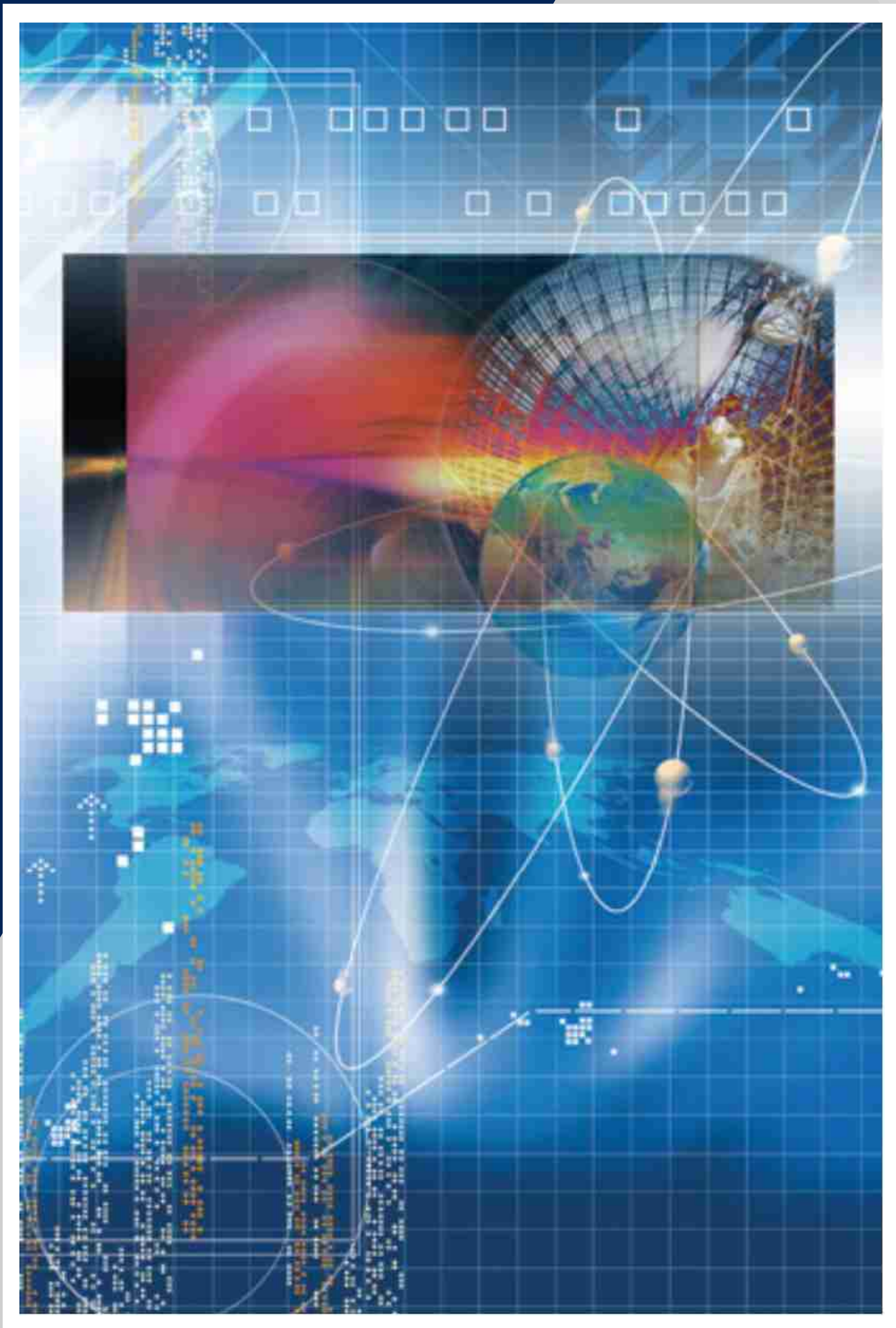
Sheikh Saad Al-Abdullah Al-Salem Al-Sabah

The Crown Prince

His Highness

Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah

The Prime Minister



Atheer Communications Fund
Invests in listed and unlisted telecom companies in the Middle East
and North African Arab countries

Board of Directors

Bader Naser Alsubaiee
Chairman and Managing Director

Rasheed Al-Sayed Yousef Al-Tabtabaei
Deputy Chairman

Jamal Abdullah Al-Saleem
Director

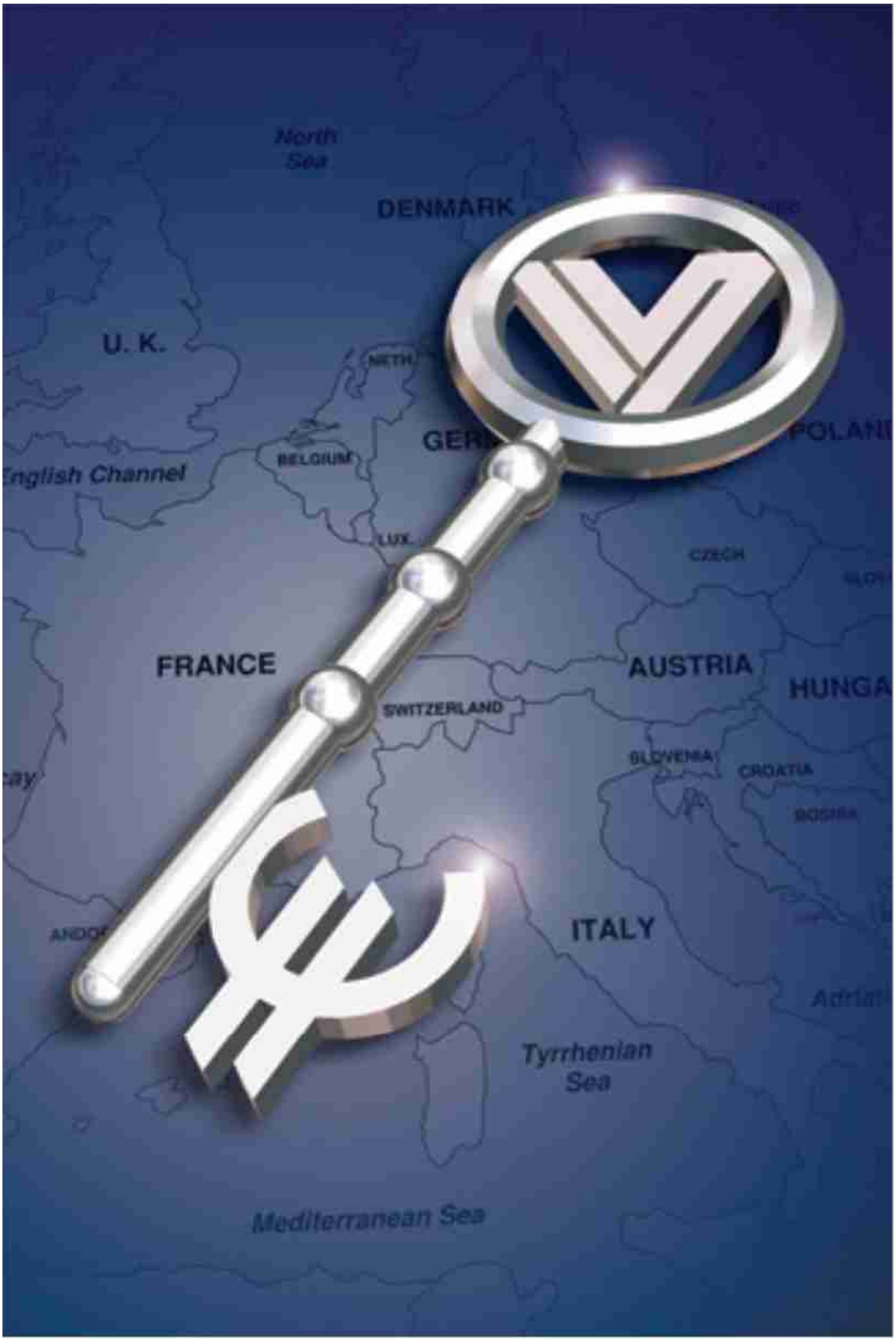
Hamad Ahmad Saleh Al-Busairi
Director

Dr. Adel Mohammed Al-Adwani
Director

Dr. Ayed S. R. Manna
Director

Mazen Mohammed Madouh
Director

Mishari Zaid Al-Khaled
Director



Kuwait Investment Company

Your Channel for Investment in European Equities Markets

General Management

Yousef E. Al-Hassawi
General Manager

Adel J. Al Mudaf
Assistant General Manager, Finance & Administration

Fahad Bader Al Kuhailan
Assistant General Manager, Trading & Treasury

Raed A. Al Saleh
Assistant General Manager, Asset Management

Naser A. Al Salem
Legal Affairs & Secretary of the Board

Wagdi Sayed Eid
Financial Controller

Dear Shareholders,

It gives me great pleasure to present to you, on behalf of the Board of Directors, the 41st Annual Report of Kuwait Investment Company for the financial year ended December 31, 2004.

The year 2004 saw serious move from the part of the Kuwaiti government towards initiating the economic, financial and administrative reform process. The first signs of this endeavor might be seen in the visit of H.H. the Prime Minister to the Far East countries, accompanied by a large delegation led by Chairman of Kuwait Chamber of Commerce & Industry, as well as the earlier visits of the Minister of Commerce & Industry to the United States of America and Europe. Those visits aimed at two main objectives: the fist is to attract foreign capitals for direct investments in Kuwait, and the second is to adopt the Asian Tigers experience in implementing economic reform plans and in achieving development accomplishments in record time. If Kuwait succeeds in following the steps of Singapore in this respect, the long-waited e-government project will be seeing its actual initial step as a channel for administrative reform in the country. But this scene will be complete only when the government awards the development projects imported from those countries to the private sector.

Such initiative will be the beginning of an economic reform thrust that will accelerate the pace of the privatization program and redefine the role of the government in the national economy, leaving for the private sector its vital role in the economic development. In this context, the private sector would be supported by an advanced administrative technology platform that would project the image of Kuwait as a promising investment environment. It is only in this way that we would be able to attract foreign direct investment and encourage the localization of private sector's financial surpluses instead of their outflow to more attractive investment environments.

The pre-qualification of the private sector companies for several projects, such as Abdulla Al Ahmed development project, Failaka Island touristic facilities project and the huge "Project Kuwait" under the control of the Parliament, can be viewed as a move promising an accelerated pace of the privatization program which is expected to change the face of the economic life in Kuwait.

Observers have followed with focused attention the rapid pace of economic growth in the State of Kuwait. Various economic sectors have posted strong level of performance and significant growth. This dynamic growth favorably reflected on the performance of Kuwait Stock Exchange (KSE), which index ended the year 2004 at 6,410 points, up by 33.8%, even though its value-weighted rise was only 15.3%. The strong performance of KSE reflected investors increasing confidence in the performance of the Kuwaiti economy.

Within this promising investment environment that was dominated by increasingly optimistic atmosphere during the year, Kuwait Investment Company (KIC) strongly performed, guided by a balanced and dearly focused investment strategy, which aimed at growing the company's client base. This was accomplished through offering unique financial services and providing a wide range of financial products meeting the needs of investors and serving the local investment environment. During the year 2004, KIC enhanced its performance and prominent presence in the investment sector, and achieved its targeted objectives for the year. The accomplishments made were, as usual, the result of KIC's long-term investment policy that seeks acceptable risk-adjusted yield and refrains from speculative approach and high risks associated therewith. This desired end was attained through designing and launching innovated financial products and services to boost KIC's competitive position in the market. Another achievement during the year was the accomplishment of one of KIC's primary objectives: maximizing fees and commissions income which increased by 128% as at the end of the year.

Other accomplishments during the year included the completion of the installation of the online trading system which is being currently fixed for use by KIC clients to electronically trade on Kuwait Stock Exchange. The initiation of this system was the outcome of KIC's awareness that physical trading at Kuwait Stock Exchange is retracting to the favor of e-trading from the office or the house. In order to maximize the benefits of this initiative, KIC entered into strategic alliance with Al-Rajhi Banking & Investment Corporation in the Kingdom of Saudi Arabia, whereby the online trading systems of both companies are being linked, enabling their customers to access both systems and review the latest information and trade on Kuwait Stock Exchange, the Saudi Stock Exchange and New York Stock Exchange. Further, KIC intends to expand this shared system to cover all Arab financial markets willing to join it. During the year, KIC completed the restructuring process and capital increase of its subsidiary “Kuwait National Real Estate Services Company” from KD 0.5 million to KD 30 million with the entry of new strategic partners. This company is planned for listing on Kuwait Stock Exchange during 2005. KIC also participated in the establishment of Sokouk Real Estate Development Company with other partners. The KD 30 million capital of this company has been placed with remarkable success. Arrangements are underway for listing it on Kuwait Stock Exchange during the coming year.

As usual, KIC actively performed in the area of fee- generating listing services, and took part in finalizing the arrangements for listing International Leasing & Investment Company on Kuwait Stock Exchange. On the front of investment funds viewed by KIC as a successful investment vehicle providing geographical and sectoral assets diversification, KIC launched in cooperation with Investment Dar two new investment funds during the year:“Al Hilal Islamic Fund”, which is specialized in investment in Kuwait Stock Exchange. The Fund seeks to invest in Islamic financial instruments with the objective of generating yields competitive to those of conventional financial instruments. The other fund is Arab Investor Fund which seeks to achieve good returns through investment in Arab financial markets.

In line with its belief in the need for providing local investors with a variety of investment instruments in international financial markets through investment funds, KIC launched European Equities Fund and North American Equities Fund. It is to be noted in this regard that KIC constantly strives to activate financial market instruments by launching new investment funds that respond to the market needs and enjoy competitiveness and success potential. This materialized through KIC’s funds which by now exceed 10 diversified funds covering the major international financial markets. Total third party wealths managed by KIC exceeded US$ 8 billion by the end of the year. The Company exercises various investment activities and provides its investment services in local and international markets to its growing client base. In doing so, KIC capitalizes on specialized professional work teams of intensive experience in managing and furthering investments. Recognizing the significance of expanding its regional activity, which has been a major focus over the years, KIC cooperated again with Gulf Finance House and succeeded in marketing participations of US$ 48 million to the favor of Al Areen Desert Resort in Bahrain, which total cost amounts to US$ 600 million.

Year after year, KIC has shown a proven strong track record since its inception in 1961 when it was the leading investment company locally and regionally, and is still one of the major well established financial institutions, which managed to create strong relations with several local, regional and international financial institutions including a large network of banks, investment companies and financial brokerage companies. With an eye on maintaining this outstanding position, KIC consistently seeks to prudently update its strategy addressing the improvement of operational efficiency, so as to harmonize with the improved outlook for the Kuwaiti and regional economies, while actively taking part in enriching the current bullish investment environment with new concepts and ideas serving the interest of the Company’s shareholders and customers, and the entire local and GCC economies.

I am pleased to announce that KIC posted good financial results for the year 2004. Net profit for the year stood at KD 20.058 million compared to KD 23.862 for the previous year. Earning per share for the year was 40.12 fils compared to 47.72 fils for 2003. Shareholders equity increased to KD 119.740 million compared to KD 109.273 for the previous year, and return on shareholders equity reached 20.12% compared to 27.94 for 2003, while return on assets was 8.77% compared to 14.97% for 2003. In view of the strong results for 2004, the Board has recommended to the shareholders general meeting the distribution of cash dividends of 30% of the share nominal value, or 30 fils per share.

In conclusion, I would like to extend, on behalf of the Members of the Board of Directors and myself, heartfelt gratitude and appreciation to His Highness the Amir of Kuwait, Sheikh Jaber Al-Ahmad Al-Jaber Al-Sabah, His Highness the Crown Prince, Sheikh Saad Al-Abdullah Al-Salem Al-Sabah, and His Highness the Prime Minister Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah, May God Guard them, for their kind attention and continuous support to the investment sector in the country.

We would like to extend our deep gratitude, as well, to His Excellency the Minister of Finance and Chairman of Kuwait Investment Authority and His Excellency the Governor of the Central Bank of Kuwait, for their constant support to us. Our thanks are also due for our customers and shareholders for their confidence and support, as well as for our employees who valuably contributed to the achievements made during the year.

Bader Naser Alsubaiee
Chairman & Managing Director

Economy Outlook

Government General Budget

Interim government budget figures released by the Ministry of Finance for the first nine months of the fiscal year 2004/2005 revealed strong growth in revenues, while expenditures increased at a moderate pace similar to last year's. Total revenues rose by 29% compared to the same period last year to reach KD 6.6 billion, while expenditures increased by 5% to KD 3.27 billion. The budget showed a preliminary surplus of KD 2.67 after the allocation of 10% of the revenues to the Reserve Fund for Future Generations.

This sharp rise in total revenues is attributed to the jump in oil revenues by 34% to exceed KD 6 billion owing to a 29% rise in the average price for Kuwait export crude and a 5% increase in production compared to the same period last year. Kuwait export crude averaged $ 34 per barrel, while Kuwait's crude output averaged 2.4 billion barrels per day, thus far for the fiscal year, contrasting sharply with extra-conservative budget assumptions of $ 15 and 2 million barrels per day, respectively.

Non-oil revenues declined by 9%, following a strong increase last year, though they exceeded budget projections by 21%. Miscellaneous revenues and fees were behind this fall, having dropped by KD 117 million, mostly as payments by the United Nations Compensation Commission were lower this fiscal year. Excluding this item, non-oil revenues increased by 12%, more than half of it came from customs fees that rose by 30% or KD 28.5 million. Higher customs fees and taxes reflect the strong growth of trade with Iraq and the prosperity of the local economic activity. Other factors contributing to the rise of oil revenues were income tax revenues and land sales revenues.

Monetary Policy

The year 2004 saw a number of significant developments with regard to regulating banking business in Kuwait. On 6.4.2004, the Central Bank of Kuwait issued a resolution stipulating its prior approval for possessing 5% or more in any Kuwaiti bank. This resolution was issued in activation of Law No. 28/2004 issued on 17.1.2004 amending some provisions of Law No. 32/1968 concerning currency, the Central Bank of Kuwait and the organization of the banking business in its two parts: the conventional and the Islamic after placing Kuwait Finance House under its supervision.

Kuwaiti Dinar per US Dollar
Jan 1992 to Dec 2004

North American Equities Fund
The Right Time for the Best Investment

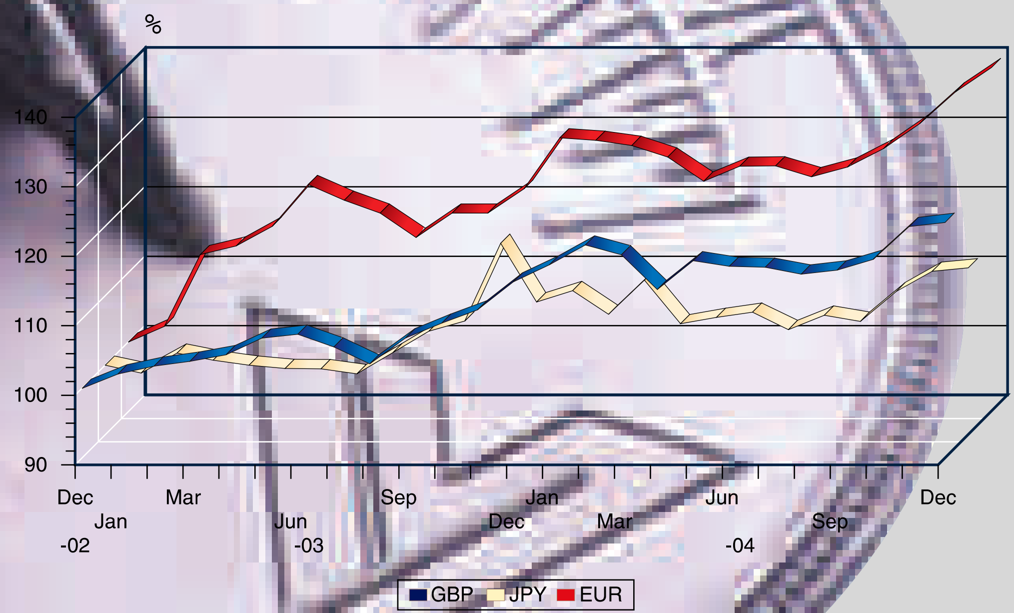
The aim of the resolution was to safeguard creditors- bank depositors- rights, which total more than 10 times shareholders equity, lest they come under the authority of someone who the Central Bank believes might mismanage them.

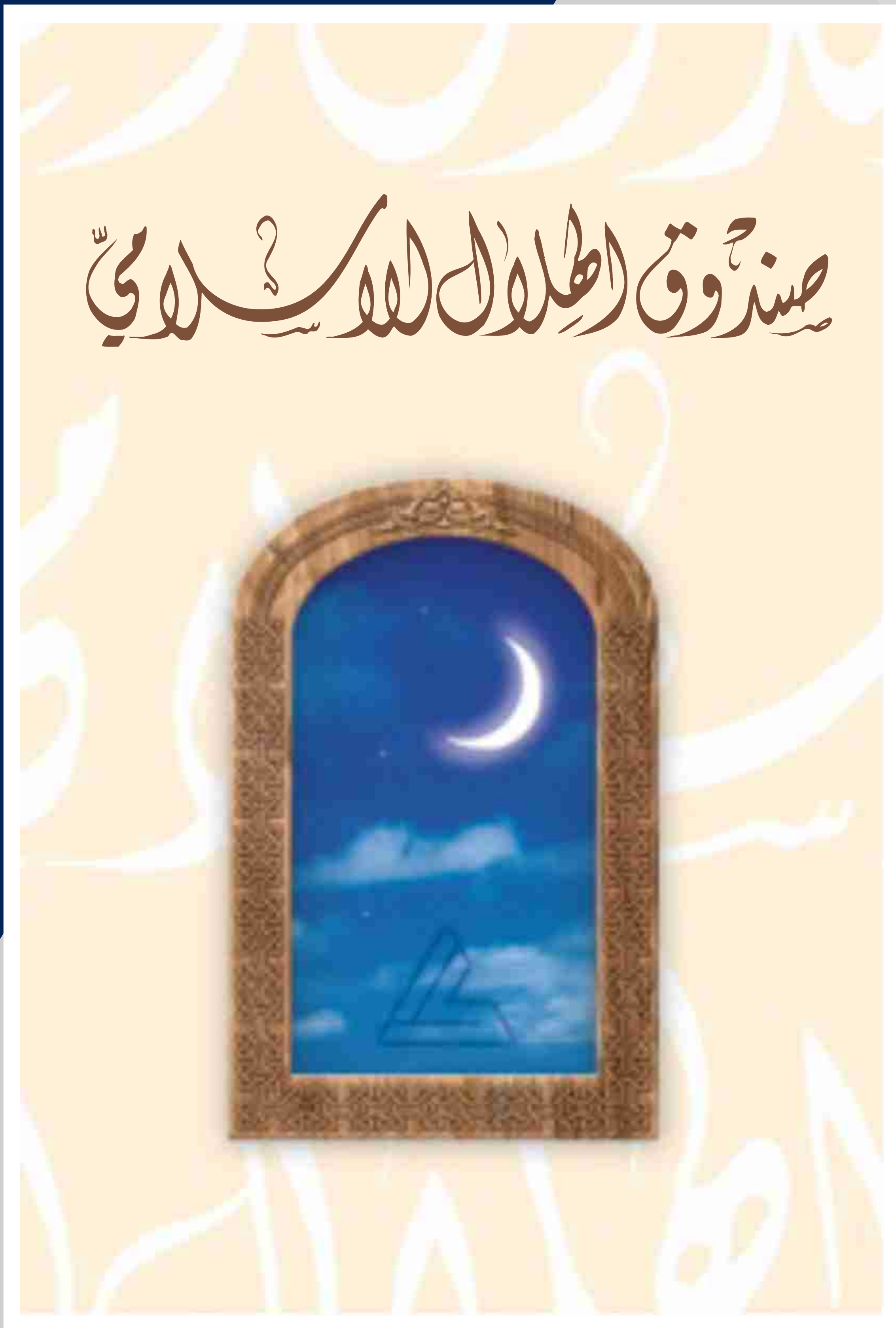
On 25.4.2004, the Central Bank of Kuwait issued a resolution revoking government guarantees to deposits with local banks effective the next day of issuing its decision. The Central Bank of Kuwait increased the discount rate on the Kuwaiti Dinar five times during 2004, from 3.25% to 4.75% (a total of 1.5%). The first was on 1.7.2004 (a quarter percentage point), the second on 4.8.2004 (half a percentage point), the third on 22.9.2004 (a quarter percentage point), the fourth on 11.11.2004 (a quarter percentage point), and the fifth on 15.12.2004 (a quarter percentage point). It seems that the concern over the high growth rate of credit facilities and the inflation of local assets prices, both financial and real estate, were the motive behind the Central Bank's adoption of a contracting monetary policy, i.e., increasing financing costs- interest rates- and fixing a maximum ceiling for every bank's loans which should not exceed 80% of its deposits volume. Despite the squeeze on credit, money supply was boosted instead by a substantial increase in net foreign assets held by the Central Bank of Kuwait as well as the local banks. The Central Bank's foreign assets jumped by 27% during the last quarter of 2004, reaching KD 2.2 billion at the end of the year. The increase was the largest quarterly rise in recent years and came on the heels of a nearly steady decline since mid-2002. During the year, money supply (M2) grew at its fastest rate in three years, rising by 11% or KD 200 million. This growth was driven by continued strength in bank lending, though it was slower than the previous year, and the rise in net foreign assets.

Growth in credit facilities to residents topped 16.5% during 2004 as bank lending reached KD 9.8 million. This growth, which followed a rise of 21% in 2003, occurred largely in the first nine months, but substantially slowed down during the last quarter to an annualized 1.6%, with December actually seeing a decline in total outstanding credit facilities, the largest shrinkage in four years.

Inflation in Kuwait has been showing a sharp slowdown over the past five years, dropping from 3% in 1999 to 1.2% in 2003. Even the low interest rate environment during the past four years, coupled with the high levels

Performance of Kuwaiti Dinar against GBP, EUR and JPY 2003 - 2004





Al Hilal Islamic Investment Fund

Invests in all available investment instruments, in accordance with the Islamic Shari'a principles

Economy Outlook

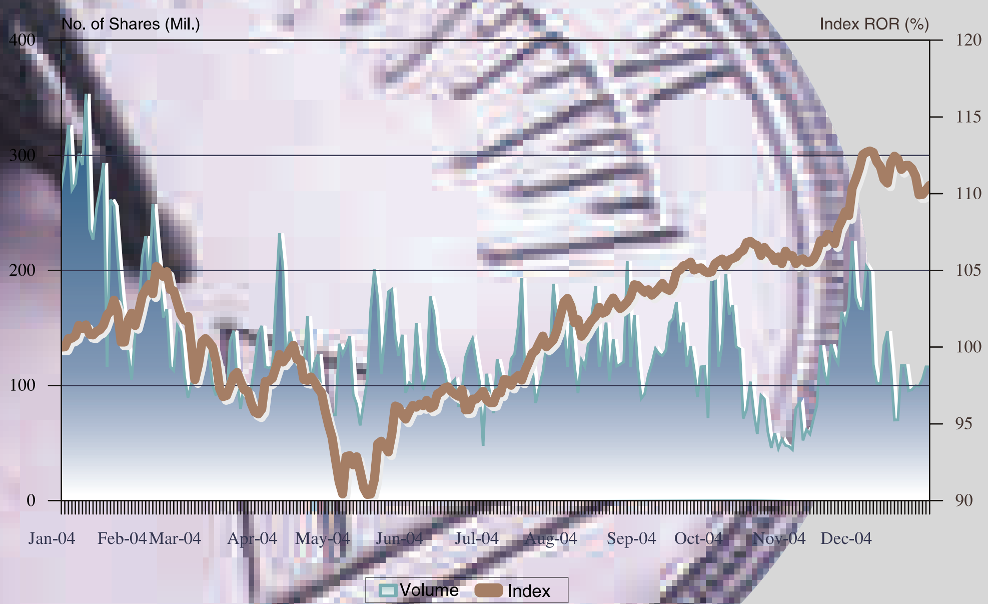
of liquidity, did not represent any real inflationary threat for the Kuwaiti economy. But due to the continued weakness of the US Dollar throughout the year, a change in the inflation trend rose during the year unlike the trend that was prevailing. Major external pressures are expected to increase due to higher costs of non-oil imported commodities, particularly those priced in the Euro and the Yen. Since those commodities represent the major portion of the total Kuwaiti imports, it is difficult to avoid the inflationary pressures. Inflation is estimated to have remained in 2004 above its level in 2003, and to have ended the year at 2.3%.

Kuwait Stock Exchange

Despite the frequent raises of interest rates during the year, Kuwait Stock Exchange rebounded from its first half stumble, rising by 14.6% between July-November. In contrast, esoteric factors, rather than anything fundamental, were pinning down the market between February and April 2004. Mainly, investor sentiment was frothy. But once the market proved itself by breaking out of the downward trend, the risk/reward profile shifted back to the bullish side, with its performance ranging between 10% -15% during the second half of 2004. As a result, gains from January to end of November stood at 12.3%, with corporates continuing to pump out some reasonable profit growth figures through the nine month period of 2004. Additionally, a steady stream of new listings during the second half of 2004 had its own intrinsic merits, as they helped improve the depth of the market, providing more choice for investors.

The KSE index closed the year at 6410 points, up by 33.8% for the year, though by only 15.3% on a value-weighted basis. Market capitalization reached KD 21.5 billion, up by KD 3.7 billion, with KD 1.4 million from 18 new listings. The price-to-earnings ratio closed at 13.5, while daily turnover averaged KD 61.6 million in 2004, down by 8% from the previous year.

Performance of Kuwait Stock Market Volume vs. Market Index for the year 2004



Operations Review

During the year, Kuwait Investment Company (KIC) leveraged the optimistic environment that prevailed throughout the year and the increasing confidence in the Kuwaiti economy with its promising opportunities for strong future growth. The Company actively performed across its business sectors, posting an excellent performance with which all the budgeted objectives of its business plan for the year were realized. This strong performance was the outcome of the collaborated and concerted efforts of various departments of the Company. The following paragraphs review the salient achievements of KIC during the year:

Assets Management Division

The Assets Management Division strongly performed during the year, maintaining its pivotal role in increasing fees and commissions income.

Local & GCC Investment Department

The Local & GCC Investment Department preformed several functions during the year, salient among which was its role as the lead manager and underwriter of the subscription to the shares of Sokouk Real Estate Development Company. KIC successfully placed the entire 180 million shares to its existing and new clients. KIC also performed the function of the lead manager and underwriter for International Leasing & Investment Company, which was listed on Kuwaiti Stock Exchange in July 2004.

Strengthening the existing cooperation with Gulf Finance House (GFH), the department actively marketed GFH's products in Kuwait and successfully placed US$ 48 million participations in Al-Areen Desert Resort in Bahrain, in addition to its direct investment in this project, which comprises hotels and touristic resorts. Another project was Al- Andalus House in which KIC's and its clients equity participation totaled US$ 10 million.

Local & GCC Investment Department was also active in the area of investment funds. Early in the year, the department launched Al Hilal Islamic Fund with a variable capital ranging between KD 5 million and KD 100 million. The Fund is specialized in investing in Islamic financial instruments. During the year, the department launched Arab Investor Fund which invests in Arab financial markets.

International Capital Markets Department

Financial markets were volatile in 2004. The markets started the year on a positive tone with a growth picture in the USA, Europe and Asia. These markets performed strongly until April 2004. Subsequently, the U.S. economic figures at that time pointed to a lower-than-expected growth rate thereby weakening the markets across the board. Also the news from China about the possibility of a hard-landing scenario of their economy had shaken Asian markets globally. Finally, the oil price hike in the third quarter of the year contributed significantly in the markets under-performance. However, the markets stabilized in the fourth quarter, ending the year on a positive note.
During 2003, the department completed the ground work for leveraging the growth potential in the US and European economies and the rewarding investment opportunities that may arise therein. Towards mid-2004, the department launched the North American Equities Fund and the European Equities Fund in response to local investors increasing demand on investment portfolios in international markets. These two funds seek to invest in high quality investment funds including hedge funds that invest in American and European equities to achieve higher yields for investors.

These two new classes of the KIC Global Strategy Fund Ltd. Guernsey brought the total number of classes under the umbrella of this Fund to five, making the Fund well diversified and geographically covering all financial markets.

Company Activities

Corporate Finance Department

During the year, the Corporate Finance Department's performance was characterized by the diversity of financing facilities and the choice of rewarding investment opportunities, which was favorably reflected on the financial results of the department for the year. The department entered into new financial markets and economic sectors including, but not limited to, the markets of Turkey, Ukraine, Russia and Kazakhstan, which offer growing opportunities and encouraging investment environment. The department participated in financing transactions with international financial institutions. The financing facilities ranged between Islamic facilities (such as leasing, Murabaha and investment power of attorney) and conventional financing for various financial, banking, industrial, real estate, services and oil sectors. The role of the department also varied between participating in, arranging for and managing the financing transactions.

It is noteworthy that the Corporate Finance Department receives many offers to participate in extending and managing a wide range of financing transactions, but the departments keeps an eye on the quality and not the quantum, and on observing the credit policies approved by the general management of the Company and their compliance with the credit policies implemented by the Central Bank of Kuwait, while applying the principle of geographic and sectoral distribution of risks.

With the local market offering rewarding financing opportunities, the Kuwaiti market attracted the largest portion of those credit facilities, particularly the medium size financial and trading companies. The cooperation between this department and the Local Assets Management department was enhanced during the year for the purpose of entering into financing transactions for the Corporate Finance clients against the guarantee of client-managed equities portfolios. These financing transactions received warm welcome and were highly successful. The department will endeavor to increase such cooperation and continue with such types of transactions, given their short term, quality collaterals and rewarding returns.

The Corporate Finance Department also endeavored to attain the major objectives of its declared strategy through increasing fees generated from marketing and arranging credit facilities to its prime customers. This was positively reflected on the operating results of the department in terms of increasing the net profits and exceeding the budgeted figures.

Direct Investment Department

The Direct Investment Department undertook numerous successful initiatives during 2004, actively contributing to increasing the returns on the Company's investments and the revenues from fees and commissions. The department successfully completed the restructuring process for Kuwait National Real Estate Services Company by raising its capital to KD 30 million through a private placement. This Company is expected to be listed on Kuwait Stock Exchange during the second half of 2005.

During the year, the Direct Investment Department participated in the establishment of Bawabet Al Kuwait Holding Company K.S.C (BKH) by 10% of its KD 50 million capital and the Kuwaiti Jordanian Company (Holding) by 8.57% of its KD 30 million capital. The department also acted as the subscription agent for the American Strong Haven Inc. and acquired an equity stake of 19.5% in this company's capital of US$ 51.2 million. In December 2004, the department subscribed by an equity stake of 5% in the KD 15 million capital of Warba Investment Company (under incorporation).

Treasury Department

The Treasury Department continued to grow its client base during the year, and succeeded in attracting several new Islamic and conventional institutions and companies.

On the bonds front, the department took part in bond issues to the favor of the Commercial Bank of Kuwait, Kuwait Projects Company and United Industries Company.

Despite the difficulties experienced in the financial market in terms of liquidity and higher interest rates, the Treasury Department managed to provide the liquidity required to finance the notable expansion of the Company's investments during the year at competitive prices.

Global Markets Trading Department

Global stock markets were favorably influenced by the growth of the global economy during the year, although at a lower than expected rate. Dow Jones 30 rose by 3.15% only, while Standard & Poor's 500 was up by 9%, whereas the generally technology dominated NASDAQ rose by 8.5%.

European markets also performed well during the year, led by the British market at 7.5%, followed by the French market at 7.4% and the German market at 7.3%. In Asia, the Japanese and Hong Kong markets were up by 7.6% and 13%, respectively.

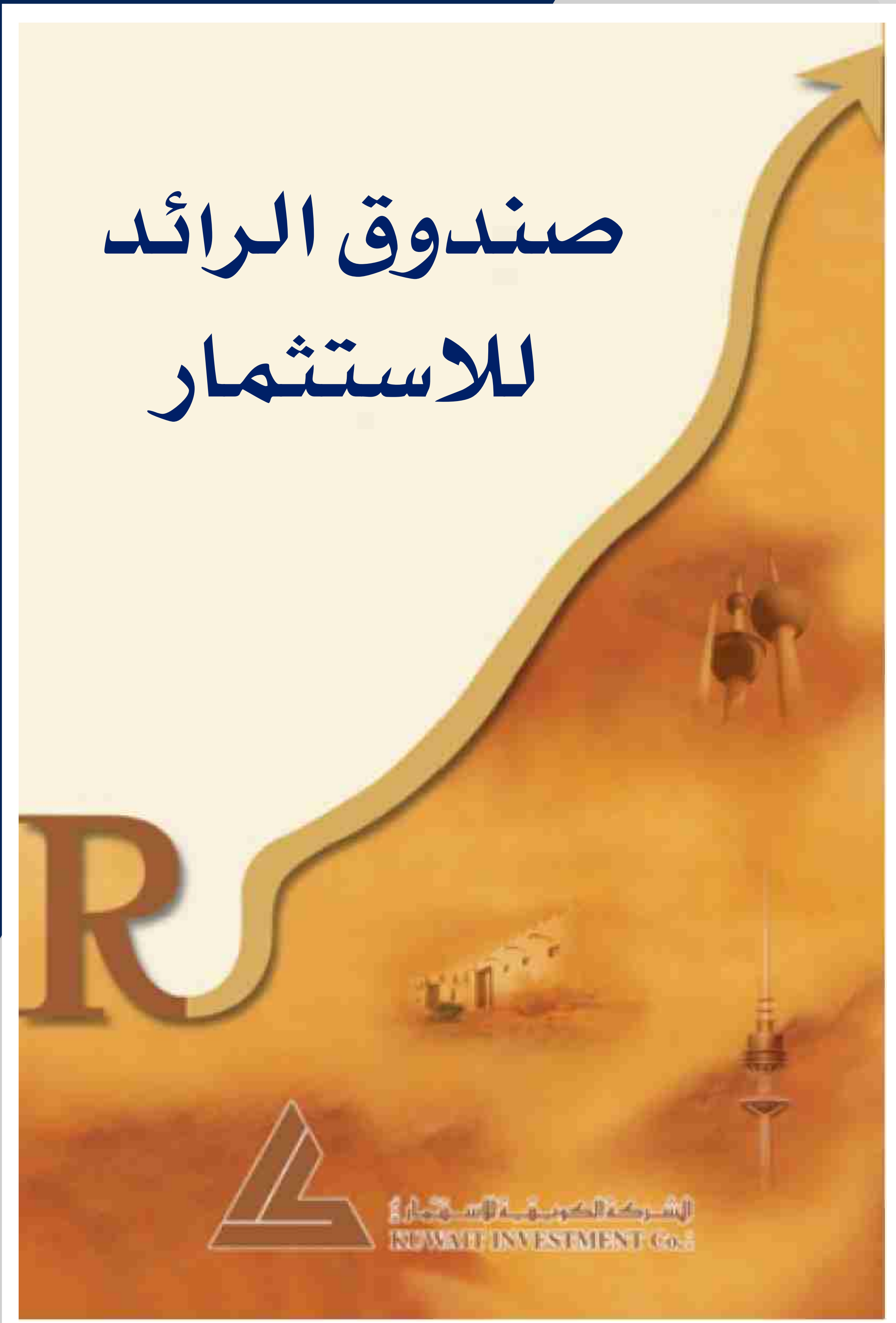
During 2004, the Global Markets Trading Department selectively took trading positions within the limits of its prudent policy that balances between risk and return, and accordingly contributed to increasing the Company's profitability during the year.

Information Technology Department

Information Technology Department successfully completed the modernization of the Company's automated systems during the year, so as to cope with the latest developments and innovations in information technology industry. Work is underway for initiating and operating the online trading system, which the Company's clients can access to electronically trade on Kuwait Stock Exchange, without physical presence in the premises of the stock exchange. Preparations are also being made to inaugurate the link between KIC's e-trading system and the electronic system of Al-Rajhi Banking & Investment Corporation, enabling the clients of both companies to access the two systems and trade on Kuwait Stock Exchange, Saudi Stock Exchange and New York Stock Exchange.

The department will endeavor to provide the Company with the latest in information technology industry - a commitment which was manifested in introducing Globus System to all department of the Company.

In this context, the Accounting Department continued its efforts to upgrade its information systems through implementing the new general ledger system, which has been connected to all Company departments. This new system will be used as a tool for improving efficiency in providing financial and statistical data to all departments, and for satisfying the external auditors requirements. All general ledger procedures and entries will be utilizing the new system that will minimize the manual entries, favorably reflecting on the overall performance of Kuwait Investment Company.



Al Raed Investment Fund
Invests in KSE listed companies and investment funds

The Shareholders
Kuwait Investment Company (S.A.K.)
State of Kuwait

We have audited the accompanying consolidated balance sheet of Kuwait Investment Company (S.A.K.) "parent company" and subsidiary ("the group") as of December 31, 2004 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the parent company's management. 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 plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the group as of December 31, 2004, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Also in our opinion, the statements include the disclosures required by the Commercial Companies Law and the Company's Articles of Association, and we obtained the information we required to perform our audit. In addition, proper books of account have been kept, and the accounting information given in the Directors' Report is in agreement with the parent company's books of account. According to the information available to us, there were no contraventions during the year of either the Commercial Companies Law or of the parent company's Articles of Association, which might have materially affected the group's financial position, or results of its operations.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business, and its related regulations, during the year ended December 31, 2004.

Jassim Ahmad Al-Fahad
Licence No. 53-A
Al-Fahad & Co.
Deloitte & Touche

Dr. Shuaib A. Shuaib
Licence No. 33-A
Albazie & Co.
Member of RSM International

February 23, 2005
Kuwait

EXHIBIT A

ASSETS	Note	2004 KD	2003 KD
Cash – current and call accounts		**1,948,768**	2,818,281
Placements	3	**41,483,922**	16,619,279
Investments held for trading	4	**61,330,117**	48,892,212
Loans and advances	5	**24,242,896**	19,677,108
Government debt bonds	6	**1,077,000**	1,077,000
Investments available for sale	7	**76,243,795**	53,122,672
Unconsolidated subsidiaries and associates	8	**8,926,847**	2,832,931
Investment properties	9	**5,106,667**	6,522,823
Other assets	10	**8,370,110**	7,838,668
		228,730,122	159,400,974
LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS' EQUITY			
Liabilities:			
Call and notice accounts		**2,602,949**	2,914,926
Deposits		**92,902,616**	32,815,853
Accrued interest payable		**147,753**	36,927
Accruals and other liabilities	11	**11,107,848**	11,296,256
Total liabilities		**106,761,166**	47,063,962
Minority interest		**2,228,912**	3,063,519
Shareholders' equity:			
Share capital 500,000,000 authorized, issued and fully paid ordinary shares of 100 fils par value		**50,000,000**	50,000,000
Treasury shares	12	**(1,675)**	(1,675)
Statutory reserve	13	**12,003,981**	9,925,398
General reserve		**12,003,981**	9,925,398
Retained earnings		**26,799,804**	25,899,044
Cumulative changes in fair value		**18,933,953**	13,525,328
Total shareholders' equity		**119,740,044**	109,273,493
		228,730,122	159,400,974

Bader N. Alsubaiee
Chairman and Managing Director

Rasheed Al-Sayyed Yousef Al-Tabtabai
Deputy Chairman

Yousef E. Al-Hassawi
General Manager

The accompanying notes are an integral part of the consolidated financial statements

Consolidated Statement of Income
For the year ended December 31, 2004

EXHIBIT B

Income:	Note	2004 KD	2003 KD
Interest		**2,301,361**	2,276,039
Dividend and other investment income		**4,333,136**	3,926,529
Commission		**11,208,772**	4,913,699
Income from property rental and management services (net)	14	**1,789,552**	1,829,180
Gain from investments held for trading	15	**7,453,540**	21,243,350
Gain on sale of investments available for sale		**653,344**	61,432
Gain on sale of investment properties	16	**1,727,343**	163,743
Gain on sale of investments held to maturity		**-**	175,000
Foreign exchange gain		**42,345**	54,011
Group's share of results from unconsolidated subsidiaries and associates		**659,528**	429,634
Total income		**30,168,921**	35,072,617
Expenses:			
Interest expense		**1,445,918**	847,195
General, administrative and other expenses	17	**7,463,677**	7,291,692
Provision for impairment	18	**240,168**	224,446
Depreciation and amortization		**770,187**	1,983,435
Total expenses and charges		**9,919,950**	10,346,768
Profit from operations		**20,248,971**	24,725,849
Other income		**50,200**	169,183
Profit before minority interest		**20,299,171**	24,895,032
Minority interest		**486,658**	(213,955)
Profit for the year		**20,785,829**	24,681,077
Contribution to Kuwait Foundation for the Advancement of Sciences		**(187,072)**	(222,130)
Directors' remuneration		**(80,000)**	(70,000)
National Labor Support Tax	19	**(461,004)**	(527,042)
Net profit for the year		**20,057,753**	23,861,905
Earnings per share	20	**Fils 40.12**	Fils 47.72

The accompanying notes are an integral part of the consolidated financial statements

Consolidated Statement of Changes in Shareholder’s Equity
For the year ended December 31, 2004

EXHIBIT C

	Share capital KD	Treasury Share KD	Statutory Reserve KD	General Reserve KD	Retained Earnings KD	Cumulative changes in fair value KD	Total KD
Balance at December 31, 2002	50,000,000	(1,675)	7,457,290	7,457,290	13,473,280	4,415,047	82,801,232
Cash dividend for 2002 – 13%	-	-	-	-	(6,499,925)	-	(6,499,925)
Net profit for the year	-	-	-	-	23,861,905	-	23,861,905
Effect of changes in fair value of available for sale financial assets	-	-	-	-	-	9,110,281	9,110,281
Transfer to reserves	-	-	2,468,108	2,468,108	(4,936,216)	-	-
Balance at December 31, 2003	50,000,000	(1,675)	9,925,398	9,925,398	25,899,044	13,525,328	109,273,493
Cash dividend for 2003 – 30%	-	-	-	-	(14,999,827)	-	(14,999,827)
Net profit for the year	-	-	-	-	20,057,753	-	20,057,753
Reversal due to sale of investment available for sale	-	-	-	-	-	319,730	319,730
Effect of changes in fair value of available for sale financial assets	-	-	-	-	-	5,088,895	5,088,895
Transfer to reserves	-	-	2,078,583	2,078,583	(4,157,166)	-	-
Balance at December 31, 2004	**50,000,000**	**(1,675)**	**12,003,981**	**12,003,981**	**26,799,804**	**18,933,953**	**119,740,044**

The accompanying notes are an integral part of the consolidated financial statements

EXHIBIT D

Cash flows from operating activities:	Note	2004 KD	2003 KD
Profit for the year		**20,785,829**	24,681,077
Adjustments for:			
Depreciation and amortization		**770,187**	1,983,435
Group's share of results from unconsolidated subsidiaries and associates		**(659,528)**	(429,634)
Minority interest		**(486,658)**	213,955
Provision for impairment		**240,168**	224,446
Gain from investments held for trading		**(7,453,540)**	(21,243,350)
Gain on sale of investments available for sale		**(653,344)**	(61,432)
Gain on sale of investment properties		**(1,727,343)**	(163,743)
Gain on sale of investments held to maturity		**-**	(175,000)
Operating profit before changes in the operating assets and liabilities		**10,815,771**	5,029,754
(Increase) decrease in placements		**(6,876,819)**	4,408,817
Decrease in treasury bills and bonds		**-**	196,000
(Increase) decrease in investments held for trading		**(4,984,365)**	17,292,999
(Increase) decrease in loans and advances		**(3,958,971)**	525,323
Decrease in government debt bonds		**-**	428,117
(Increase) decrease in other assets		**(2,878,688)**	1,168,798
Increase in deposits		**10,000,000**	-
Increase (decrease) in accrued interest payable		**110,826**	(14,737)
Increase in accruals and other liabilities		**541,396**	1,357,686
Decrease in minority interest		**(347,949)**	(718,975)
Net cash generated from operating activities		**2,421,201**	29,673,782
Cash flows from investing activities:			
Cash dividends received from an unconsolidated subsidiary		**-**	16,377
Proceeds from sale of investment properties		**2,582,518**	555,635
Proceeds from sale of investments available for sale		**4,611,146**	1,175,838
Proceeds from sale of investments held to maturity		**-**	13,825,000
Purchase of investment property		**-**	(558,890)
Purchase of investments held to maturity		**-**	(500,000)
Purchase of investments available for sale		**(21,670,300)**	(20,882,870)
Net amount paid for investment in unconsolidated subsidaires and associates		**(4,444,253)**	-
Net cash used in investing activities		**(18,920,889)**	(6,368,910)
Cash flows from financing activities:			
Cash dividend paid		**(14,889,228)**	(6,464,829)
Net cash used in financing activities		**(14,889,228)**	(6,464,829)
Net (decrease) increase in cash and cash equivalents		**(31,388,916)**	16,840,043
Cash and cash equivalents at the beginning of year		**(23,093,964)**	(39,934,007)
Cash and cash equivalents of Kuwait National Real Estate Services and Investment Co. K.S.C. (Closed)		**(1,165,380)**	-
Cash and cash equivalents at the end of year	21	**(55,648,260)**	(23,093,964)

The accompanying notes are an integral part of the consolidated financial statements

1. Organization and nature of operations

Kuwait Investment Company (S.A.K.), "the parent company" is a public shareholding investment company incorporated on November 25, 1961 under the laws of the State of Kuwait and its registered office is at P.O. Box 1005 Souk Al Manakh, Mubarak Al Kabeer Street, State of Kuwait. The parent company's major shareholder is Kuwait Investment Authority.

The group is primarily engaged in the following activities:
Security trading and investment
Real estate investment
Property rental and management
Underwriting bonds and certificate of deposit issues
Time deposit acceptance and placement with financial institutions
Foreign exchange contracts

At December 31, 2004, the group had 221 employees (2003 - 246 employees).

The consolidated financial statements of Kuwait Investment Company S.A.K. and Subsidiary for the year ended December 31, 2004 were authorized for issue in accordance with a resolution of the Board of Directors on February 23, 2005. The shareholders' general assembly has the power to amend these financial statements after issuance.

2. Significant accounting policies

The accompanying consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). Significant accounting policies are summarized as follows:

a) Basis of preparation

The consolidated financial statements are presented in Kuwaiti Dinars and are prepared under the historical cost convention, except for investments available for sale and held for trading that are stated at fair value.

The consolidated financial statements comprise the parent company and its subsidiary Kuwait International Fair Company K.S.C. (Closed).

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Details of the subsidiary companies are set out in Note 23.

b) Principles of consolidation

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Equity and net income attributable to minority shareholders' interests are shown separately in the balance sheet and statement of income, respectively. Intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. The minority interests are measured by the proportion of the pre-acquisition carrying amounts of the identifiable assets and liabilities of the subsidiaries.

c) Recognition, classification and measurement of financial instruments

In accordance with IAS 39, the group has classified financial instruments as ‘held for trading’, ‘originated assets’, ‘held to maturity’ or ‘available for sale’. Those classified as ‘held for trading’ and ‘available for sale’ are carried at fair value. Those classified as ‘originated assets’ are carried at amortized cost.

A financial asset or a financial liability is recognized when the group becomes a party to the contractual provisions of the instrument. A financial asset is derecognized when the group loses control of the contractual rights that comprise the financial asset and a financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

All financial instruments are initially recognized at cost (which includes transaction costs).

Derivative instruments are initially recognized in the balance sheet at cost (including transaction costs) and subsequently measured at their fair value.

The fair value of a derivative is the equivalent of the unrealized gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Derivatives with positive market values (unrealized gains) are included in other assets and derivatives with negative market values (unrealized losses) are included in other liabilities in the consolidated balance sheet. The resultant gains and losses are included in consolidated statement of income.

d) Impairment

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

e) Cash and cash equivalents

Cash and cash equivalents consists of cash – current and call accounts, placements maturing within ninety days from the date of acquisition, less call and notice accounts, deposits maturing within ninety days from the date of acquisition.

f) Placements

Placements are stated at amortized cost less any provision for impairment. Placements are classified as “assets originated by the group”.

g) Loans and advances

Loans originated by the group by providing money directly to the borrower or to a sub-participation agent at draw down are classified as ‘loans originated by the group’ and are carried at amortized cost. Third party expenses such as legal fees, incurred in granting a loan are treated as part of the cost of the transaction. All loans and advances are recognized when cash is advanced to borrowers.
Loans and advances are written off when there is no realistic prospect of recovery. Specific provisions are calculated on the losses of loans and advances originated by the parent company

against credit risks. The specific provision is made for loans originated by the group against the credit risks due to impairment of loans and advances, in case there is an objective evidence of non-collection of the due amount. The provision amount is the difference between the carrying value of loans and advances and the recoverable amount, which is the present value of the expected future cash flows including the amounts recoverable from collaterals and assets pledged in favour of the group, discounted by the effective interest rate prevailing in the market for variable rate loans. Provision for impairment loss in loans and advances is charged to consolidated statement of income.

h) Government debt bonds

Government debt bonds are carried at cost. These are classified as “assets originated by the group”.

i) Investments held for trading

Investments held for trading are securities that were acquired for generating a profit from short-term fluctuations in either price or dealer’s margin. Investments held for trading are measured at fair value based on quoted current bid prices. All realized and unrealized gains and losses are included in the consolidated statement of income.

j) Investments available for sale

Securities acquired to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in value, interest rates or exchange rates are classified as ‘available for sale”.

Subsequent to acquisition, ‘available for sale’ financial assets are re-measured at fair value and unrealized gains and losses arising from changes in their fair values are taken to shareholders’ equity. When the ‘available for sale’ asset is disposed of, or impaired, the related accumulated fair value adjustments are transferred to the consolidated statement of income as gains or losses. Fair values are based on quoted current bid prices or using the current market rate of interest for that instrument. Fair values for unquoted equity instruments are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Investments, whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

k) Investments held to maturity

Investments with a fixed and determinable maturity and where management has both the positive intent and ability to hold them till maturity are classified as “investments held to maturity” and are carried at amortized cost.

l) Unconsolidated subsidiaries and associates

Investments comprising between 20% and 50% of the total equity share capital of a company and over which the group can exert significant influence are classified as associates. Unconsolidated subsidiaries and associates are accounted for using the equity method of accounting based on the latest audited financial statements or other information as appropriate, adjusted for any impairment in value and the pro rata share of income (loss) there from is included in the consolidated statement of income.

m) Investment properties

Developed land and buildings and buildings erected on leased land are stated at cost and are depreciated using the straight-line method over their estimated useful lives of 20 years for developed land and buildings and lease period for buildings erected on leased land. Undeveloped land is not depreciated. The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed their recoverable amount, assets are written down to their recoverable amount.

n) Call and notice accounts and deposits

Call and notice accounts and deposits are stated at amortized cost.

o) Provisions

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

p) End of service indemnity

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

q) Treasury shares

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

r) Revenue recognition

Interest income is recognized, when earned on a time apportionment basis. Dividends are recognized when the group's right to receive payment is established. Management fees relating to portfolios and fund management are recognized when earned. Commission from guarantees and commitments are recorded on the accrual basis. Revenue from property rental and management services are recognized when services are rendered by the group. Gain on sale of investments is measured by the difference between the sale proceeds and the carrying amount of the investment at the date of disposal, and is recognized at the time of the sale.

s) Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the group and, accordingly, are not included in these consolidated financial statements.

t) Trade and settlement date accounting

All regular way purchase and sale of financial assets are recognized using trade date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

u) Foreign currencies

Foreign currency transactions are translated into Kuwaiti Dinars at rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Kuwaiti Dinars at rates of exchange prevailing on that date. Exchange differences are reported as part of the results for the year.

v) Segment reporting

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 (geographical segment), which is subject to risks and rewards that are different from those of other segments.

3. Placements

Placements include blocked deposit with a local bank in the amount of US$ 5.25 million (2003 - US$ 5.25 million) equivalent to KD 1,549,249 (2003 - KD 1,549,275). This deposit is placed as collateral against loans granted by that bank to Kuwait Foreign Investment Co., Inc., a subsidiary. This deposit will not be released until the loans are repaid.

4. Investments held for trading

	2004 KD	2003 KD
Kuwaiti shares	**19,282,895**	11,779,354
Gulf shares	**2,390,280**	896,650
Local funds	**34,139,038**	29,381,430
Foreign shares	**34,417**	2,226,441
Foreign funds	**5,483,487**	4,608,337
	61,330,117	48,892,212

5. Loans and advances

Loans and advances are stated net of provision for impairment.
The composition of the loans and advances portfolio is as follows:

	2004 KD	2003 KD
International	**8,243,864**	7,808,346
Domestic	**15,999,032**	11,868,762
	24,242,896	19,677,108

Movement in provision for impairment:

	2004 KD	2003 KD
Balance at beginning of the year	**20,760,972**	20,674,081
Charge for the year (Note 18)	**79,183**	331,450
Exchange differences	**38,965**	(244,559)
Amounts ceded to Central Bank of Kuwait	**(101,387)**	-
Balance at end of the year	**20,777,733**	20,760,972

The policy for the parent company for calculation of the provision for impairment for loans and advances complies in all material respects with the specific and general provision requirements of the Central Bank of Kuwait. In this regard, the Central Bank of Kuwait requires a general provision of 2% on all credit facilities not subject to specific provision.

6. Government debt bonds

The Central Bank of Kuwait purchased resident Kuwaiti customers' debts and resident debts of other Gulf Cooperation Council nationals existing as of August 1, 1990, in addition to related interest up to December 31, 1991, on behalf of the Government of Kuwait in accordance with Decree No. 32/92 and Law No. 41/93, as amended, in respect of the financial and banking sector. These balances related to a company acquired after August 1, 1990 and subsequently merged with the parent company.
The purchase value of these debts was settled by the issue of bonds, with a value date of December 31, 1991. The bonds mature over a maximum period of twenty years from the value date. Interest will be at a rate fixed semi-annually by the Central Bank of Kuwait, and will be payable semi-annually in arrears; the average rate for 2004 was 1.82% (2003 – 1.89%).
The group has a contingent liability in respect of any adjustment that the Central Bank of Kuwait may make to the amount of the bonds, in respect of debts that do not fulfill the conditions of the law under which they were purchased.

7. Investments available for sale

	2004 KD	2003 KD
Quoted securities	**19,563,983**	12,614,244
Unquoted securities	**56,679,812**	40,508,428
	76,243,795	53,122,672

It was not possible to reliably measure the fair value of unquoted securities amounting to KD 11,890,701 (2003 – KD 1,457,035) and hence these are stated at cost less impairment losses, if any.

8. Unconsolidated subsidiaries and associates

	2004 KD	2003 KD
Unconsolidated subsidiaries:		
Credit Des Bergues	**1,523,362**	1,424,717
Kuwait Foreign Investment Co., Inc.	**763,165**	688,302
	2,286,527	2,113,019
Associates:		
Kuwait Pacific Finance	**-**	683,326
Kuwait National Real Estate Services and Investment Co. K.S.C. (Closed)	**6,603,734**	-
Others	**36,586**	36,586
	6,640,320	719,912
	8,926,847	2,832,931

During the year, Kuwait Pacific Finance was liquidated and the Company received KD 694,916 as full and final settlement.

Unconsolidated subsidiaries were not consolidated since their results are not material to the financial statements of the group.

During the year, the group's wholly owned subsidiary Kuwait National Real Estate Services and Investment Co. K.S.C. (Closed) increased its share capital from 5,250,000 shares of 100 fils each to 300,000,000 shares of 100 fils each. The parent company participated in this increase for 54,750,000 shares of 100 fils each and as a result, the parent company's share reduced to 20% of capital of Kuwait National Real Estate Services and Investment Co. K.S.C. (Closed). As of December 31, 2004, the parent company has accounted for the investment in Kuwait National Real Estate Services and Investment Co. K.S.C. (Closed) as an associate and recognized KD 603,734 as share of results from the associate based on the financial statements of Kuwait National Real Estate Services and Investment Co. K.S.C. (Closed) for the period from October 1, 2003 till December 31, 2004. During the year, the parent company earned commission income of KD 1,557,028 for underwriting the subscription of the shares of Kuwait National Real Estate Services and Investment Co. K.S.C. (Closed).

The assets and liabilities pertaining to Kuwait National Real Estate Services and Investment Co. K.S.C. (Closed) included in the consolidated balance sheet as of December 31, 2003 are KD 3,450,983 and KD 1,610,848 respectively. Kuwait National Real Estate Services and Investment Co. K.S.C. (Closed) contributed a net profit of KD 176,474 for the year ended December 31, 2003.

9. Investment properties

Cost	Developed land and buildings KD	Buildings on leased land KD	Undeveloped land KD	Total KD
At December 31, 2003	631,083	13,155,716	2,056,569	15,843,368
Relating to Kuwait National Real Estate Services Co. K.S.C. (Closed)	-	(417,849)	-	(417,849)
Additions	-	7,965	-	7,965
Disposals	(318,042)	-	(1,200,306)	(1,518,348)
At December 31, 2004	**313,041**	**12,745,832**	**856,263**	**13,915,136**
Accumulated depreciation and provision				
At December 31, 2003	209,972	8,394,001	716,572	9,320,5445
Relating to Kuwait National Real Estate Services Co. K.S.C. (Closed)	-	(417,849)	-	(417,849)
Charge for the year	-	568,946	-	568,946
Relating to disposals	(104,986)	-	(558,187)	(663,173)
At December 31, 2004	**104,986**	**8,545,098**	**158,385**	**8,808,469**
Net book value:				
At December 31, 2004	**208,055**	**4,200,734**	**697,878**	**5,106,667**
At December 31, 2003	421,111	4,761,715	1,339,997	6,522,823

The group has one of its buildings erected on land leased from the Government of Kuwait for 25 years, which expired on April 1, 1999. In reference to the Ministerial order No. 56 of 2001, relating to licences and contracts of buildings and premises constructed on land leased from the Government, the Company has accrued for rental expense due to the Ministry of Finance for land leased from the Government for which the Company has an agreement to renew the lease for 10 years ending on March 31, 2009. As per this agreement, the Company is liable to pay an annual rent of KD 271,366. The future minimum lease payments for the rent regarding the lease land are as follows:

	KD
Upto one year	**271,366**
More than 1 year and upto 4 years (3 years and 3 months)	**881,940**
	1,153,306

The fair value of investment properties as per independent valuation at December 31, 2004 is KD 5,910,315 (2003 - KD 7,253,000).

10. Other assets

	2004 KD	**34 KD**
Accounts receivable	**3,166,647**	3,010,333
Accrued interest	**352,861**	352,429
Others	**4,850,602**	4,475,906
	8,370,110	7,838,668

11. Accruals and other liabilities

	2004 KD	2003 KD
Sundry creditors and accrued expenses	**5,087,089**	4,631,343
Provision for end of service indemnity	**4,127,862**	4,236,024
Provision for staff leave	**590,665**	885,884
Payable to Kuwait Foundation for the Advancement of Sciences	**187,072**	222,130
Others	**1,115,160**	1,320,875
	11,107,848	11,296,256

12. Treasury shares

	2004 KD	2003 KD
Number of shares	**5,780**	5,780
Percentage of issued shares	**% 0.001156**	% 0.001156
Cost (KD)	**1,675**	1,675
Market value (KD)	**2,139**	2,399

13. Statutory reserve

In accordance with the Commercial Companies Law of 1960, as amended, 10% of profit for the year is transferred to statutory reserve.
Distribution of the statutory reserve is limited to the amount required to enable the payment of dividend of 5% of share capital in years when retained earnings are not sufficient for the payment of dividend of that amount.

14. Income from property rental and management services (net)

	2004 KD	2003 KD
Revenue	**3,928,505**	4,583,372
Less: Cost	**(2,138,953)**	(2,754,192)
	1,789,552	1,829,180

15. Gain from investments held for trading

	2004 KD	2003 KD
Net realized gain from investments held for trading	**7,249,968**	12,355,838
Unrealized gain from changes in fair value of investments held for trading	**203,572**	8,887,512
	7,453,540	21,243,350

16. Gain on sale of investment properties

During the year, the group sold certain investment properties for KD 2,582,518 (2003 – KD 555,635) resulting in a gain of KD 1,727,343 (2003 – KD 163,743).

17. General, administrative and other expenses

General, administrative and other expenses include staff costs of KD 4,709,738 (2003 - KD 4,981,227).

18. Provision for impairment

	2004 KD	2003 KD
Loans and advances	**79,183**	331,450
Other receivables	**160,985**	(106,004)
Non-cash facilities	**-**	(1,000)
	240,168	224,446

19. National Labor Support Tax

In accordance with the Ministry of Finance resolution No. 26 of 2001, the group has calculated National Labor Support Tax at 2.5% of profit for the year after deducting contribution to Kuwait Foundation for the Advancement of Sciences, 10% transfer to statutory reserve and directors' remuneration.

20. Earnings per share

Earnings per share is calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year.

	2004 KD	2003 KD
Earnings:		
Net profit for the year	**20,057,753**	23,861,905
Number of shares outstanding:		
Number of issued shares	**500,000,000**	500,000,000
Weighted average number of treasury shares	**(5,780)**	(5,780)
Weighted average number of shares outstanding	**499,994,220**	499,994,220
Earnings per share	**Fils 40.12**	Fils 47.72

21. Cash and cash equivalents

	2004 KD	2003 KD
Cash - current and call accounts	**1,948,768**	2,818,281
Placements maturing within ninety days	**27,908,537**	9,818,534
Call and notice accounts and deposits maturing within ninety days	**(85,505,565)**	(35,730,779)
	(55,648,260)	(23,093,964)

22. Proposed cash dividend

Subsequent to the balance sheet date, the Board of Directors have proposed a cash dividend of 30 fils per share amounting to KD 14,999,827 after excluding treasury shares. This proposal is subject to the approval of the shareholders' annual general assembly.

During 2004 a cash dividend of 30 fils per share amounting to KD 14,999,827 after excluding treasury shares for the year ended December 31, 2003 was approved at the annual general meeting held on March 30, 2004 and any unpaid dividends are included under other liabilities.

23. Subsidiary companies

Details of significant subsidiary companies are set out below:

Name	Country of incorporation	Percentage of ownership	Purpose
Kuwait International Fair Company K.S.C. (Closed)	Kuwait	51%	Property rental services
Credit Des Bergues	Switzerland	100%	Investment management services
Kuwait Foreign Investment Co., Inc.	USA	100%	Property rental and management services

Investments in unconsolidated subsidiaries, Credit Des Bergues and Kuwait Foreign Investment Co., Inc, are disclosed separately in Note 8.

The parent company is the sole shareholder in certain other enterprises which are in the nature of special purpose vehicles for investment management purposes. The parent company does not have significant benefits nor does it have any ownership risks in the assets managed through these entities. Accordingly, these enterprises are not consolidated and are not included in the list of subsidiaries.

24. Fiduciary assets

The group manages investment portfolios on behalf of a principal shareholder, Government agencies and financial institutions. The total value of those portfolios amounted at year-end to KD 1.87 billion (2003: KD 1.79 billion). Those portfolios are not reflected in the consolidated financial statements.

As an agent for its custody clients, the group enters into contractual agreements with counter parties, usually brokers, whereby the brokers can borrow the custody clients' securities for a specified period of time to enhance the return on clients' securities. A risk of loss occurs to the portfolio owners if the counter parties default.

25. Related party transactions

These represent transactions with certain related parties who were customers of the group during the year. The terms of these transactions are approved by the group's management. The balances included in the consolidated financial statements at year-end are as follows:

	2004 KD	2003 KD
Assets:		
Other assets	**350,585**	234,036
	350,585	234,036
Liabilities:		
Call and notice accounts	**602,420**	598,229
Deposits	**9,592,338**	295,100
	10,194,758	893,329
Income statement:		
Commission	**389,131**	368,298
Interest expense	**118,188**	95,851

26. Fair value of financial instruments

In the opinion of management, except for Government debt bonds, carrying values of all other financial instruments are not significantly different from fair values.

It is not practicable to determine the fair value of Government debt bonds with sufficient accuracy, as the future cash flows are not determinable. Information on the principal characteristics of these bonds is presented in Note 6 to the consolidated financial statements.

27. Financial instruments

In the ordinary course of business, the group uses financial instruments including derivatives. The use of financial instruments also brings with it the associated inherent risks. The group recognizes the relationship between returns and risks associated with the use of financial instruments and the management of risks forms an integral part of the group's strategic objectives.

The strategy of the group is to maintain a strong risk management culture and manage the risk/reward relationship within and across the group's major risk-based lines of business.

The following sections describe the several risks inherent in the business, their nature and how they are managed.

A) 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 attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter parties, and continually assessing the creditworthiness of counter parties.

27. Financial instruments

Concentrations of credit risk arise when a number of counter parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the group's performance to developments affecting a particular industry or geographic location.

The group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or business. It also obtains security when appropriate.

Geographical risk analysis

Geographical concentration of assets and liabilities:

	Assets		Liabilities, minority interest and shareholders' equity		Off balance sheet items	
	2004 KD 000	2003 KD 000	**2004 KD 000**	2003 KD 000	**2004 KD 000**	2003 KD 000
G.C.C.	**198,221**	141,648	**216,180**	158,422	**2,050**	2,050
Other Middle East and Africa	**1,804**	1,804	**-**	-	**-**	-
Europe	**19,407**	7,252	**12,245**	661	**-**	-
North America	**6,198**	3,057	**-**	-	**-**	-
Asia	**3,100**	5,640	**305**	318	**-**	-
	228,730	159,401	**228,730**	159,401	**2,050**	2,050

Financial instruments with contractual amounts representing credit risk

In the normal course of meeting the needs of its customers for liquidity, foreign exchange and interest rate protection, managing its own exposure to fluctuations in interest rates and foreign exchange rates, and earning trading and fee revenue, the group is a party to various derivative financial instruments. All financial instruments are subject to normal credit standards, financial controls, risk management and monitoring procedures.

Commitments on behalf of customers for which there were corresponding liabilities by the customer concerned:	**2004 KD 000**	**2003 KD 000**
Guarantees	**2,050**	2,050

B) Interest rate risk

Interest rate risk is the sensitivity of the group's financial condition to future movements in interest rates. The group is exposed to interest rate risk as a result of mismatches or 'gaps' in the amounts of assets and liabilities that mature or reprice in a given period. The group can reduce this risk by matching the repricing of assets and liabilities through a number of ways.

The group's interest rate repricing maturity profile, based on the contractual repricing or maturity dates, whichever dates are earlier, is as follows:

At December 31, 2004 Assets	Up to 1 months	1-3 months KD 000	3-12 months KD 000	Non interest sensitive KD 000	Total KD 000	Effective interest rate %
Cash – current & call accounts	-	-	-	1,949	1,949	-
Placements	24,660	10,824	6,000	-	41,484	1.875 - 7.5625
Investments held for trading	-	-	-	61,330	61,330	-
Loans and advances	4,087	13,997	5,784	375	24,243	3.19 - 12
Government debt bonds	-	-	1,077	-	1,077	1.88
Investments available for sale	2,949	5,976	2,713	64,605	76,243	1.54188 - 6.5
Unconsolidated subsidiaries						-
and associates	-	-	-	8,927	8,927	-
Investment properties	-	-	-	5,107	5,107	-
Other assets	-	-	-	8,370	8,370	
	31,696	30,797	15,574	150,663	228,730	
Liabilities, minority interest and shareholders' equity						
Call and notice accounts	2,603	-	-	-	2,603	1 - 3
Deposits	79,952	7,951	5,000	-	92,903	0.625 - 4.875
Accrued interest payable	-	-	-	148	148	-
Accruals and other liabilities	-	-	-	11,107	11,107	-
Minority interest	-	-	-	2,229	2,229	-
Shareholders' equity	-	-	-	119,740	119,740	-
	82,555	7,951	5,000	133,224	228,730	

The effective interest rates for major currencies are as follows:

	December 31, 2004			December 31, 2003		
Assets	Great Britain Pounds %	Kuwaiti Dinars %	US Dollars %	Great Britain Pounds %	Kuwaiti Dinars %	US Dollars %
Placements	7.42	3.33	3.42	5.94	3.27	0.9375
Loans and advances	-	7.7	4.65	-	5.67	3.5
Investments available for sale	-	4.5	2.56	-	4.75	2.64
Government debt bonds	-	1.88	-	-	1.82	-
Liabilities						
Call and notice accounts	3	1	1.875	2.5	1.5	0.75
Deposits	4.875	2.4	2.5	-	2.36	1.38

At December 31, 2003	Up to 1 months KD 000	1-3 months KD 000	3-12 months KD 000	Non interest sensitive KD 000	Total KD 000	Effective interest rate %
Assets						
Cash – current & call accounts	-	-	-	2,818	2,818	-
Placements	9,818	1,839	4,962	-	16,619	0.9375 - 6
Investments held for trading	-	-	-	48,892	48,892	-
Loans and advances	1,960	14,161	3,181	375	19,677	1.62 - 8
Government debt bonds	-	-	1,077	-	1,077	1.82
Investments available for sale	4,420	2,713	-	45,990	53,123	1.70125 - 5
Unconsolidated subsidiaries and associates	-	-	-	2,833	2,833	-
Investment properties	-	-	-	6,523	6,523	-
Other assets	-	-	-	7,839	7,839	-
	16,198	18,713	9,220	115,270	159,401	
Liabilities, minority interest and shareholders' equity						
Call and notice accounts	2,915	-	-	-	2,915	0.75 - 2.5
Deposits	32,816	-	-	-	32,816	0.75 - 3.5
Accrued interest payable	-	-	-	37	37	-
Accruals and other liabilities	-	-	-	11,296	11,296	-
Minority interest	-	-	-	3,063	3,063	-
Shareholders' equity	-	-	-	109,274	109,274	-
	35,731	-	-	123,670	159,401	

C) Liquidity risk

Liquidity risk is the risk that the group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management have diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

The table below summarizes the maturity profile of the group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the group's deposit retention history and the availability of liquid funds. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at the year end are based on the contractual repayment arrangements.

Liquidity risk

	December 31, 2004					December 31, 2003				
Assets	**1-3 months KD 000**	**3-12 months KD 000**	**1-5 years KD 000**	**Over 5 years KD 000**	**Total KD 000**	1-3 months KD 000	3-12 months KD 000	1-5 years KD 000	Over 5 years KD 000	Total KD 000
Cash – current and call accounts	**1,949**	**-**	**-**	**-**	**1,949**	2,818	-	-	-	2,818
Placements	**33,935**	**6,000**	**1,549**	**-**	**41,484**	11,657	4,962	-	-	16,619
Investments held for trading	**61,330**	**-**	**-**	**-**	**61,330**	48,892	-	-	-	48,892
Loans and advances	**2,640**	**9,384**	**12,219**	**-**	**24,243**	-	5,264	12,881	1,532	19,677
Government debt bonds	**-**	**-**	**-**	**1,077**	**1,077**	-	-	1,077	-	1,077
Investments available for sale	**-**	**28,063**	**13,229**	**34,951**	**76,243**	13,510	7,133	12,053	20,427	53,123
Unconsolidated subsidiaries and associates	**-**	**-**	**-**	**8,927**	**8,927**	-	-	-	2,833	2,833
Investment properties	**-**	**698**	**4,409**	**-**	**5,107**	-	1,340	-	5,183	6,523
Other assets	**6,370**	**750**	**1,250**	**-**	**8,370**	4,424	1,228	2,187	-	7,839
	106,224	**44,895**	**32,656**	**44,955**	**228,730**	81,301	19,927	28,198	29,975	159,401
Liabilities, minority interest and shareholders' equity										
Call and notice accounts	**2,603**	**-**	**-**	**-**	**2,603**	2,915	-	-	-	2,915
Deposits	**87,903**	**5,000**	**-**	**-**	**92,903**	32,816	-	-	-	32,816
Accrued interest payable	**115**	**33**	**-**	**-**	**148**	37	-	-	-	37
Accruals and other liabilities	**5,747**	**642**	**590**	**4,128**	**11,107**	3,232	2,942	886	4,236	11,296
Minority interest	**-**	**-**	**-**	**2,229**	**2,229**	-	-	-	3,063	3,063
Shareholders' equity	**-**	**-**	**-**	**119,740**	**119,740**	-	-	-	109,274	109,274
	96,368	**5,675**	**590**	**126,097**	**228,730**	39,000	2,942	886	116,573	159,401

D) Currency risk

The group views itself as a Kuwaiti entity with Kuwaiti Dinars as its functional currency. Hedging transactions are used to manage any significant risk in other currencies.

The group had the following significant net exposures denominated in foreign currencies as at December 31, 2004.

Net assets (liabilities):

	2004 KD 000 equivalent long/(short)	2003 KD 000 equivalent long/(short)
US Dollars	**(2,767)**	8,773
Euros	**89**	(350)
Pounds Sterling	**(408)**	2,275
Japanese Yen	**166**	43
Others	**4,048**	3,229

E) Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market.

The group is exposed to market risk with respect to its investments.

The group limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in international equity and bond markets. In addition, the group actively monitors the key factors that affect stock and bond market movements, including analysis of the operational and financial performance of investees.

28. Segmental analysis

The group is organized into functional divisions to manage its various lines of business. The group operates mainly in the State of Kuwait and, accordingly, does not have a secondary segment. For the purposes of primary segment reporting, the group's management has grouped the group's products and services into the following business segments:

- ❖ Investment trading: Consists of securities trading and investment activities.
- ❖ Asset management: Consists of investment portfolio activities.
- ❖ Treasury: Consists of foreign exchange and money market activities.
- ❖ Other operations: Consists of lending, real estate, property rental and management activities

There are no inter-segmental transactions. The following is the detail of the above segments, which constitutes the primary segment information:

	December 31, 2004					December 31, 2003				
	Investment trading KD 000	Treasury KD 000	Asset management KD 000	Other operations KD 000	Total KD 000	Investment trading KD 000	Treasury KD 000	Asset management KD 000	Other operations KD 000	Total KD 000
Segment operating income	**17,192**	**1,248**	**6,689**	**5,040**	**30,169**	28,024	1,441	2,458	3,150	35,073
Segment operating expenses	**(3,068)**	**(457)**	**(673)**	**(1,823)**	**(6,021)**	(2,681)	(590)	(527)	(3,347)	(7,145)
Segment results	**14,124**	**791**	**6,016**	**3,217**	**24,148**	25,343	851	1,931	197	27,928
Other income					**50**					169
Unallocated expenses					**(4,140)**					(4,235)
Net profit for the year					**20,058**					23,862
Other information:										
Segment assets	**117,880**	**67,730**	-	**34,749**	**220,359**	88,313	37,011	-	32,998	158,322
Unallocated assets					**8,371**					1,079
Total assets					**228,730**					159,401
Segment liabilities	**95,506**	-	-	**3,511**	**99,017**		35,813	-	2,502	38,315
Unallocated liabilities					**9,973**					11,812
Total liabilities					**108,990**					50,127
Capital expenditure					**45**					578
Depreciation and amortization					**770**					1,983
Other non-cash expenses					**385**					137

29. Comparative figures

Certain prior year figures have been reclassified to conform with the current year presentation.

الشـــركة الكويتيـة للاســتثــمار (ش.م.ك)
KUWAIT INVESTMENT COMPANY (S.A.K)

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