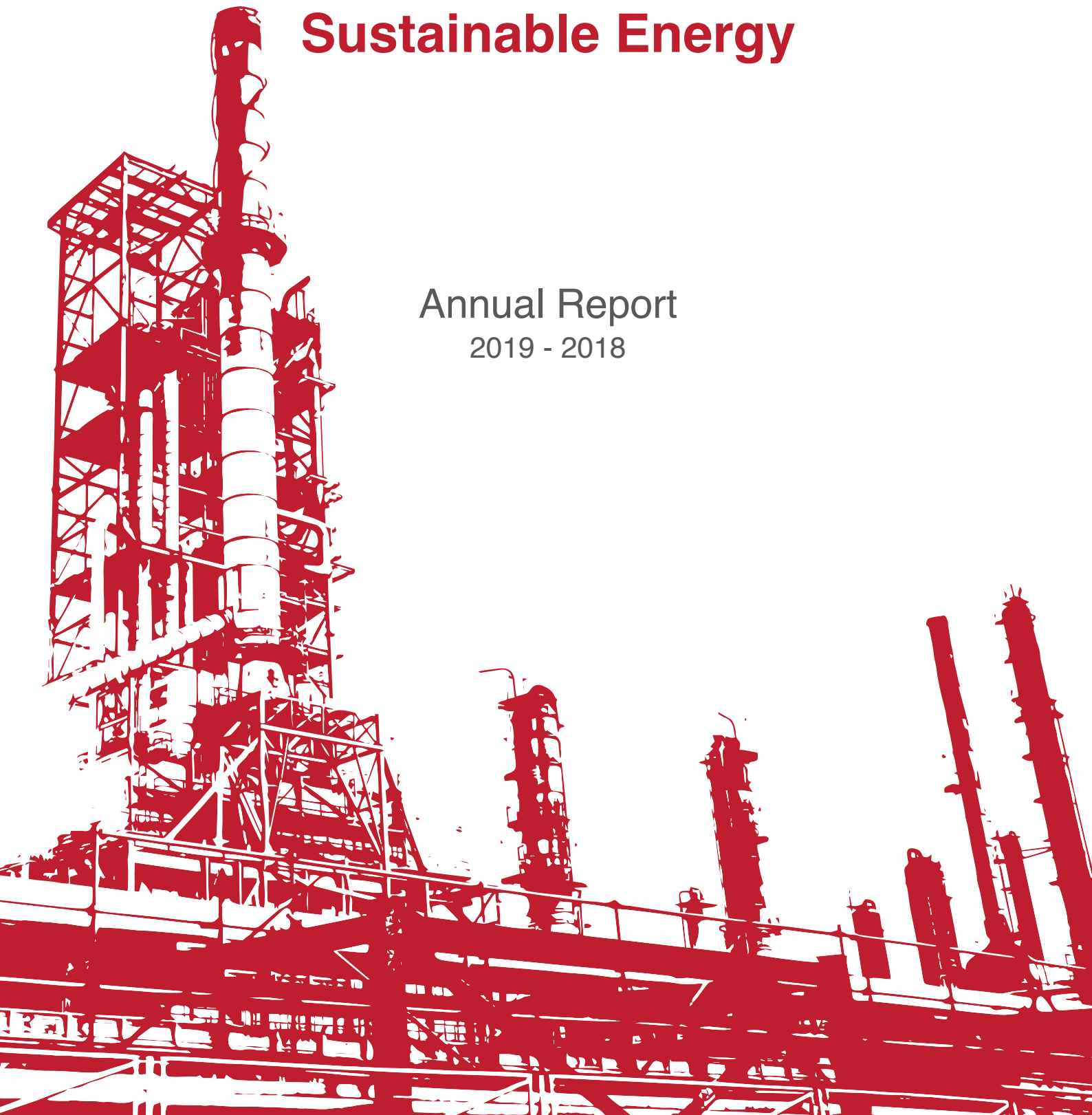




Kuwait Petroleum Corporation | مؤسسة البترول الكويتية
and subsidiaries | وشركاتها

Sustainable Energy

Annual Report
2019 - 2018



Sustainable Energy Annual Report 2018-2019



His Highness the Emir
Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah
The Emir of the State of Kuwait



His Highness Sheikh
Nawaf Al-Ahmad Al-Jaber Al-Sabah
The Crown Prince



Contents

KPC Board of Directors
CEOs and Managing Directors of KPC and Subsidiaries
KPC Chairman's Statement
KPC CEO's Statement
Introduction
KPC at a Glance
KPC Financial Performance for Financial Year 2018-2019
Operational Performance
Exploration and Production
Refining and Manufacturing
Petrochemicals
Global Marketing
Maritime Transport
Fuel Supplies in Local Market
Health, Safety, Security and Environment (HSSE)
Human Resources (HR)
Research, Development and Technology
Information Technology (IT)
Corporate Social Responsibility (CSR)
Auditor's Report and Financial Statements

KPC Board of Directors



Dr. Khaled Ali Al-Fadhel

Minister of Oil and Minister of Electricity and Water
Chairman of the Board of Directors



Hashem Sayed Hashem

CEO, Kuwait Petroleum Corporation
(KPC)



Wael Al-Asousi
Board Member



Sami Al-Rushaid
Board Member



Jamal Al-Nouri
Board Member



Abdulghafar Al-Awadhi
Board Member



Dr. Mohammad Al-Fares
Board Member



Fadhel Safar
Board Member



Abdulaziz Al-Jaber
Board Member

CEOs and Managing Directors of KPC and Subsidiaries



Waleed Khalid Al-Rasheed Al-Badr
CEO, Kuwait National Petroleum Company
(KNPC)



Emad Mahmoud Sultan
CEO, Kuwait Oil Company (KOC)



Ali Abdul Jalil Shehab
Acting CEO, Kuwait Oil Tanker Company
(KOTC)



Nawaf Saud Al-Sabah
CEO, Kuwait Petroleum International (Q8)
- Acting CEO, Kuwait Foreign Petroleum
Exploration Company (KUFPEC)



Hatem Al-Awadi
Acting CEO, Kuwait Integrated Petroleum
Industries Company (KIPIC)



Mutlaq Al-Azmi
CEO, Petrochemical Industries Company
(PIC)



Al-Sumaiti
Acting CEO, Kuwait Gulf Oil Company (KGOC)



KPC Chairman's Statement

Despite serious challenges faced by the oil and gas industry during the financial year 2018-2019, Kuwait Petroleum Corporation (KPC) and Subsidiaries have been able to continue its industry-leading achievements and breakthroughs, which could not have come true without the grace of Allah and the efforts of workers in the oil sector across its various segments.

Due to KPC's deep understanding of the great and growing importance of the oil industry in achieving the broad ambitions and aspirations of the State of Kuwait to be a major player in the global oil and gas industry by 2040, oil sector officials and workers in various segments have sought to continue implementing the oil sector Vision 2040 with a high degree of clarity, flexibility and adaptation to local, regional and international variables to be a main pillar in achieving the comprehensive development goals set out by Kuwait Vision 2035 "New Kuwait".

In this context, it is my pleasure, on my own behalf and on behalf of the members of the Board of Directors, to extend my sincere thanks and gratitude to all employees of KPC and its subsidiaries for their determined and strenuous efforts exerted during financial year 2018-2019, which resulted in bringing out significant progress and tangible growth in various oil segments, from exploration and production operations, through refining and petrochemical industry, to marketing and maritime transport.

On this occasion, I am pleased, on my own behalf and on behalf of my colleagues, members of KPC Board of Directors, to present you with KPC's annual report for financial year 2018-2019. KPC and its subsidiaries have carried out many operations, the most prominent of which are: Refining 629 KBPD of crude oil and increasing production capacity to 2.85 MMB/D, while producing 444 MCF/D of free gas. The size of the marine fleet amounted to 24 tankers operating in various marketing operations for various products.

In addition, production of petrochemical products amounted to 7.17 million tons per annum, including investments and partnerships outside the State of Kuwait, while achieving a refining capacity of 275 thousand Kuwaiti barrels of oil in international refineries jointly owned by KPC.

Here, I would like to emphasize that within the framework of the increasing interest by KPC and subsidiaries to recruit, train and qualify national workforce as the key to excellence and leadership in the oil industry, KPC has implemented mechanisms guaranteeing employment opportunities for Kuwaiti nationals through the establishment of new development projects.

Proceeding from the KPC's keenness to employ national cadres, 412 newly-graduated candidates in engineering disciplines were appointed in KPC and subsidiaries, 513 candidates were also accepted for contractor contracts, and 24 employees with disabilities were appointed in KPC and subsidiaries.

Kuwaitization rate in KPC and subsidiaries reached 89.5%, making the oil sector one of the highest among government agencies in applying the national employment rates during the financial year 2018-2019.

As for on boarding and training, a training and evaluation tool has been developed to help identify gaps in the competencies and training needs of employees, thereby opening the way for the development and improvement of the performance of KPC and subsidiaries' employees in a variety of ways, in addition to carrying out 1112 internal training programs by the Petroleum Training Centre attended by 18525 trainees from KPC and subsidiaries.

In line with the 2040 Strategic Directions, KPC continued its efforts to fulfil the current and future energy needs of the State of Kuwait by supplying a mixture of different types of economically and environmentally optimal fuels while providing their strategic alternative and making use of alternative, renewable and other energy sources.

within the context of the growing keenness by KPC and subsidiaries to rationalize electric power consumption, KPC has adopted a number of initiatives, the most important of which is the completion of the first phase of an energy management system contract with a consulting firm, the study of which is expected to be completed in September 2019. Kuwait Oil Tanker Company (KOTC) has also implemented an energy management plan, through which the KOTC's tankers energy consumption will be measured and monitored and innovative measures will be implemented to reduce energy needs.

KPC and subsidiaries have also committed to applying health, safety, security and environment (HSSE) standards to achieve global performance levels by applying strict standards and regulations related to this field in all sites in which KPC and subsidiaries operate.

KPC and subsidiaries has long been determined to implement various quality initiatives and social projects out of of their corporate social responsibility (CSR), in cooperation with partners of civil society organizations in various sectors of the State of Kuwait, in confirmation of their pioneering role in this field and in line with the strategy of KPC and subsidiaries.

In this context, I call upon all employees of the oil sector to continue working in a one team spirit, and with the help of Allah this will help bring about achievements and reach greater successes in the oil sector, boosting the position and our beloved country Kuwait.

In conclusion, it gives me pleasure to raise to His Highness the Emir, His Highness the Crown Prince, and His Highness the Prime Minister, may Allah protect them all, our heartfelt thanks and profound appreciation for the uninterrupted support for their people in the oil sector to continue boosting growth and prosperity.

Dr. Khaled Ali Al-Fadhel

Minister of
Oil and Minister of Electricity and Water
KPC Chairman



KPC CEO's Statement

Thanks to the efforts of the oil sector employees in various segments, from production and exploration through refining and petrochemical activities to exporting operations, KPC and subsidiaries have made outstanding achievements in various oil sectors in light of local, regional and international difficult circumstances witnessed throughout the financial year 2018-2019, while working to achieve leadership in the fields of Health, safety, security and environment (HSSE) and striving to significantly progress in the field of renewable energy.

During the financial year 2018-2019, the oil sector sought to implement the 2040 Strategic Directions, on top of which is the gradual increase of sustainable production capacity of crude oil in the State of Kuwait to reach 4 MBPD in 2020, where the share of Kuwait Oil Company (KOC) is 3.65 MBPD.

KPC and subsidiaries have also been keen to enjoy a global presence in the oil and gas production industry to enhance the position of the State of Kuwait. Hence, Kuwait Foreign Petroleum Exploration Company (KUFPEC) has sought to gradually increase the production rate outside the State of Kuwait to reach 150,000 BOEPD in 2020 and maintain it until 2040.

The most prominent achievements of the oil sector during the financial year 2018-2019 in the refining sector include the breakthrough achieved in the Al-Zour Refinery Project expected to gradually operate during the year 2020 with a refining capacity of 615 KBPD. The project reached to a completion rate of about 84 percent by the end of March 2019. On the other hand, the completion rate of the environmental fuel project was about 97.8% by the end of March 2019, and it is expected that business operations will take place in 2020, as some units of the project have begun to operate.

In light of the relentless efforts made by KPC and subsidiaries to achieve integration between refining and the petrochemical industry, the actual completion rate of the front-end engineering design (FEED) of the Petrochemical Complex Integrated with the Al-Zour Refinery Project reached about 67.9% by the end of January 2019.

KPC and subsidiaries have positioned themselves as a global refining and manufacturing leader in light of the oil sector Strategy 2040, which aims to dispose of 300 thousand barrels of Kuwaiti hydrocarbon resources per day in 2020 through external refineries, as the Kuwaiti crude oil refining capacity amounted to about 275 KBPD.

As for petrochemical industry, steps are being taken to expand in the sector inside the State of Kuwait and abroad by building or expanding assets, purchasing assets, and carrying out mergers with global participation to maintain a leading position in the olefins and aromatics industry, in addition to expanding in the subsequent downstream industries and specialty chemical products through joint ventures (JV) and alliances on the main intermediary products.

The KPC global marketing sector has also sought to maximize the value of Kuwaiti hydrocarbons by marketing them in safe, varied and long-term outlets, through the accomplishments made during the financial year 2018-2019 and working to obtain distinctive marketing experience to compete for improving the global market shares of Kuwaiti oil products, petroleum products and liquefied achieving the highest revenues for the State of Kuwait, along with efficiently managing various KPC operations.

In order to achieve the KPC's overall 2040 Strategic Directions in the field of maritime transport, KOTC has maintained the size and quality of the marine fleet necessary to meet the needs of long-term strategic cover and marketing needs in line with the targeted production rates within the State of Kuwait during the financial year 2018-2019.

For the renewable energy sector, the Al-Dabdaba project initiative is one of the mega projects being currently implemented to produce renewable energy, in line with His Highness's vision to derive 15 percent of the total energy consumed in Kuwait from renewable energy by 2030.

In conclusion, I extend my sincere thanks and appreciation to everyone who contributed and helped to bring about these qualitative achievements in many sectors within KPC and subsidiaries, positioning the Kuwaiti oil sector among the global leaders in the oil and gas industry.

It is also my pleasure to extend our heartfelt thanks and gratitude to His Highness the Emir, His Trustworthy Crown Prince and His Highness the Prime Minister, may Allah protect them all, for their tremendous efforts towards achieving growth and prosperity in the oil sector and providing all forms of support for its advancement and development. That is one of the main pillars that help drive and strengthen the comprehensive development process.

May Allah guide us all for the welfare and prosperity of our beloved country, Kuwait.

Hashem Sayed Hashem
Chairman of the Board of Directors
CEO, Kuwait Petroleum Corporation
(KPC)

Introduction

Those responsible for leading the oil sector in the State of Kuwait are aware of the importance of progress and growth in this vital sector and therefore work to keep pace with global developments in the oil industry, bearing in mind leadership as an ultimate objective and growth and advancement as a basic goal to achieve it.

KPC and subsidiaries works to achieve 2040 Vision, assuming a great responsibility to keep pace with global markets and associated requirements and constantly prepare for facing fluctuations in these markets, as the vitality of the oil economy and its global importance makes it the first sector to be affected by everything happening all over the world, which requires the leaders of the Kuwaiti oil sector to adopt future foresight and long-term planning, an approach successfully and continuously followed by the state of Kuwait making its oil economy the most stable compared to the economies of many oil-producing countries.

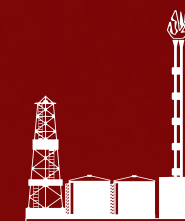
KPC and subsidiaries continue to expand and grow. KIPIC continues to develop its huge vital facilities adding a qualitative value to the Kuwaiti oil industry, and KOC strives to complete the heavy oil production facility in the south of Ratqa oil field and prepare it to begin production operations, thereby strengthening Kuwait's position among oil and gas producing and exporting countries and enabling it to keep pace with the rapid and successive changes in the global oil markets.

KPC at a Glance

Some of the most prominent and important operations carried out by KPC and subsidiaries during the financial year 2018-2019



Production capacity of 2.85 MBPD of crude oil locally



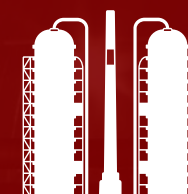
Refining 692 KBPD of crude oil within the State of Kuwait



Maritime Fleet consisting of 24 tankers used for marketing various products



Producing 444 MCFPD of free gas

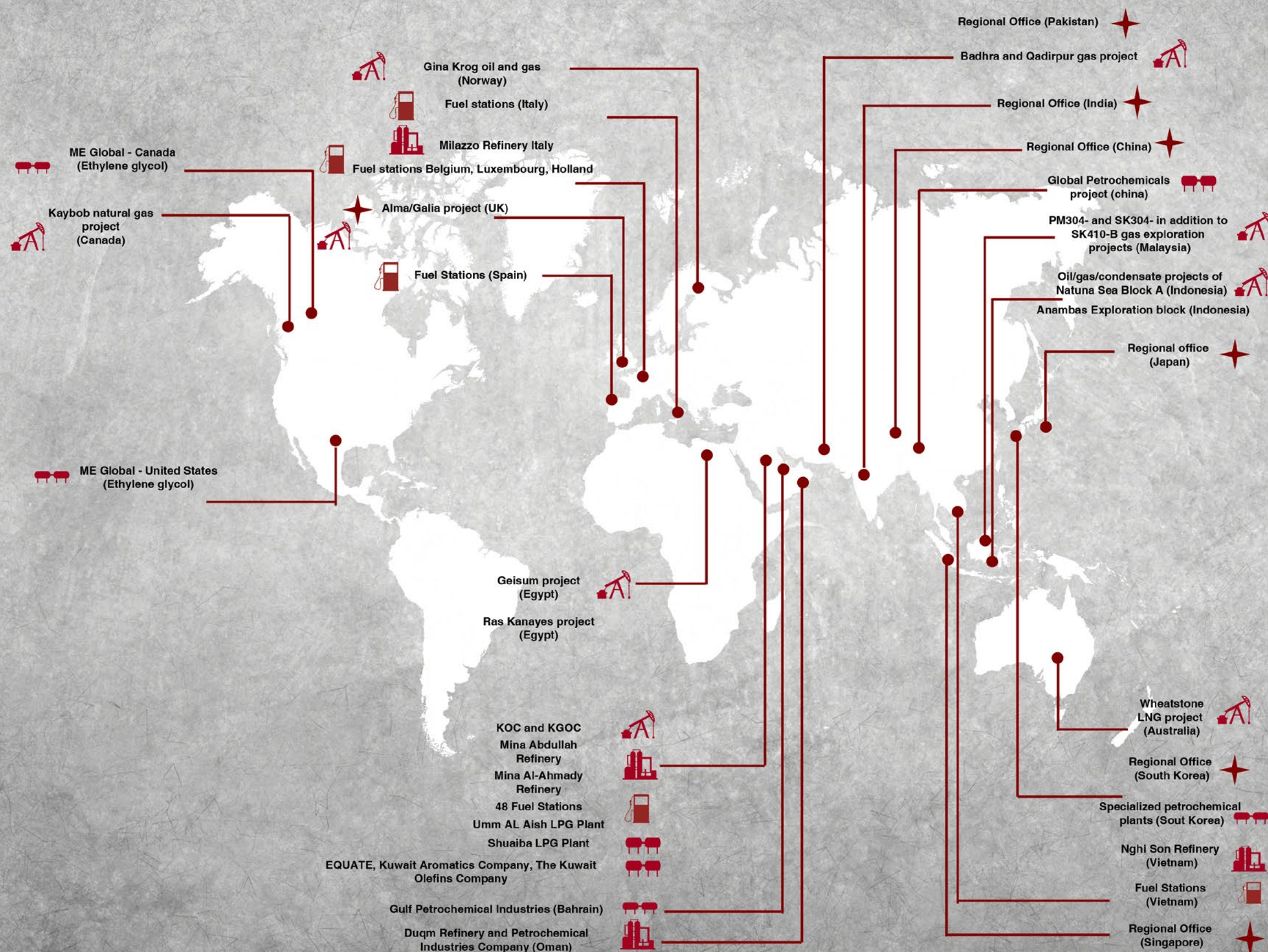


Refining capacity of 275 thousand barrels of Kuwaiti oil in refineries jointly owned by KPC



Producing 7.17 million tons per annum of petrochemical products, including investments and JV abroad

Located over the world with a comprehensive coverage of the KPC's optimal chain of operations



KPC Financial Performance for Financial Year 2018-2019



Total profits for the financial year

878.6
KWD



Total capital expenditures (CapEx) for the financial year

4,105.1
KWD



Operating cash flow for the financial year

2,853.0
KWD



Return on invested capital for the financial year

3.0%



Total revenue for the financial year

29,476.5
KWD

KPC and subsidiaries' net profits for the financial year 2018-2019 amounted to KWD 879 million, compared to KWD 1,990 million for the last financial year 2017-2018, representing a decrease of KWD 1,111 million.

Net profit margin for the financial year

3.5%



Operational Performance

Exploration and Production within the State of Kuwait

Crude Oil:

The KPC overall Strategic Directions aim to gradually increase the sustainable production capacity of crude oil in the State of Kuwait to 4 MBPD in 2020, of which the KOC share is 3.65 MBPD. Accordingly, in pursuit of these Strategic Directions, KOC has carried several projects to reach the target production and its production capacity has now reached approximately 2.855 MBPD of crude oil (on average) during the financial year 2018-2019.

It is worth noting that the two Oil Gathering Centers 29 and 30 were operated during the financial year 2018-2019, which would increase the production capacity of the oil fields to reach the strategic objectives of production from the North Kuwait fields, including a production capacity of 200 KBPD of crude oil and 480 thousand barrel of produced water for the two centers.

As for the production of new Kuwaiti oils, the Kuwait Super Light Crude (KSLC) has been successfully separated and stored in the northern reservoir. KSLC is produced from the Jurassic Production Facility in As Sabiriyah and Jurassic Production Facility in West Rawdatain (JPF-SA, JPF-WR) at 70 KBPD of oil. The export operations for this super, high-quality product started through the northern dock, and the first export operation took place on July 1, 2018. As for heavy oil, its production capacity has reached about 11 KBPD.

Achievements of KOC during the Financial Year 2018-2019

Daily production capacity 2.85 MBPD of oil	Average free gas production 444 MCFPD
Average associated Gas production 1.45 BCFPD	Percentage of Natural gas flaring 2.7%
Total CapEx on KOC capital projects KWD 1.8	

KOC achieved the highest export rate in one day, estimated at 7.3 million barrels during April 2018, in addition to maintaining the quality and characteristics of the exported oil (Kuwait Export Crude). This is a record rate in KOC's history compared to the previous record rate estimated at 6.8 million barrels in February 2015.

It should also be noted that KOC has for the first time built a waste water recovery plant (WWRP) for recovering waste water whether due to leaks or various other operations in the operations area of southern and eastern Kuwait using internal resources and materials. The WWRP has a capacity of approximately 10,000 BPD of waste water that is collected and pumped into particular wells for safe disposal, thereby contributing to providing the required safety and preserving the environment in line with the laws of the Environment Public Authority. Also, the produced water disposal system in the Umm Naqa field has also started operations.

The Water Knockout Facility for the GC-1 and GC-2 has also been completed, and oil production capacity has been maintained by increasing the capacity of processing oil with a high water content reaching 75%, as well as increasing the capacity of processing water from 120 to 270 KBPD of water, thus contributing to saving diesel consumption and shutting down the current pumps.

In addition, As Sabiriyah and Rawdatain have achieved the highest injection rates at more than 1.2 MBPD of water, which would enhance the reservoir pressure by displacing oil by water injected into the reservoirs.

Free Gas Production:

In alignment with the KPC overall Strategic Directions aimed at increasing the KOC production of free gas up to 500 MCFPD in 2020 and proceeding from our belief in our ability to achieve the aspiration of the State of Kuwait to become a self-sufficient country in terms of free natural gas as a source of environmentally-friendly energy production, following the efforts made in pursuit of free natural gas in the depths of Kuwaiti land, free natural gas was discovered in the reservoirs of the Jurassic period in 2006 in the field of Umm Naqa, Al-Raheya, Mutriba and other fields throughout the State of Kuwait. The rate of non-associated gas production from KOC operations amounted to about 444 MSCFD (on average) during the financial year 2018-2019, while the KOC's highest levels of free gas production amounted to approximately 513 MCF on September 30, 2018. Within the framework of Raising the production capacity of free gas and in preparation for reaching 1.3 BCFPD in 2030, KOC has completed digging 33 deep wells to reach the Jurassic strata, in addition to operating a sulfur treatment unit in the Jurassic Gas Production Facility (As Sabiriyah), the first segment in the second phase is located in the North Kuwait Operations Zone and started to export sulfur to KNPC facilities.

Exploration:

In pursuit of compensating the produced hydrocarbon quantities by adding quantities of proven reserves of oil and gas amounting annually to the average hydrocarbon quantities produced during the past three years, by improving methods of extraction from currently known hydrocarbon reservoirs and continuing intensive exploration operations in the onshore and offshore areas to cover the future needs of production rates in line with the KPC overall Strategic Directions, a new reservoir was discovered in the Bahra field from the Middle Mawdud Reservoir in well (BH-71) with an initial production estimated at 450 BPD of oil at (24.6 API) quality, in accordance with the KOC's plan to increase production through employing modern technology. In the same context, the Middle Marat Reservoir was discovered in the Skhaybriyat field through the exploration well (SUK-03), which has an impact on achieving the goal of increasing the reserves so as to deliver on the 2040 strategic objective to increase production. In addition, the marine exploratory evaluation project in Kuwait was completed, which represents an integrated geological and geophysical engineering study to assess the expected reserves, and it was submitted to the Petroleum Reserves Management Committee in line with the KOC's strategic objectives to increase production and reserves.

Preserving Assets Integrity

Despite the continued suspension of operations in the Divided Zone, the Kuwait Gulf Oil Company (KGOC) has undertaken several initiatives to ensure a speedy resumption of production, as a speed information model and geological maps for the Iraq area have been created, and the cathodic protection of the 12-inch Eocene production line has been made within the tasks of KGOC to preserve its assets. In addition, the establishment and modernization of the first geological model of the Harathah reservoir in the Wafra field has also been completed, being the first step in developing this reservoir in the future, in order to ensure the development of oil reserves and the sustainability of production.

It is worth noting that the final report of the environmental impact assessment study for the rehabilitation of oil ponds was completed, as requested by the Environment Public Authority, and the engineering design for the sludge treatment project was developed.

**Total Expenditures
on capital projects
in the Divided Zone**

51.8
KWD



Exploration and Production outside the State of Kuwait

Global presence in the field of oil and gas production to enhance the position of the State of Kuwait through the achievements made by KUFPEC:

Oil and Gas Production:

In light of KUFPEC endeavor to gradually reach a production rate of 150 KBOE/D in 2020 outside the State of Kuwait and maintain this rate until 2040, in line with the KPC overall strategic Directions, the KUFPEC production rate has reached about 93 KBOE/D (on average) during the year 2018, an increase of 33% compared to the average production rate of the previous year. This increase is due to the completion of the first development phase of the Wheatstone LNG Project in Australia, the start of initial production operations of the second gas line of the project, and the increase of production from the the Slipner gas fields in Norway.

It should be noted that the peak production reached about 131 KBOE/D in October 2018, which is the highest record production rate achieved by KUFPEC ever.

KUFPEC added new oil reserves estimated at 14 MBOE through its development activities during the year, and the total proven reserves by the end of 2018 reached about 469.5 MBOE.

The Wheatstone project is one of the largest natural gas field development projects in Australia. It consists of 4 offshore gas fields in addition to natural gas pressure and liquefaction units and related facilities, The estimated production capacity of this project is about 8.9 million metric tons of LNG Per annum, equivalent to 36 KBOE/D, as KUFPEC owns a share of 4 KBOE/D from this project. The implementation of the first phase of the Wheatstone LNG project in Australia has been completed. The first LNG cargo wholly owned by KUFPEC has sailed from the Wheatstone project in Australia on February 26, 2018 and the initial production operations of the second gas pipeline has started on June 15, 2018.

In addition, KUFPEC owns a 30% stake in the Canada Kebob project, in which production rate has reached about 10 KBOE/D by the end of 2018, The production quantities will gradually increase with the implementation of the phased development plans and programs until reaching a maximum production capacity of about 68.8 KBOE/D of gas and shale oil. The project was in the evaluation stage during the past two years, and the final decision has recently been taken regarding the activities and facilities of the third phase of the project, which includes the program of drilling, fracturing, completion and linking wells with the necessary facilities during 2019.

KUFPEC has also acquired 67% of the available tax concessions granted to Canada Kuwait Petrochemical Corporation (CKPC) at CAD 300 million over 3-4 years at a discount of 22% of

the actual cost, as a contract was signed in February 2019 with CKPC (a partnership between Petrochemical Industries Company (PIC) and Pembina Pipeline Corporation (Pembina)) to sell approximately 2,500 to 3,750 B/D of propane gas from the Kebob shale gas project in Canada as of 2023 for a period of 10 years when the CKPC joint petrochemical plant becomes operational.

New Acquisitions and Divestments of Useless Assets:

A new exploration project called SK 304 has been acquired in Malaysia with a 35% stake, and a deal has been executed to exchange 35% share in Pakistan Bharpur project for a similar stake in a new exploration project "Bella West" in Pakistan.

On the other hand, KUFPEC has executed the sale deals of four projects: Southeast Sumatra project, Seram project, both in Indonesia, the WA-41-R project, and the WA-8L (Amulet) project in Australia, within the framework of the efforts made to dispose of useless assets.

KUFPEC Financial Position:

Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) was about \$ 1 billion, which is a record figure for KUFPEC. Total savings in CapEx and OpEx amounted to the equivalent of \$ 15.1 million. Revenues increased to \$ 28.4 million.

It is also worth mentioning that the KUFPEC signed a financing contract worth \$ 1.1 billion with a group of regional and international banks in July 2018.

KUFPEC Achievements during 2018		
Average production of		Total oil reserves
93.0		469.5
KBOE/D		MBOE outside the State of Kuwait
Total CapEx on capital projects		
222		
KWD		

Refining and Manufacturing within the State of Kuwait

Achieving excellence in local refining and manufacturing for the State of Kuwait to reach a globally high level of competitiveness through the achievements made by KNPC and KIPIC:

KPC aims to raise the refining capacity within the State of Kuwait and achieve the highest manufacturing level by reaching 1.4 MBPD in 2020. In this regard, the refining capacity within the State of Kuwait during the financial year 2018-2019 amounted to approximately 736 KBPD by operating the existing local refineries (Mina Al-Ahmadi and Mina Abdullah refineries).

It should be noted that the strategic goal of 2020 will be achieved through the operation of the Environmental Fuel Project and the Al-Zour Refinery Project in 2020, which will also ensure revenues for the State of Kuwait from converting the refineries to produce petroleum products with high international standards. Accordingly, the latest developments for both projects are as follows:

Environmental Fuel Project: It is expected that its business operations will start in 2020, so that the refining capacity of KNPC will reach about 800 KBPD. The project would have been 97.8% completed by the end of March 2019, having finalized the upgrading of some project units in Mina Al-Ahmadi refinery, such as the vacuum distillation unit and the alkylation unit, along with starting the first hydrocarbon line within the service units, operating its flare and commissioning the steam-generating unit. As for the project at Mina Abdullah refinery, the mechanical works of the diesel hydrogen treatment unit has been completed, in addition to the operation of many support units, such as water network for fire fighting, boilers, flare gas, and water treatment system.

In addition, the Eocene crude oil distillation unit has been successfully commissioned in November 2018 after being shut down for two years by using West Kuwait oil, to cover the growing bitumen needs of domestic market.

Al-Zour Refinery Project: The project is expected to gradually operate during 2020 with a refining capacity of 615 KBPD (assuming the refining of Kuwaiti crude oil). The project has been 84% completed by the end of March 2019. It is worth noting that key achievements of the project include the arrival to Kuwait of 80 out of 188 Al-Zour refinery China-assembled units, the installation of 69 of these units in their assigned places on site, and the installation of the operations building and the control tower weighing 1,250 tons on the industrial island of the Al-Zour refinery project in January 2019. In addition, operating teams for Al-Zour refinery have been identified and the detailed planning for the initial operation of boilers has begun. Also, the Integrated Operations Readiness Program (IORP) has been put into use to ensure comprehensive and general readiness for the refinery's operations, in addition to building a Crisis Management Center (CMC) and Emergency and Disaster Center (EDC) to control operational emergencies in the main building and Al-Zour and integrate with KPC. The award of operation and maintenance contract and the production quality inspection service contract for Al-Zour refinery was approved by the Supreme Procurement Committee in February 2019, and the Al-Zour refinery technical support agreement was signed BP on May 14, 2018, with the contract starting in June 2018.

It should be noted that Mina Al Zour was officially declared the third port specialized in the export and import of petroleum products across the State of Kuwait.

Integration between Refining Operations and Petrochemical Industry:

In line with the KPC directions to achieve integration between refining and petrochemical operations within the State of Kuwait, the actual completion rate of the front-end engineering design (FEED) of the Petrochemical Complex (Aromatics II and Olefins III) Integrated with the Al-Zour Refinery Project has reached about 67.9% by the end of January 2019. Some changes to the project scope of work has been included after obtaining the necessary approvals from the Supreme Petroleum Council on December 12, 2018, and the initial engineering design for the changes related to the project has been resumed.

Achievements of the Refining and Manufacturing Sector within Kuwait during the financial year 2018-2019

Local refining 692 KBPD of oil	Manufacturing capacity for processing and separating rich gas up to 2.3 BSCF/D
Total CapEx on KNPC capital projects 549 KWD	Total CapEx on KIPIC capital projects 1.43 KWD

The Refining and Manufacturing Sector outside the State of Kuwait

Being a leader in global refining and manufacturing sector and the best fuel brand in Belgium



As for Oil Refining:

In line with the overall Strategic Directions to dispose 300 thousand barrels of Kuwaiti hydrocarbon resources per day in 2020 through foreign refineries, the refining capacity of Kuwaiti crude oil for both the Vietnam and Milazzo refineries has reached about 275 KBPD.

In this context, in November 2018, the full business operation production capacity of the Nghi Son Refinery - Vietnam was achieved. It is worth noting that the Nghi Son Refinery was designed to absorb 100% Kuwaiti crude oil with a refining capacity of {Ut4}200 KBPD. The share of KPI (Q8) in this project is 35.1% and Japan's Idemitsu Kosan Co. owns 35.1% with Petrovietnam owning 25.1% and Mitsui owning 4.7%,. In addition, the refinery has received 24 very large crude carriers (VLCC) with a total of approximately 48 million barrels Of Kuwaiti crude oil.

Regarding the Duqm refinery in Oman, the procedures of project financing with the lenders have been finalized in January 2019. The overall completion rate of the engineering, supply and construction stage of the Duqm refinery project has been {ut5}% 15.94 by the end of March 2019, It should be noted that the refining capacity of Duqm refinery is 230 KBPD with the capacity to accommodate 200 KBPD of Kuwaiti crude oil. Tthe refinery is 50% owned by KPI. In addition, the bid evaluation for the implementation of Front-End Engineering Design (FEED) contract of the Duqm Petrochemical Project has been completed, the recommendation issued and presented to the Board of Directors of Duqm Refinery and Petrochemical Industries Company (DRPIC),,

and the necessary approvals obtained in preparation for awarding the contract.

The Milazzo refinery has a refining capacity estimated at approximately 200 KBPD, and can accommodate about 75 thousand barrels of Kuwaiti crude oil. The refinery is 50% owned by KPI in partnership with ENI. It should be noted that the mechanical operation of the new fuel gas treatment unit in the Milazzo refinery has been finalized and a permit has been obtained from the relevent authority to start operating the unit.

As for Retail Sector:

The KPC overall Strategic Directions 2040 provide for maintaining the competitive position in the retail market in Europe and expanding in high-growth regions. Accordingly, KPI has signed an agreement with CEPSA to accept IDS cards in 38 refueling stations belonging to the aforementioned company in Spain and Portugal. This will enable the company's customers to fill an additional 11 million liters of fuel. The International Diesel Services (IDS), a network of fully automated stations, provides its services around the clock to supply 17,500 road transport companies with diesel fuel in 21 European countries and currently owns 473 stations.

The refueling station network, which includes 77 stations in different regions in Spain, has also been acquired, as part of the implementation of the KPI long-term strategy. This investment aims to sell 125 million liters of fuel and achieve about \$ 3 million in revenues from non-oil activities. This is in addition to the acquisition of the solar energy company Kraftpojarna in Sweden. On the other hand, First of its kind, ultra-fast charging poles

were installed at a refueling station located on a highway in Belgium.

It should be noted that an agreement has been made with CLH , a global leader in the field of transporting and storing petroleum products in Europe, which will contribute to maintaining the UK market share of 21% and continued access to major airports, such as Heathrow.

In high-growth regions of Asia (outside of Europe), the third refueling station for IQ8 has opened in Vietnam, in the north of Yong Yi, in pursuit of achieving the KPC strategy of expanding into developing markets.

As for Aviation Fuel Supply:

It is worth noting that an agreement has been executed with British International Airlines Group (IAG) to supply 40,000 cubic meters of aviation fuel at Rome Airport (Fiumicino) for one year, which will achieve the strategic objective to deal with a new airport. In this regard, a deal has been made with Shell UK to supply fuel to multiple airports, facilitating logistical flexibility for Q8 Aviation as well as supplying additional products. An agreement was arranged with Easy Jet to supply 34 airports with 1,100 thousand tons per annum of aviation fuel for a period of 4 years, Furthermore, additional opportunities at Rome Airport, Italy, are being considered to ensure a strategic outlet for aviation fuel produced in Kuwait on the long run

Achievements of KPI during the Financial Year 2018-2019

The ability to refine Kuwaiti oil in international refineries jointly owned by KPC at

275
KBPD of oil

Total CapEx on the Company's capital projects

174.6
KWD

As for Lubricating Oils:

KPI signed a 5-year lubricating oil contract with the Indian company Gulf Oil for mixing and packing oils in the oil mixing plant in Antwerp, Belgium. On the other hand, KPI launched a range of new lubricant products called ALL BLACK and started selling them in retail centers throughout Italy.



Petrochemicals

Partners in raising the revenues of the State of Kuwait and keeping pace with the global growth of demand for petrochemical products

In pursuit of achieving the KPC overall 2040 Strategic Directions the encourage expanding petrochemical operations inside the State of Kuwait and abroad by building and/or expanding assets, purchasing assets, and carrying out mergers (where needed) with global partners to maintain a leading position in the olefins and aromatics industry, in addition to expanding in the subsequent downstream industries and specialty chemical products through joint ventures (JV) and alliances on the main intermediary products, The key achievements of KPI during the financial year 2018-2019 are as follows:

First: Local Activities

The production of the polypropylene plant (wholly owned by the PIC) amounted to approximately 137,235 metric tons, while the sales quantities were 137,623 metric tons.

In line with the KPC directions, fertilizer factories were shut down in a safe manner according to the approved plan, as the production of ammonia and urea from fertilizer factories amounted to 436,545 metric tons as of July 2018.

The production of EQUATE factories inside Kuwait amounted to approximately 1,368,000 tons of polyethylene and ethylene glycol, an increase of 6.2% over last year, with total sales amounting to 1,339,000 tons, an increase of 2.7% over the last year. It should be noted that EQUATE factories are JV between PIC and the Dow Chemical Company and are 42.5% owned by PIC.

As for The Kuwait Olefins Company (TKOC), in which PIC owns a 42.5% stake with the Dow Chemical Company, its production stood at about 973 thousand metric tons of ethylene glycol, an increase of 19.3% over the previous year, and its sales amounted to 965 thousand metric tons, an increase of 18% over the last year.

It is worth noting that PIC owns a 20% stake in The Kuwait Aromatics Company (TKAC), in partnership with the KNPC which owns 60% stake and the Kuwaiti private sector, represented by the Quraish Petrochemical Industries Company (QPIC), which owns 20% stake. TKAC owns a 57.5% stake in the Kuwait Paraxylene Production Company (KPPC), in partnership with Dow Chemical which owns a 42.5% stake. The Paraxylene production amounted to 874,149 metric tons, an increase of 18.3% over the previous year, while the Paraxylene exports amounted to 873,704 metric tons, an increase of 19% over the previous year. The gasoline production amounted to 306,103 metric tons, an increase of 9% over the previous year.

Kuwaiti Styrene Company (KSC) is wholly owned by TKAC. the KSC production of styrene amounted to 488,168 metric tons, an increase of 14% compared to last year, with the styrene sales amounting to 524,228 metric tons, an increase of 22% over the previous year.

Second: the Global Activities of PIC

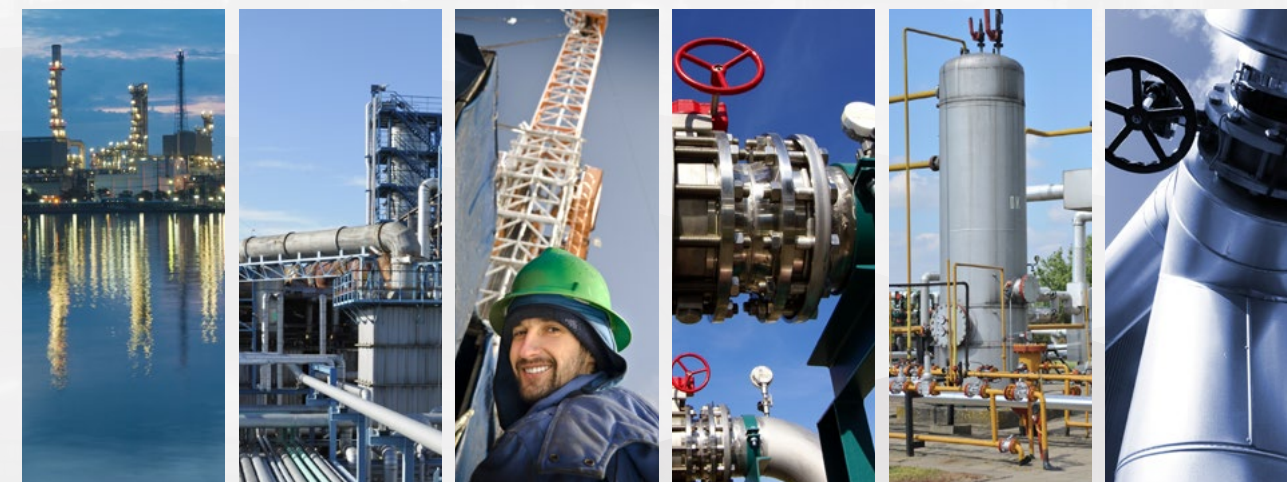
In pursuit of achieving the KPC strategy to expand the petrochemical activity within the State of Kuwait and abroad. PIC owns a 33.3% stake in the Gulf Petrochemical Industries Company (GPIC) which was established in the Kingdom of Bahrain on December 5, 1979 as a partnership between the Kingdom of Bahrain, the State of Kuwait and the Kingdom of Saudi Arabia with a share of 33.3% each. GPIC production of fertilizers (ammonia, urea and methanol) amounted to 1,503,808 metric tons, while the exported quantities of these products amounted to 1,127,550 metric tons.

It is worth noting that in 2015, EQUATE (owned by PIC and the Dow Chemical) has fully acquired MEGlobal (Canada and Germany), whose production (of ethylene glycol and polyethylene terephthalate) amounted to 1,588,000 metric tons, i.e. 102% of the planned budget, and the exported quantities of these products amounted to 1,596,000 metric tons.

As for SK Advanced, which is a JV between PIC (25%), the Saudi Arabia Advanced Petrochemical Company (30%) and SK Gas (45%), its production of the propylene amounted to 700,013 metric tons, i.e. 100% of the planned budget, while the exported quantities of this product amounted to 701,625 metric tons.

Third: Strategic Projects

For strategic projects under implementation, work is underway to carry out Canada Kuwait Petrochemical Corporation (CKPC) project, which contains a propane dehydrogenation plant (PDH) and a polypropylene plant (PP) with a production capacity of 550 thousand tons per annum in the province of Alberta, Canada, with the Canadian partner, Pembina. The detailed FEED has been completed in November 2018 and the final investment approvals (FID) taken with the engineering, procurement and construction (EPC) works starting in February 2019. The plant is expected to be operational in financial year 2023-2024.



As for the establishment of the petrochemical complex in the USA to produce ethylene glycol, the project FEED has been completed, along with 86% of the supply activities and 50% of the construction activities, and all heavy equipment necessary for the project has been received. The plant is expected to start operations in the first quarter of the financial year 2020-2021. This project aims to produce 750 thousand tons annually of ethylene glycol (EG) in the US Gulf Coast through the JV EQUATE Petrochemical Company.

On the other hand, the detailed economic feasibility study for the olefins IV project in Kuwait has been completed in March 2019, and the project consists of an ethylene cracker unit, polyethylene and ethylene glycol units along with specialty petrochemical products.

As for the construction of the polypropylene producing plant in Korea, the detailed FEED has been completed in September 2018, and the EPC activities has started with the project being expected to operate in the fourth quarter of financial year 2020-2021. This project aims to produce 400,000 tons per annum of polypropylene in the Republic of Korea.

Regarding acquisition projects, the due diligence study has been completed and the approval of the PIC Board of Directors obtained to proceed with submitting a final proposal to acquire 49% of the specialty petrochemical plants in the Republic of South Korea. The study was also presented to the KPC Board of Directors to obtain final approvals to present the final proposal to the Korean party. A non-binding proposal has been submitted to acquire 25% of existing petrochemical plants and a petrochemical project under implementation in the Republic of China. The PIC's financial advisor and legal advisor have been engaged and work is underway to engage a technical and commercial advisor and an accounts and taxes Advisor.

On the other hand, PIC seeks to expand petrochemical products marketing, and therefore the marketing study has been completed to expand marketing of petrochemical products. The study included an evaluation of the current marketing structure, comparison with international companies, development of governance framework, and development of recommendations and the best option for PIC to go forward in marketing activities. The findings of the study were presented to the KPC management on February 28, 2019.

Achievements of the Petrochemical Sector during the financial year 2018-2019	
Realizing actual profits of approximately 192 KWD	Total CapEx on the Company's capital projects 11.2 KWD
Producing intermediate chemicals at 7.17 million tons per annum	Having presence with global partners in 5 countries around the world



Global Marketing

Outstanding marketing experience to compete in increasing the market shares of Kuwaiti oils, Kuwaiti petroleum products and liquefied gas globally achieving the highest revenues for the State of Kuwait along with excellence in managing KPC's various operations

In line with the KPC overall 2040 Strategic Directions concerning global marketing, the KPC global marketing sector seeks to maximize the value of Kuwaiti hydrocarbons by marketing them in safe, varied and long-term outlets. This is pursued through the accomplishments during financial year 2018-2019 as follows:

First: Kuwaiti Oils

New short-term contracts to export new Kuwait Super Light Crude (KSLC) have been concluded with major international companies and refineries in the East. Another new long-term contract has been entered into with one of the largest independent Chinese refineries. This is in addition to completing the development of an integrated plan to market KSLC by selling immediate shipments to the KPC's customers and managing to issue an official selling price in a record time, which led to executing short-term contracts (3 months) for the first time during the fourth quarter of 2018 and then concluding annual contracts for 2019.

Second: Liquefied Gas and Petroleum Products

The global marketing sector has managed to increase the expected revenues of LPG contracts by an amount equivalent to \$ 4.7 million in line with global marketing directions to maximize revenues by converting some CFR contracts to FOB contracts, thereby achieving a higher profit by providing freight charges for contracts renewed for July 2018, where 748 thousand metric tons were converted into FOB contracts at competitive prices.

On the other hand, two strategic annual contracts for the naphtha product were concluded with the largest petrochemical plants in the markets of Singapore and Korea. A new semi-annual contract was concluded with LG Chem, a strategic customer in South Korea, in order to increase the KPC share in the Korean naphtha market, in addition to concluding a new annual contract (Term) with Petrochemical Corporation of Singapore, a strategic customer in the Singaporean market, which is a new market for the KPC naphtha sales. As for gas oil, the expansion has been sought in the African market through increasing the quantities of diesel exported to an African country.

It is worth noting that petroleum coke has been sold for the first time in the Chinese market, which is the largest global market for petroleum coke. As for the sulfur product, a new monthly price has been successfully introduced for the granular sulfur product (KSP) for KPC FOB customers in the Asian and East African markets, in order to keep pace with the global market requirements and link the prices of sulfur exported from the State of Kuwait abroad with the international price movements.

Third: Meeting the Local Market Demand:

An amount of \$ 740 million was saved during the period from March to December 2018, due to importing LNG to meet the Ministry of Electricity and Water (MEW) needs of fuel instead of burning diesel, fuel oil and oil. Two shipments of high sulfur fuel oil (HSFO 3.5% S) were also imported in July 2018, in order to avoid burning crude oil at the MEW stations.

On the other hand, the study on re-pricing the bitumen product (asphalt) in line with the approved prices in the neighboring Gulf countries has been completed and provided to the relevant departments to proceed with its implementation.

صادرات دولة الكويت من النفط الكويتي والمنتجات البترولية



Maritime Transport

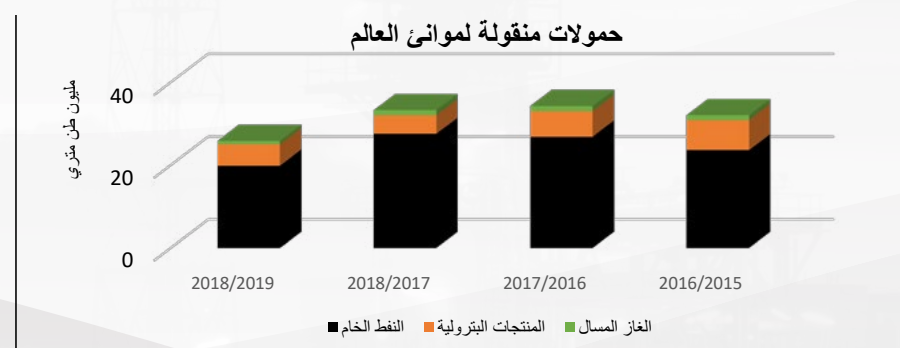
Strategically meeting the needs of KPC and its customers from tankers competing with international carriers in terms of quality and speed of delivery

KOTC strives to achieve the KPC's overall 2040 Strategic Directions in the field of maritime transport through maintaining the size and quality of the marine fleet necessary to meet the needs of long-term strategic cover and marketing needs in line with the targeted production rates within the State of Kuwait. Hence, it made the following achievements during the financial year 2018-2019:

First: Fleet Operations:

KOTC currently owns a fleet of 24 tankers, comprising 10 very large crude carriers (VLCC), 12 petroleum product carriers of various sizes, and 2 very large LNG carriers, with a total tonnage of about 4.08 million deadweight tons. KOTC leases its entire fleet to KPC on an annual basis.

The KOTC fleet has transported 25.88 million metric tons of crude oil, petroleum products and liquefied gas during this financial year. Cargoes transported from Kuwait amounted to 21.11 million metric tons. The operating rate of tankers increased this year, reaching 98.02%.



Contracts for Constructing New Tankers and Decommissioning Some Assets:

Within the framework of KOTC continuous efforts to upgrade its fleet in the fourth phase, KOTC signed a contract for the construction and delivery of (4) MR-class medium-sized petroleum products tankers in April 2018 with Hyundai Mipo - South Korea.

KOTC also sold aging tankers, including the Shagaya (VLCC) in August 2018, the Al Salhiya tanker (VLCC) in July 2018, the Al Qurain Gas (gas carrier) in August 2018, and the Al Mutlaa Gas (gas tanker) in July 2018.

Fleet Maintenance:

The comprehensive contract for the docking and maintenance of tankers was signed in July 2018 with Drydocks World (United Arab Emirates - Dubai). It is a comprehensive contract that includes the docking and maintenance of (28) tankers belonging to KOTC under a 2.5-year contract.

A ballast water management system has been applied to the KOTC's tankers. This system is essential to manage the tanker's balance, stability, optimum fuel consumption and structural stresses. Ballast water contains living organisms or aquatic pathogens, which may endanger marine environment, when transported on tankers from place to place in order to mitigate risks.

KOTC has also introduced a well-controlled system for reducing waste and managing it on board on all ships, and the measures identified by KOTC are far more stringent than legal and international requirements. Our policy is not to dispose of waste into the sea, and all hazardous and recyclable waste is disembarked at ports for safe disposal.

It should be noted that KOTC managed to reduce the amount of water resulting from washing carrier tanks and empty it into the sea to be less than the rate permitted under the International Convention for Prevention of Marine Pollution For Ships "MARPOL".

Second: Liquefied Gas Filling:

The production of liquefied gas manufacturers (Shuaiba and Umm Al-Aish) amounted to 16.924 million cylinders of various sizes for the financial year 2018-2019, an increase of 3.9% over the previous year. The distribution rate of 12-kg gas cylinders (used in homes) increased in this financial year by 4.5% compared to last year, and the total distribution amounted to 15.940 million cylinders. The distribution centers approved by KOTC are 75 gas branches.

Achievements of KOTC during the Financial Year 2018-2019

Total cargo transported
25.8
 million metric tons during this
 financial year

Total tonnage of the fleet
4.08
 deadweight metric ton



Fuel Supplies in Local Market

The only agency in the state responsible for providing the fuel required to meet the needs of MEW stations to generate electric power for the country

In line with the KPC 2040 Strategic Directions providing for meeting the current and future energy needs of the State of Kuwait by supplying a mixture of different types of economically and environmentally optimal fuels while providing their strategic alternative and making use of alternative, renewable and other energy sources in case they provide an added value to KPC activities and operations, the key achievements with regard to meeting the energy needs can be set out as follows:

First: Provision of Imported Liquefied Gas

KPC, represented by KIPIC, is in the process of implementing a permanent LNG import facilities project for importing LNG from outside the State of Kuwait in the Az-Zour region, with a capacity of 3,000 billion Btu per day of imported liquefied gas. The project completion rate has reached 72.4% by the end of March 2019 signifying an achievement exceeding the completion target of 60%, as the roof dome has been raised for all LNG tanks of the first phase of the project (4 tanks), in addition to signing a memorandum of understanding with OSAKA GAS and TOYO ENGINEERING to study and enhance the opportunities for optimal utilization of the LNG import facility and achieving high operational efficiency.

The first funding batch (390 million Kuwaiti dinars) has been received from local banks to finance the permanent LNG import facilities project on June 14, 2018, in addition to the first batch (\$ 835 million) collected from the Korean export credit agencies, KSURE and KEXIM, and banks for the same project in September 2018.

Second: Building 100 New Fuel Stations in Various Regions of Kuwait:

In order to meet the future needs of fuel as a result of the urban expansion in the country, and based on the approval of the Supreme Petroleum Council, the KNPC has prepared a comprehensive plan to build 100 new fuel stations as per the latest technology and in a manner that reflects a distinct and sophisticated appearance and taking into account the provision of ancillary services (central minimarket, car service etc...) along with the application of the renewable and alternative energy concept and the use of environmentally friendly technology. these stations will be built in five packages over the coming years.

The implementation of the first package of the program has started to construct 19 new refuelling stations, of which 60% has been completed by March 2019. the project is expected to be completed in March 2020. As for the second package, the feasibility study and FEED for constructing 15 new refuelling stations has been completed, and the required approvals are being obtained from Kuwait

Municipality. A tender was also made for feasibility studies and FEED of the third package, which includes the construction of 25 new refueling stations.

Third: Solar Energy Generation

The Shagaya project initiative is one of the mega projects being currently implemented to produce renewable energy, in line with His Highness vision of deriving 15% of the total energy consumed in Kuwait from renewable energy by 2030. Approximately 100 square kilometers was allocated in the Shaqaya area to the Kuwait Institute for Scientific Research (KISR) to be used for establishing a renewable energy complex. The program is divided into 3 phases, the first of which was established and operated by KISR in September 2018. The capacity of the first phase is estimated at about 70 megawatts, comprising 10 megawatts of photovoltaic energy, 10 megawatts of wind energy, and 50 megawatts of solar thermal energy.

As the second phase of the project, KPC, represented by KNPC, is in the process of implementing a project to establish a solar energy plant for electricity generation with a capacity of 1500 megawatts inside the Shagaya Renewable Energy Complex. KPC will accordingly sell the electrical energy produced from the project to MEW by connecting it to the electric power network owned and managed by MEW in the country. Hence, the tender for the "Supply, Construction, Operation and Maintenance of the Dabdeba Solar Energy Project" was opened in September 2018 and closed in April 2019. The second phase of the Shagaya project is expected to be completed in 2022. KISR, in coordination with the MEW Public-Private Partnership Authority, studies the implementation of the third phase of the Shagaya project.

Outside the State of Kuwait, KPI has installed solar panels in the oil mixing plant in Milan, Italy, in order to generate electricity for mixing operations, which reduces energy use and thus carbon dioxide emissions.

Fourth: The KPC and Subsidiaries Initiatives to Rationalize Electric Energy Consumption

KPC has completed the first phase of a contract to set up an energy management system with a consulting firm, noting that the study is expected to be completed in September 2019. The establishment of an energy management system in KPC and subsidiaries is in line with national and international standards, and reduces energy consumption by enhancing energy efficiency and reducing greenhouse gas emissions, which will have a positive impact on the productivity of the oil sector in general.

Also, KOTC has carried out an energy management plan, through which the energy consumption of KOTC carriers will be measured and monitored and innovative measures will be implemented to reduce energy needs. The ISO 50001 relies on a management system model for periodic and continuous improvement, which is also used in other standards, such as quality management (ISO 9001: 2015) and environmental management (ISO 14001: 2004), enabling KOTC to integrate energy management into its overall efforts to improve quality and environmental management.

Health, Safety, Security, and Environment (HSSE)

Leadership in meeting global standards in the field of HSSE

KPC has realized that committing to HSSE standards has become one of the most important priorities of the oil sector, as the KPC Strategic Directions have emphasized raising performance to a globally-recognized level in this field through the application of strict HSSE standards and regulations in all sites in which KPC and subsidiaries operate. In addition, preserving the local and global environment is among KPC prioritized commitments and objectives. Climate change is at the top of those priorities and commitments, as KPC has adopted an integrated strategy for managing carbon dioxide and greenhouse gas emissions, including policies and procedures to reduce these emissions. In an effort to achieve these aforementioned objectives, KPC and subsidiaries have carried out the following activities:

The Low Pressure Lean Gas Compression System was commissioned by KOC along with the associated works at the Gas Booster Station-180 and began to be exported to the High Pressure Lean Gas Compression System, as this in turn helps deal with excess lean gas to meet demands of the consumers of natural gas instead of burning it and experiencing the consequent damage to the environment.

The Kuwaiti oil sector implements many activities, programs and capital projects within the framework of its commitment to protect the environment, reduce air pollution resulting from its various operations, and adhere to environmental standards and requirements stipulated by the executive regulations of the Environmental Protection Law No. (42) of 2014, as partly amended by Law No. (99) of 2015. The preservation of local and global environment is among its prioritized commitments and objectives. The phenomenon of climate change is at the top of those priorities and commitments. Hence, KPC has adopted an integrated strategy for managing carbon dioxide and greenhouse gas emissions, including policies and procedures to reduce these emissions.

KOC has also linked all its stations for monitoring air all over the State of Kuwait with the Environment Public Authority. This linkage has facilitated the process of transferring data from the stations to the Environment Public Authority so that data is sent every 15 minutes. It is the first of its kind at the level of Kuwait and strengthens the process of data exchange between KOC and the Environment Public Authority, in addition to strengthening the KOC's commitment to transparency and legal accountability in its operations.

Four KNPC sites (namely, Mina Al-Ahmadi Refinery, Mina Abdullah Refinery, Local Marketing Department, and Head Office) received the International Safety Awards for the year 2018, awarded by the British Safety Council. The award committee commended the KNPC's efforts and commitment to international standards and requirements in this regard and its keenness to implement health and safety rules in its various projects and operations. Furthermore, Kuwait Aviation Fueling Company (KAFCO) (a subsidiary of KNPC) won the RoSPA Gold Award for Health and Safety Performance 2018.

In the same context, KNPC became the first company in Kuwait to obtain First Carbon Credit for flare gas recovery units at the Al-Ahmadi refinery from the UNFCCC after auditing.

PIC also won the "Responsible Care" award for occupational health and safety and security from the Gulf Petrochemicals & Chemicals Association (GPCA) as part of the annual Responsible Care Conference held in Dubai.

It is worth noting that KOTC's fleet operations are in full compliance with the requirements of International Safety Management Code (ISM) and global standards for both quality (ISO 9001: 2015) and environmental management (ISO 14001: 2005) and occupational health and safety (OHSAS 18001: 2007).

It should be noted that KPC organized the third Kuwait International Health, Safety, Security & Environment Conference and Exhibition (KIHSSSE) during February 2019 in the State of Kuwait. Many Kuwaiti and Gulf government agencies participated in this conference, represented by Kuwaiti Minister of Oil and Minister of Electricity and Water, in addition to the presence of the Gulf and international oil companies, represented by Saudi Aramco, UAE ADNOC, US Halliburton and Schlumberger, and Shell Company. This KIHSSSE aims to raise the level of culture on HSSE and to contribute to the implementation of 2040 Strategic Directions concerning HSSE Department. The conference also urges adherence to HSSE international standards.

KPC and subsidiaries are working continuously to promote a culture of commitment to HSE, by communicating with workers by highlighting the role of safety systems in protecting workers, through meetings and awareness campaigns such as the Safe Driving Campaign and the Public Health Campaign for employees and contractors of the oil sector.



Human Resources (HR)

Partners with key KPC sectors and activities to raise performance to the highest global standards

KPC is keen to look after the Kuwaiti human capital being the key to excellence and one of the pillars of the oil industry and its development in the State of Kuwait. In addition, Kuwaiti human capital is one of the most important pillars of the KPC 2040 Strategy, which rests on building Kuwaiti human cadres and qualifying them with high-level skills, raising their efficiency and providing them with the opportunity for creativity, development and giving. KPC is also keen to provide mechanisms guaranteeing employment opportunities for its staff by establishing new development projects. In light of the foregoing, the KPC human resources sector seeks to achieve its strategic objectives which provide for working as a partner for the activities and sectors of KPC and subsidiaries through the following:

Proceeding from the KPC's keenness to employ national cadres, 412 newly-graduated candidates in engineering disciplines were appointed in KPC and subsidiaries, 513 candidates were also accepted for contractor contracts, and 24 employees with disabilities were appointed in KPC and subsidiaries, with the Kuwaitization rate reaching 89.5% in KPC and subsidiaries.

It should also be noted that KPC subsidiaries have introduced training programs for knowledge and technology transfer. Among the KUFPEC continuous efforts to provide training opportunities to employees of the oil sector, which include knowledge and technology transfer among exploration and production operations within Kuwait and abroad, Ten employees of KGOC and KOC were seconded to the KUFPEC overseas offices in Canada, Indonesia, Malaysia, Norway and Australia during April 2018 - March 2019.

As for KIPIC efforts to train its employees and introduce them to pre-operation activities, 44 employees have undergone a training program at Nghi Son Refinery - Vietnam, a Q8 JV refinery.

In addition, KIPIC has completed the training program for 29 engineers (fresh graduates and under development) at the premises of technology licensors and project consultants.

In addition, the KPC Petroleum Training Center keeps training and developing the competencies of all Kuwaiti individuals working in KPC and subsidiaries to cope with the latest advanced systems and methods. It has obtained the following ISO certifications: ISO 26000: 2010 on occupational health and safety, ISO 14001: 2015 on the environment, ISO 9001: 2015 on quality systems management, ISO 26000: 2010 on social responsibility, ISO 10002: 2004 on the system of measuring customer satisfaction and handling complaints).

KNPC also rehabilitated and trained students of the College of Technological Studies, Chemical Engineering Technology - Diploma in order for the 201 graduates of the Refinery Operating Technology Program (PAAET) to be appointed as a field operator with the aim of meeting the staffing needs of the Environmental Fuel Project, local marketing, and operations departments at Mina Al-Ahmadi Refinery and Mina Abdullah Refinery.

Additionally, a training and evaluation tool has been developed to help identify gaps in the competencies and training needs of its employees, thereby paving the way for developing and improving the performance of the employees of KPC and subsidiaries in a variety of ways, as well as implementing 1,112 internal training programs by the Petroleum Training Center, including general programs (743), professional programs (184), technical programs (185), with the participation of 18,525 trainees from KPC and subsidiaries.

A contracting system for KPC and subsidiaries training programs has been introduced to regulate the contracting process between the Petroleum Training Center and the local and foreign training and advisory bodies based on auditing and governance process. The system has been approved by the KPC Board of Directors, along with equipping 6 additional training rooms at the Petroleum Training Center to be brought into service and used to carryout internal training courses and programs, thereby reducing financial expenses associated with renting training venues at hotels and minimizing disbursements.

In addition, administrative affairs procedures related to status change requests have been automated, including job title change, transfer, elevation, promotion, and other procedures such as deducting financial dues for terminated employees, updating the automated system for performing annual and semi-annual performance assessment, and calculating delegation allowances for employees delegated in official tasks to the KPC overseas offices.

Joint cooperation between KPC and various government sectors, numerous services were provided to several bodies. For example, 5,039 English language tests were held for candidates applying for employment announcements of government agencies: Public Authority for Industry (1,454), Competition Protection Agency (145), Kuwait Ports Authority (854), Communications and Information Technology Regulatory Authority (1,500), Kuwait Direct Investment Promotion Authority (849), Kuwait Aviation Services Company (237). Furthermore, 431 English language level tests have been carried out for employees of KPC and subsidiaries.



Research, Development and Technology

We endeavor to build capabilities and develop modern technology in line with business needs

In accordance with the KPC overall Strategic Directions 2040 on research, development, and technology, which provide for building and maintaining capabilities, capacities, and infrastructures for research, development, and technology in line with business needs through the establishment of a research, development, and technology center and cooperation with strategic partners in this field, in addition to the initiative aimed at adopting and developing cutting-edge technology in alignment with business needs, a number of achievements have been completed in this field as follows:

The Front-End Engineering Design (FEED) for the KOC Kuwait International Petroleum Research Center (KIPRIC) building were completed in March 2019, and memoranda of understanding were signed with Kuwait Institute for Scientific Research (KISR), Kuwait Foundation for the Advancement of Sciences (KFAS), and Kuwait University with the aim of building the research capacities and capabilities at KIPRIC, in implementation of the ambition of His Highness the Emir of Kuwait to establish an entity of excellence in the fields of research, development, and technology in the oil sector and to overcome the technological challenges faced by the State of Kuwait in its most important sectors, i.e. the oil sector, which requires KPC to address them in the future in order to be able to achieve the KPC long-term Strategic Directions in the field of technology and research.

The establishment of KIPRIC aims to create a work environment that encourages research and scientific efforts, build and develop national capabilities and cadres in the face of technological and technical challenges, and attract global expertise having high-level skills and knowledge in oil industry-related research to work in KIPRIC, in addition to paving the way for cooperation with the KPC strategic partners, including international oil companies, petroleum services companies, universities and local and international research centers, to implement the KIPRIC research programs.

A cooperation and partnership agreement in the field of research, development, and technology was entered into between KPC and KISR, in addition to successfully developing a research agenda that includes 5 research projects to be commenced in the financial year 2019-2020.

The terms of cooperation and partnership agreement in the field of research, development, and technology between KPC and KFAS were activated, which initiative was successfully launched to create an innovation ecosystem for the oil sector and cooperate by providing the latest developments in carbon capture and storage technology.

Furthermore, a memorandum of understanding was signed between KPC and Delft University of Technology, to promote and develop the company's research and technology center in the Kingdom of the Netherlands, which would enhance cooperation in the field of research and facilitate the exchange of information.

Information Technology (IT)

Applying the highest standards for secure electronic networks in the future

The financial year 2018-2019 was full of challenges and achievements in terms of facing information and cyber security risks. Proceeding from the KPC overall Strategic Directions 2040 on information technology, the IT departments of KPC and subsidiaries re-evaluated the status of information security, systems and networks through an intensive consultative study and hence took all necessary measures and precautions and filled all gaps to immunize KPC and subsidiaries from any potential penetrations. Being aware of cyber and information security risks is the first line of defence for any cyber attack.

Therefore, the IT departments of KPC and subsidiaries sought over the year to increase the security awareness of their employees through a series of awareness campaigns which involved compulsory tests. The departments also developed and presented a number of exercises on how to respond to cybersecurity incidents, which included scenarios of cyber attacks and how to address them when they occur giving real examples. The hard work continued during the last quarter of the financial year to establish and prepare a cybersecurity awareness platform to be launched in the first quarter of the next financial year.

This platform measures the level of cyber awareness of all oil sector employees and then provides educational and awareness programs for employees based on the results of the initial measurement. The platform continues to provide various educational and awareness programs on cybersecurity throughout the year.

On the other hand, the IT Department continues to provide the latest automated services and digital applications to all KPC departments. The integrated global marketing system is considered one of the most important achievements of this year, as it allows employees of global marketing departments to fully complete and renew sale and purchase agreements related to all available petroleum products according to the production and use of the Kuwaiti local market, from contracting through pricing and coordinating shipments to drafting the contract and taking all the necessary approvals required from all departments concerned with agreement preparation.





Corporate Social Responsibility (CSR)

Our society is our responsibility... A renewed commitment and fulfilled hopes

For many years, KPC has been implementing various qualitative initiatives and CSR projects, in cooperation with partners of civil society organizations in various sectors of the Country. The preparation and implementation of a comprehensive CSR program in the State of Kuwait is one of the KPC overall Strategic Directions 2040 with regard to internal and external communication. Many initiatives have been implemented to enhance social responsibility, including the provision by KPC of special annual sponsorship for the largest student youth gathering held outside the Country, namely the student conference of the National Union of Kuwait Students, USA, as well as the annual conference for Kuwait's students in the UK and Ireland branch. The Foundation sponsors the annual ceremony for outstanding students who are graduates of the College of Engineering and Petroleum at Kuwait University, which reflects its renewed belief and keenness to achieve its comprehensive vision within the framework of its social responsibility. This is in addition to unlimited support for youth programs that are rich in long-term experiences and expertise such as the Protégés, which is one of the important programs KPC is keen to sponsor and provide full support for as it is concerned with enriching the competencies of our youth and qualifying them to be effective and distinguished elements in society, and contributes to enhancing their social, life, and scientific skills and self-awareness development.

In support of everything aimed at identifying national youth cadres and building bridges of recognition between them, KPC sponsors the annual CFO conference, which represents the beginning of the creation of a database for experienced Kuwaiti youth in order to benefit from their specializations to overcome the difficulties facing Kuwaiti youth aspiring for excellence in various fields.

Furthermore, KPC takes upon itself the responsibility of taking Kuwaiti society on a tour of the ancestral heritage by sponsoring the distinguished village bearing the name of His Highness the Emir of the Country

Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah which is considered a tourist attraction concerned with the popular heritage in Kuwait and the Gulf region, given the museums and markets it hosts and the activities and festivals it organizes. Since its launch in 2014, this village has witnessed an increasing turnout of visitors, in addition to its flourishing heritage, cultural, sports, and artistic activities and festivals on Kuwait's national holidays.

Proceeding from the same spirit of evoking the past with an outstanding Kuwaiti youth vision and in confirmation of the great efforts exerted by ancestors in pursuit of their livelihood in the depths of the sea, KPC sponsored the distinguished national work "Memoirs of a Sailor" written by young Kuwaiti fingertips commemorating the parents and ancestors' past in line with KPC Strategy 2040 on KPC cultural and educational role.

In addition, KPC carried the slogan "You are a pride" as a message of loyalty to people of determination, affirming its full faith in their capabilities and distinction. This is crystallized by the ongoing partnership between KPC and the bodies and institutions responsible for this specific group and the campaigns launched by KPC to reinforce its belief in this group, which constitutes an important part of society. Out of its commitment to support people of determination, KPC supports the Kuwait Society for the Handicapped (KSH) by providing free fuel cards as a participation in the serving and caring for people with disabilities. Moreover, KPC is keen to share

its people of determination all their cultural and educational events and highlights their distinguished role in society by holding periodic meetings and field visits.

Among its initiatives to preserve the Kuwaiti environment, KGOC, in cooperation with the Environmental Voluntary Foundation and in coordination with the Kuwait Dive Team, organized a campaign to clean Kuwaiti beaches and implemented many programs in this regard.

KUFPEC also donated to three charitable organizations in the State of Kuwait (namely, Red Crescent, Kuwait Down Syndrome Society, and Kuwait Disabled Sports Club), in addition to the renovation of a children-designated medical suite in a Pakistani hospital.

Auditor's Report and Financial Statements



Contents	Page
Independent auditor's report	56
Consolidated statement of financial position	59
Consolidated statement of profit or loss & other comprehensive income	60
Consolidated statement of changes in equity	61
Consolidated statement of cash flows	63
Notes to the consolidated financial statement	64



KPMG Safi Al-Mutawa & Partners
Al Hamra Tower, 25th Floor
Abdulaziz Al Saqr Street
P.O. Box 24, Safat 13001
State of Kuwait
Tel.: +965 2228 7000
Fax: +965 2228 7444

Independent auditor's report

His Highness, Sheikh Jaber Al-Mubarak Al Hamad Al- Sabah
The Prime Minister and
Chairman of the Supreme Council for Petroleum
State of Kuwait

Opinion

We have audited the consolidated financial statements of Kuwait Petroleum Corporation ("the Corporation") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 March 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the Law Decree No. 6 of 1980.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report is the Board of Directors report included in the Group's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.



In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and the Law Decree No. 6 of 1980, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the consolidated financial statements include the information required by the Law Decree No.6 of 1980. In our opinion, proper books of account have been kept by the Corporation and the accounting information given in the board of directors' report agrees with the books of accounts. We have not become aware of any contravention, during the year ended 31 March 2019, of the Law Decree No. 6 of 1980 that might have had a material effect on the business of the Group or on its consolidated financial position.


Dr. Rasheed M. Al-Qenae
License No. 130 - A
of KPMG Safi Al-Mutawa & Partners
Member firm of KPMG International

Kuwait: 1 July 2019

Kuwait Petroleum Corporation and Subsidiaries State of Kuwait



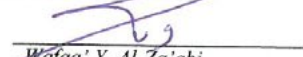
مؤسسة البترول الكويتية
Kuwait Petroleum Corporation

Consolidated statement of financial position as at 31 March 2019

	Notes	2019 KD'000	2018 KD'000
Assets			
Property, plant and equipment	5	27,951,909	24,975,740
Goodwill	6	113,860	122,831
Intangible assets	7	576,729	639,964
Deferred tax assets	14	267,262	355,651
Other non-current assets	8	382,758	234,493
Available-for-sale investments	9	-	6,488,488
Financial assets at fair value through other comprehensive income	9	4,216,936	-
Investments in equity accounted investees	10	687,939	744,303
Non-current assets		34,197,393	33,561,470
Inventories	11	1,140,628	1,167,075
Trade receivables	12	4,135,251	3,980,842
Financial assets at fair value through other comprehensive income	9	1,401,254	-
Financial assets at fair value through profit or loss	9	240,911	-
Other receivables and prepayments	13	1,334,627	1,121,706
Taxes receivable	14	5,073	15,954
Bank balances and cash	15	2,037,379	1,102,808
Assets held for sale	16	33,160	47,606
Current assets		10,328,283	7,435,991
Total assets		44,525,676	40,997,461
Equity			
Authorised and paid-up share capital		2,500,000	2,500,000
Statutory reserve	17	1,250,000	1,250,000
Capital reserve	18	232,945	232,945
General reserve	19	17,253,435	17,955,264
Reserve for replacement and renewal of property, plant and equipment	20	3,676,691	3,578,691
Remeasurement of defined benefit obligation reserve		(127,897)	(140,854)
Cumulative changes in fair values		686,053	596,809
Foreign currency translation reserve		(285,593)	(252,355)
Equity attributable to equity holder of the Corporation		25,185,634	25,720,500
Non-controlling interest		78,054	76,322
Total equity		25,263,688	25,796,822
Non-current liabilities	21	9,137,147	4,208,715
Liabilities held for sale	16	-	3,897
Trade payables		1,538,811	1,223,738
Other payables and accruals	22	3,179,364	2,403,704
Taxes payable	14	159,211	179,034
Amounts due to Ministry of Oil	23	2,156,107	1,908,755
Profit available for distribution	24	3,091,348	5,272,796
Current liabilities		10,124,841	10,991,924
Total liabilities		19,261,988	15,200,639
Total equity and liabilities		44,525,676	40,997,461

The accompanying notes form an integral part of these consolidated financial statements.


Hashem S. Hashem
Deputy Chairman & CEO


Wafaa' Y. Al-Za'abi
MD - Planning & Finance

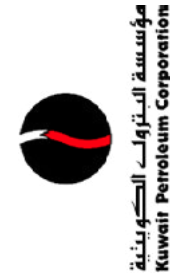
**Kuwait Petroleum Corporation and Subsidiaries
State of Kuwait**

**Consolidated statement of profit or loss
and other comprehensive income
for the year ended 31 March 2019**



	Notes	2019 KD'000	2018 KD'000
Revenues			
Sales of crude oil, gas, refined products and petrochemicals	25	29,300,740	23,332,787
Revenues from other operations		175,767	70,142
		<u>29,476,507</u>	<u>23,402,929</u>
Cost of revenues			
Cost of sales of crude oil, gas, refined products and petrochemicals		(27,496,422)	(21,731,041)
Cost of other operations		(187,763)	(54,553)
		<u>(27,684,185)</u>	<u>(21,785,594)</u>
Gross profit		1,792,322	1,617,335
Depreciation and amortisation		(343,122)	(283,340)
General and administrative expenses		(546,184)	(482,649)
Provision for impairment loss on property, plant and equipment and goodwill and others		(92,050)	(113,715)
Operating profit		810,966	737,631
Interest income		24,012	36,937
Interest expense		(49,021)	(28,103)
Net interest (expense) / income		<u>(25,009)</u>	<u>8,834</u>
Investment income	26	151,101	871,623
Share of results of equity accounted investees	10	85,300	177,372
Other income (net)	27	125,190	394,880
Directors' remuneration	28	(67)	(63)
Profit before provision for income tax		1,147,481	2,190,277
Income tax	14	(154,917)	(49,171)
		<u>992,564</u>	<u>2,141,106</u>
Provision for replacement and renewal of property, plant and equipment	20	(98,000)	(142,000)
Profit for the year		<u>894,564</u>	<u>1,999,106</u>
Other comprehensive (loss) / income			
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements of defined benefit obligations		12,957	6,795
Net change in fair value of financial assets at fair value through OCI		126,157	-
Other comprehensive income for the year		<u>139,114</u>	<u>6,795</u>
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Foreign currency translation differences for foreign operations		(33,238)	(2,591)
Net change in fair value of available-for-sale investments		-	(527,571)
Net change in fair value of financial assets at fair value through OCI		(24,423)	-
Other comprehensive loss for the year		<u>(57,661)</u>	<u>(530,162)</u>
Total other comprehensive income / (loss) for the year		<u>81,453</u>	<u>(523,367)</u>
Total comprehensive income for the year		<u>976,017</u>	<u>1,475,739</u>
Profit attributable to:			
Equity holder of the Corporation		878,634	1,990,388
Non-controlling interest		15,930	8,718
Profit for the year		<u>894,564</u>	<u>1,999,106</u>
Total comprehensive income attributable to:			
Equity holder of the Corporation		960,087	1,467,021
Non-controlling interest		15,930	8,718
Total comprehensive income for the year		<u>976,017</u>	<u>1,475,739</u>

The accompanying notes form an integral part of these consolidated financial statements.



**Kuwait Petroleum Corporation and Subsidiaries
State of Kuwait**

**Consolidated statement of changes in equity
for the year ended 31 March 2019**

	Attributable to equity holder of the Corporation							Non-controlling interest KD'000	Total equity KD'000
	Authorised and paid-up share capital KD'000	Statutory reserve KD'000	Capital reserve KD'000	General reserve KD'000	Reserve for replacement and renewal of property, plant and equipment KD'000	Remeasurement of defined benefit obligation reserve KD'000	Cumulative changes in fair values KD'000	Foreign currency translation reserve KD'000	Total KD'000
Balance at 31 March 2017	2,500,000	1,250,000	232,945	17,261,726	3,436,691	(147,649)	1,124,380	(249,764)	25,408,329
Total comprehensive income	-	-	-	1,990,388	-	-	-	-	1,990,388
Profit for the year	-	-	-	1,990,388	-	-	-	-	1,999,106
Other comprehensive income / (loss)	-	-	-	-	-	6,795	(527,571)	(2,591)	(523,367)
Total comprehensive income / (loss)	-	-	-	1,990,388	-	6,795	(527,571)	(2,591)	(523,367)
Reserve for replacement and renewal of property, plant and equipment	-	-	-	-	142,000	-	-	-	142,000
Profit to be distributed (Note 24)	-	-	-	(1,296,850)	-	-	-	-	(1,296,850)
Net movement in non-controlling interest	-	-	-	-	-	-	-	(7,441)	(7,441)
Balance at 31 March 2018	2,500,000	1,250,000	232,945	17,955,264	3,578,691	(140,854)	596,809	76,322	25,796,822

Consolidated statement of changes in equity
for the year ended 31 March 2019

	Attributable to equity holder of the Corporation						Non-controlling interest KD'000	Total equity KD'000
	Authorised and paid-up share capital KD'000	Statutory reserve KD'000	Capital reserve KD'000	General reserve KD'000	Reserve for replacement and renewal of property, plant and equipment KD'000	Remeasurement of defined benefit obligation reserve KD'000		
Balance at 31 March 2018	2,500,000	1,250,000	232,945	17,955,264	3,578,691	(140,854)	76,322	25,796,822
Total comprehensive income	-	-	-	878,634	-	-	15,930	894,564
Profit for the year	-	-	-	-	-	-	-	-
Other comprehensive income / (loss)	-	-	-	-	-	-	-	-
Total comprehensive income / (loss)	-	-	-	-	-	-	-	-
Income / (loss)	-	-	-	878,634	-	12,957	-	81,453
Reserve for replacement and renewal of property, plant and equipment	-	-	-	-	-	101,734	-	976,017
Realised gain transferred to general reserve	-	-	-	-	98,000	-	-	98,000
Profit to be distributed (Note 24)	-	-	-	12,490	-	(12,490)	-	-
Discounting for Profit to be distributed (Note 24)	-	-	-	(1,791,349)	-	-	-	(1,791,349)
Net movement in non-controlling interest	-	-	-	198,396	-	-	-	198,396
Balance at 31 March 2019	2,500,000	1,250,000	232,945	17,253,435	3,676,691	(127,897)	78,054	25,263,688

The accompanying notes form an integral part of these consolidated financial statements.

Kuwait Petroleum Corporation and Subsidiaries
State of Kuwait

Consolidated statement of cash flows
for the year ended 31 March 2019

	Notes	2019 KD'000	2018 KD'000
Cash flows from operating activities			
Profit for the year		894,564	1,999,106
Adjustments for:			
Depreciation and amortisation		343,122	283,340
Provision for replacement and renewal of property, plant and equipment	20	98,000	142,000
Provision for impairment loss on property, plant and equipment and goodwill and others		92,050	113,715
Write off of unsuccessful exploration	7	28,899	16,992
Provision for employees' terminal benefits and pensions		437,353	204,251
Loss / (gain) on disposal of property, plant and equipment		2,338	(26,284)
Share of results of equity accounted investees	10	(85,300)	(177,372)
Interest income		(24,012)	(36,937)
Provisions, net		29,097	32,987
Interest expense		49,021	28,103
Income tax	14	154,917	49,171
Investment income		(151,101)	(871,623)
		1,868,948	1,757,449
Changes in:			
- inventories		14,179	34,053
- trade receivables		(176,406)	(725,296)
- other receivables and prepayments		16,579	447,833
- non-current liabilities		(464,357)	(296,111)
- trade payables		315,073	54,854
- other payables, accruals and other credit balances		758,831	308,400
- change in amounts due to Ministry of Oil		588,451	545,761
Cash generated from operations		2,921,298	2,126,943
Interest paid		(49,021)	(10,409)
Taxes paid (net)		(19,263)	(28,103)
Net cash from operating activities		2,853,014	2,088,431
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(4,105,072)	(5,312,896)
Change in deposits maturing after three months		178,450	(172,054)
Acquisition of assets		-	(18,628)
Change in financial assets at FVOCI		745,435	-
Change in available-for-sale investments		-	823,352
Net movement in equity accounted investees		140,789	140,643
Additions to intangible assets	7	(16,724)	(81,399)
Change in other non-current assets		(148,265)	(22,405)
Proceeds from disposal of property, plant and equipment		25,802	46,515
Interest received		24,012	36,937
Net cash used in investing activities		(3,155,573)	(4,559,935)
Cash flows from financing activities			
Net change in long term loans and borrowings		1,812,791	740,104
Dividend paid	24	(500,000)	-
Change in non-controlling interest		(14,198)	(7,441)
Net cash from financing activities		1,298,593	732,663
Net effect of foreign currency translation adjustments		15,858	(17,436)
Net increase / (decrease) in cash and cash equivalents		1,011,892	(1,756,277)
Cash and cash equivalents at beginning of the year		767,819	2,524,096
Impact of adoption of IFRS 9	2(e)	101,129	-
Cash and cash equivalents at end of the year	15	1,880,840	767,819
Short-term deposits maturing after three months from the date of placement	15	156,539	334,989
Bank balances and cash at end of the year	15	2,037,379	1,102,808

The accompanying notes form an integral part of these consolidated financial statements.



1. Corporate information

The Kuwait Petroleum Corporation (“the Corporation” or “the Parent”) is wholly-owned by the Government of the State of Kuwait. The Corporation was established by Law Decree No. 6 of 1980 which came into effect on 27 January 1980. The principal activities of the Corporation and its subsidiaries (together referred to as “the Group”) include exploration, drilling, production, storage, refining, processing, transportation, distribution and marketing of crude oil, natural gas, chemical, petrochemical and associated products. The marketing of crude oil and petroleum products produced by subsidiaries in the State of Kuwait is undertaken by the Corporation. The entire Group’s other activities, including the marketing of crude oil and petroleum products produced by subsidiaries outside the State of Kuwait are carried out through its subsidiaries, associates and joint ventures/ operations. The principal subsidiaries, associates and joint ventures/ operations are set out in Note 39. The Group operates principally in the Middle East, Far East, Western Europe, U.S.A, Canada and Australia.

Crude oil produced in the State of Kuwait becomes the property of the Government of the State of Kuwait, which reimburses the production costs of the producing subsidiaries. The Corporation purchases crude oil and natural gas from the Government of the State of Kuwait in accordance with the terms of the applicable Decree issued on 17 January 1981.

The address of the Corporation’s registered office is P.O. Box 26565, Safat 13126, State of Kuwait.

The consolidated financial statements of the Group for the year ended 31 March 2019 were authorised for issue in accordance with a resolution of the directors on 30 June 2019. These consolidated financial statements are subject to change upon approval of the Supreme Council for Petroleum.

2. Basis of preparation

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the Law Decree No. 6 of 1980 and International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (IASB).

This is the first set of the Group’s annual consolidated financial statements in which IFRS 15- *Revenue from Contracts with Customers* (“IFRS 15”) and IFRS 9- *Financial Instruments* (“IFRS 9”) have been applied. Changes to significant accounting policies are described in Note 2 (e).

b) Basis of measurement

The consolidated financial statements are prepared under the historical cost convention, modified for the measurement at fair value of investments at fair value through profit or loss, investments at fair value through other comprehensive income and derivative financial instruments.

c) Functional and presentation currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The consolidated financial statements are presented in Kuwaiti Dinars, which is the Group’s functional currency. All amounts are rounded to the nearest thousand, unless otherwise indicated.



d) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in Note 4.

e) Changes in accounting policies

The Group has adopted the following new standards and amendments to the standards effective current year:

i) IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments (“IFRS 9”) that replaces IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”) and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project i.e. classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group has not restated comparative information for 2018 as permitted by the transitional provisions of the standard. Therefore, the information presented for 2018 does not reflect the requirements of IFRS 9 and is not comparable to the information presented for 2019.

The key changes to the Group’s accounting policies resulting from the adoption of IFRS 9 are summarised below:

Classification of financial assets

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity’s business model for managing the assets and the instruments’ contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVTPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments measured at amortised cost;
- Debt instruments measured at fair value through other comprehensive income (FVOCI) with gains or losses recycled to profit or loss on de-recognition;
- Equity instruments at FVOCI with no recycling of gains or losses to profit or loss on de-recognition; and
- Financial assets carried at fair value through profit or loss (FVTPL).

**Kuwait Petroleum Corporation and Subsidiaries
State of Kuwait**

**Notes to the consolidated financial statements
for the year ended 31 March 2019**



IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVTPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the consolidated statement of profit or loss.

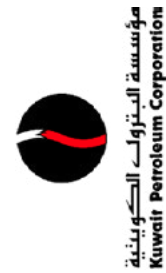
The accounting for financial liabilities will be to large extent the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements will be presented in OCI with no subsequent reclassification to the consolidated statement of profit or loss, unless an accounting mismatch in profit or loss would arise.

Impairment of financial assets:

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. The management concluded based on the assessment, that the impact of ECL is not material on the Group's consolidated financial statements as at 1 April 2018.

**Kuwait Petroleum Corporation and subsidiaries
State of Kuwait**

**Notes to the consolidated financial statements
for the year ended 31 March 2019**



The following table shows reconciliation of original measurement categories and carrying value in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets as at 1 April 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 KD'000	Reclassification KD'000	New carrying amount under IFRS 9 KD'000
Assets					
Other non-current assets	Loans & receivables	Amortised cost	234,493	-	234,493
Managed portfolios and funds	Available-for-sale investments	-	6,439,491	(6,439,491)	-
Other investments	Available for sale investments	-	48,997	(48,997)	-
Financial assets at fair value through other comprehensive income (a)	-	FVOCI	-	6,153,846	6,153,846
Investments at fair value through profit or loss (b)	-	FVTPL	-	233,513	233,513
Trade receivables	Loans & receivables	Amortised cost	3,980,842	-	3,980,842
Other receivables and prepayments	Loans & receivables	Amortised cost	1,121,706	-	1,121,706
Bank balances and cash	Loans & receivables	Amortised cost	1,102,808	101,129	1,203,937
			12,928,337	-	12,928,337

a) *Reclassification from available for sale investments to FVOCI*

On the date of initial application of IFRS 9, the Group irrevocably elected to designate its investment in equity securities at FVOCI. Under IFRS 9, the Group considers that investment in corporate bonds are held within a business model whose objective is to achieve both collecting contractual cash flows and selling securities. Therefore, these instruments have been reclassified as financial assets at FVOCI from managed portfolios and funds.

b) *Reclassification from available for sale investments to FVTPL*

Certain investments in funds and debt securities were reclassified from available for sale investments to financial assets at FVTPL. They do not meet the IFRS 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest.

ii) *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted IFRS 15 using the cumulative effect method (with practical expedients), with the effect of initially applying this standard recognised at the date of initial application i.e. 1 April 2018. Accordingly, the information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations. Further, the Group applied cumulative effect method for IFRS 15 and as a result disclosure requirements have not been applied to comparative information.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures. Based on the assessment, the management concluded that there is no material impact on adoption of IFRS 15 on the Group's consolidated financial statements as at 1 April 2018, except for the following:

Performance obligations

The Group's revenue is predominantly derived from exploration, drilling, production, storage, refining, processing, transportation, distribution and marketing of crude oil, natural gas, chemical, petrochemical and associated products.

A proportion of Group's sales of products are under Cost and Freight ("C&F") incoterms, in which the Group is responsible for providing shipping and handling services after the date the control of products are transferred to the customers. Currently, the revenue from shipping services are recognized upon loading, as well as the related costs, and are not considered a separate service under IAS 18. Under IFRS 15, the provision of shipping and handling services for C&F contracts will be a distinct performance obligation and, therefore, a separate performance obligation to which a proportion of the transaction price should be allocated and recognized over time as the shipping and handling services are provided.

Variable consideration

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties, if any. The transaction price for variable price contracts is based on the commodity price, adjusted for quality, location and other factors. The amount of revenue recognized is based on the agreed transaction price with any variability in transaction price recognized in the same period. The Group also pays demurrages for delays caused by incomplete shipments at the customer port. The Group considered demurrages as price adjustments. Under IFRS 15, the Group considered this as variable consideration while the determining the transaction price for sale of products. However, the overall impact of variable consolidation is not material on the Group's consolidated financial statements as at 1 April 2018.

Revenue from marketing and distribution activities

The Group carries out marketing and distribution of fuels, petroleum and gas products in the State of Kuwait on behalf of the Ministry of Oil. The Ministry of Oil reimburses the Group with operating expenses, overheads and depreciation and amortization on tangible and intangible assets used on this operation, as consideration for this service. In prior years, the Group netted off revenue and related costs, without impact on the consolidated statement of profit or loss. However, as a result of adoption IFRS 15, the Group has identified each promise to transfer a good or service that is distinct in the contract, as a separate performance obligation. Accordingly, the Group has recognized the revenue from the Ministry of Oil and related cost, on gross basis, in the consolidated statement of profit or loss for the current year ended 31 March 2019.

Impact on consolidated statement of profit or loss

	Amount without adoption of IFRS 15 KD'000	Adjustments KD'000	As reported KD'000
Revenue from marketing and distribution activities (Note 25)	-	117,011	117,011
Cost of marketing and distribution activities	-	(117,011)	(117,011)
Net result for the year	-	-	-

Other minor improvements and amendments to IFRSs which are effective for annual accounting period starting from 1 April 2018 are as below:

- Annual Improvements to IFRSs 2014–2016 Cycle – various standards; and
- Disclosure Initiative (Amendments to IAS 7).

These improvements and amendments did not have any material impact on the accounting policies, financial position or performance of the Group.



3. Significant accounting policies

Except for changes explained in Note 2(e), the Group has consistently applied the accounting policies set below to all periods presented in these consolidated financial statements.

a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Corporation and its significant subsidiaries. Details of the principal consolidated subsidiaries are included in Note 39.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The financial statements of subsidiaries are prepared using accounting policies that are consistent with those applied by the Corporation. Adjustments are made to conform any material dissimilar accounting policies that may exist.

Non-controlling interest ("NCI") principally represent the portion of profit or loss and net assets of Kuwait Aromatics Company K.S.C.C. not held by the Corporation directly and are presented separately in the consolidated statement of profit or loss and other comprehensive income and separately from Corporation's equity within equity in the consolidated statement of financial position.

Intra-group balances and transactions, including intra-group profits and unrealised profits and losses are eliminated on consolidation.

The financial statements of the subsidiaries are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses.

Accounting periods of subsidiaries

The Corporation's financial year was from 1 April 2018 to 31 March 2019. The financial year of the Corporation's significant subsidiaries is the same as that of the Corporation with the exception of Kuwait Foreign Petroleum Exploration Company K.S.C., Kuwait Gulf Oil Company K.S.C. (Closed), KPC Energy Ventures, Inc. and Kuwait Aromatics Company K.S.C.C., whose financial years were from 1 January 2018 to 31 December 2018. Where such subsidiaries do not prepare financial statements up to the same date as that of the Group, adjustments are made for the effects of any significant events or transactions which have occurred in the months following the year end of these subsidiaries.



b) Property, plant and equipment

i. Oil and gas properties

Exploratory wells

The tangible element of exploratory wells is included under drilling, exploration and other assets under construction pending determination of proved reserves. If an exploratory well finds proved reserves, these costs are transferred to wells and surveys under oil and gas properties. If the exploratory well does not find proved reserves the costs are written off as abortive. Costs are considered abortive when they relate to wells, which are permanently abandoned due to the absence of commercially exploitable reserves of crude oil or temporarily abandoned with no plans for re-entry in the foreseeable future.

Costs directly associated with an exploration well are capitalised as exploration and evaluation assets under drilling, exploration and other assets under construction until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials, drilling and contractors' cost.

Geological and geophysical costs are recognised in the consolidated statement of profit or loss and other comprehensive income, as incurred.

Development wells

The cost of development wells is included under oil and gas properties as wells and surveys and is accounted for under the "successful efforts" method of accounting. Under this method, expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells is capitalized within oil and gas properties.

Oil and gas properties are stated at cost, less accumulated depreciation and accumulated impairment losses (Note 3(l)).

ii. Other property, plant and equipment

Other property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses (Note 3(l)).

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, contractors' costs and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Subsequent costs

Expenditure on major maintenance refits, inspections or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset, or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the Group, the expenditure is capitalised. Where part of the asset replaced was not separately considered as a component and therefore not depreciated separately, the replacement value is used to estimate the carrying amount of the replaced asset(s) and is immediately written off. Inspection costs associated with major maintenance programmes are capitalised and amortised over the period to the next inspection. All other day-to-day repairs and maintenance costs are expensed as incurred.

Gain or loss on disposal

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is recognised net within other income/other expenses in the consolidated statement of profit or loss and other comprehensive income.

iii. Other assets under construction

Assets in the course of construction are carried at cost, less any recognised impairment loss (Note 3(1)). Cost includes all capital costs in accordance with the Group's accounting policy. Assets under construction are transferred to the related assets under property, plant and equipment when the underlying project is substantially completed and the related asset is brought into use.

Depreciation of these assets commences when the assets are ready for their intended use as determined by the management.

iv. Depreciation

Depreciation is based on the cost of an asset less its residual value, where applicable. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognized in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment except for oil and gas properties, which are depreciated and depleted on a unit of production basis over the commercial proven and probable reserves ("2P reserves"). Assets under construction and land are not depreciated.

The estimated useful lives for the current and comparative year, in accordance with the instructions of the Parent Corporation, as approved by the Supreme Council for Petroleum, are as follows:

<u>Asset category</u>	<u>Depreciation</u>	
	<u>2018 - 2019</u>	<u>2017 - 2018</u>
	<u>Years</u>	<u>Years</u>
<i>Oil and gas</i>		
	Unit of	Unit of
Oil and gas properties	production	production
Plant and machinery	20 - 25	20 - 25
Tankage, pipelines and jetties	20 - 25	20 - 25
Wells and surveys	10 - 20	10 - 20
Service plant and drilling equipment	4 - 5	4 - 5
Vessels	30 - 35	30 - 35
<i>Other property and equipment</i>		
Land, buildings and roads	25	25
Furniture, tools and computers	5 - 10	5 - 10
Vehicles, ships and marine craft	5 - 13	5 - 13

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjust if appropriate.

c) **Goodwill**

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for NCI over the fair value of the identifiable net assets acquired and liabilities assumed. If the fair value of the identifiable net assets acquired is in excess of the aggregate consideration transferred (bargain purchase), before recognising a gain, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the statement of profit or loss and other comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units ("CGUs") that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Where goodwill forms part of a CGU and part of the operation in that unit is disposed off, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

d) **Intangible assets**

Intangible assets acquired separately are measured at cost on initial recognition. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Intangible assets consist of application software, license costs, intellectual property and other agreements etc.

Pre-license costs

Pre-license costs are expensed in the period in which they are incurred.

License and property acquisition costs

Exploration license and leasehold property acquisition costs are capitalised within intangible assets and are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine, that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing development plans and timing.



If no future activity is planned, the carrying value of the license and property acquisition costs is written off through the consolidated statements of profit or loss and other comprehensive income. Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to oil and gas properties.

Exploration and evaluation costs

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and assessment of commercial viability of an identified resource. Once the legal right to explore has been acquired, costs directly associated with an exploration well are capitalised as exploration and evaluation intangible asset until the drilling of the well is complete and the results have been evaluate.

If no potentially commercial hydrocarbons are discovered, the exploration asset is written off as a dry hole. If extractable hydrocarbons are found and, subject to further appraisal activity (e.g., the drilling of additional wells), are likely to be capable of being commercially developed, the costs continue to be carried as an intangible asset while sufficient/ continued progress is made in assessing the commerciality of the hydrocarbons. Costs directly associated with appraisal activity undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells, where hydrocarbons were not found, are initially capitalised as an exploration and evaluation intangible asset. All such capitalised costs are subject to technical, commercial and management review as well as review for indicators of impairment at least once a year. This is to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off in the consolidated statement of profit or loss and other comprehensive income.

When proved reserves of oil and natural gas are identified and development is sanctioned by management, the relevant capitalised expenditure is first assessed for impairment and (if required) any impairment loss is recognised, then the remaining balance is transferred to oil and gas properties. No amortization is charged during the exploration and evaluation phase.



Gain or loss on disposal

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of profit or loss and other comprehensive income when the asset is derecognised.

Amortisation

All intangible assets with finite useful lives are amortised on a straight line basis over the useful economic life, except for certain intangible assets which are amortised on a unit of production basis, where applicable.

The estimated useful lives for current and comparative period is as follows:

	Years
*License cost	2-30
Application software	5
Reservation right fees	25
Seismic survey and others	More than 10

*Included in license cost, certain assets which are amortised over a thirty year period as the Group considers such costs to be closely associated with the economic life of the land, buildings and facilities which are the subject of the licences.

The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates prospectively.

e) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, FVOCI or FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of deposits and due from a related party that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.



Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets carried at amortised cost;
- Debt instruments measured at fair value through other comprehensive income (FVOCI) with gains or losses recycled to the statement of profit or loss on de-recognition;
- Equity instruments at FVOCI with no recycling of gains or losses to the consolidated statement of profit or loss on de-recognition; and
- Financial assets carried at fair value through profit or loss (FVTPL)

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets at amortised cost includes trade receivables and other receivables and prepayments and bank balances and cash.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument by instrument basis but at a higher level of aggregated portfolios and is based on a number of observable factors. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice; and
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.



Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)

The Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. Interest is defined as consideration for time value of money and for the credit risk associated with the principal and for other basic lending risks and costs as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money e.g. periodical reset of interest rates.

Contractual terms that introduce a more than de-minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payment of principal and interest. In such cases, the financial asset is measured at fair value through profit or loss.

Financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in the consolidated statement profit or loss. Any gain or loss on derecognition is recognised in the consolidated statement of profit or loss.

Cash and cash equivalents for the purpose of preparing the consolidated statement of cash flows comprise cash, short-term bank deposits and highly liquid investments with a maturity date not exceeding three months from the date of placement.

Trade receivables and other receivables and prepayments are stated at their cost less impairment losses. Long term receivables are discounted to their net present value and are stated at amortised cost less impairment losses.

Equity investments at FVOCI

Upon initial recognition, the Group may elect to classify irrevocably its equity investment at FVOCI when they meet the definition of "Equity" under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to the consolidated statement of profit or loss. Dividends are recognised in the consolidated statement of profit or loss when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal cumulative gains or losses are reclassified from fair value reserve to general reserve in the consolidated statement of changes in equity.



Debt instruments at FVOCI

The Group applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset meet the SPPI test.

Debt instruments at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment losses are recognised in the consolidated statement of profit or loss. Fair value changes are recognised in other comprehensive income and presented in the cumulative changes in fair values as part of equity until the asset is derecognised or reclassified. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the consolidated statement of profit or loss.

Financial asset at FVTPL

The Group classifies financial assets at fair value through profit or loss when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there evidence of a recent pattern of short-term profit is taking. Held-for trading assets are recorded and measured in the statement of financial position at fair value. In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI or at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. Changes in fair values, financing income and dividends are recorded in the consolidated statement of profit or loss according to the terms of the contract, or when the right to payment has been established.

Reclassification of financial assets

The Group does not reclassify its financial assets subsequent to their initial recognition other than in the exceptional circumstances in which the Group acquires, disposes of, or terminates a business line.

Impairment of financial assets

The Group recognises loss allowances for expected credit ("ECLs") loss on financial measured at amortized cost.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the bank balances and cash for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, and are measured at 12-month ECLs. Loss allowances for trade receivables and other receivables are measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.



The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. Lifetime ECL are recorded on financial assets that is credit-impaired.

For other non-current financial assets, trade receivables and other receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs. At each reporting date, the Group assesses each customer for lifetime ECLs based on Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Lifetime ECLs represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. The 12 month ECL is the portion of life time expected credit loss that result from default events that are possible within the 12 months after the reporting date. Both life time ECLs and 12 month ECLs are calculated on either an individual basis or a collective basis depending on the nature of the underlying portfolio of financial instruments.

Stage 1: 12 months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognised.

Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under IAS 39, the Group methodology for specific provisions remains largely unchanged.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Determining the stage of impairment

At each reporting date, the Group assesses whether a financial asset or group of financial assets is credit impaired. The Group considers a financial asset to be credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred or when contractual payments are 30 days past due.

Financial assets that are 30 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk.

Measurement of ECLs

ECLs are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represent the difference between cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. The key elements in the measurement of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Company estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward looking macro-economic scenarios etc.

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets carried at amortised cost.

Impairment of financial assets- policy applicable before 1 January 2018

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Specific provision for impairment is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of specific provision is determined as the difference between the carrying amount and the recoverable amount of the asset.

Losses are recognised in profit or loss and reflected in an allowance account against receivables. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statement of profit or loss and other comprehensive income.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include loans and borrowings, financing received from Parent Corporation, due to related parties, trade payables and accruals and other liabilities.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the consolidated statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

f) Available for sale investments

Policy Applicable before 1 April 2018

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments, are recognized in other comprehensive income and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to the consolidated statement of profit or loss.

Impairment

For financial assets available for sale, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income) is removed from other comprehensive income and recognised in the consolidated statement of profit or loss. Impairment losses on equity investments are not reversed through the consolidated statement of income. Any increase in fair value after impairment is recognised directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Subsequent increase in fair value of a debt instrument which is objectively related to an event occurring after the impairment loss was recognised, is credited to the consolidated statement of profit or loss and other comprehensive income.

g) Investments in equity accounted investees

The Group's interests in equity-accounted investees comprise interests in associates and joint ventures.

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

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

Interests in associates and the joint venture are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The profit or loss reflects the share of the results of operations of the associate or joint venture. Where there has been a change recognised in other comprehensive income of the associate or joint venture, the Group recognises its share of any changes and discloses this, when applicable, in other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity.

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

An impairment loss in respect of investment in equity-accounted investees are measured by comparing the recoverable amount of the investments with its carrying amount in accordance with impairment of *non-financial assets* (Note 3(1)).

Unrealised gains arising from transactions with the equity accounted investees are eliminated against the investment to the extent of the Group's interest in the associate and joint venture. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Distributions received from the associate and joint venture reduce the carrying amount of the investment.

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

Some of the equity accounted investees has year-end different from the Group's consolidated financial statements. Accordingly, the adjustments are made for any significant transactions or events happening in the months between the year end of the equity accounted investees and 31 March.

h) Interests in joint operations

A joint operation is a contractual arrangement whereby two or more parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement.

Interests in joint operations are accounted for using the proportionate consolidation method. The Group combines its share of each of the assets, liabilities, income and expenses of the joint operations with the similar items, line by line, in its consolidated financial statements. The financial statements of the joint operations are prepared at 31 December and 28 February and accordingly, adjustments are made for the effect of any significant events or transactions occurring in the months between the year end of the joint operations and 31 March.

Where practicable, adjustments are made to the joint operations' audited financial statements to bring them in line with the Group's accounting policies.

An impairment loss in respect of investment in equity-accounted investees are measured by comparing the recoverable amount of the investments with its carrying amount in accordance with impairment of *non-financial assets* (Note 3(1)).

The joint operations are proportionately consolidated from the date of acquisition of joint control until the date on which the Group ceases to have joint control over the joint operations. All intra-group transactions and balances are eliminated to the extent of the Group's share in the joint operations.

i) Inventories

i) Crude oil and petroleum products

Crude oil inventory is valued at the lower of weighted average cost and net realisable value at the year end. The cost of crude oil to the Corporation is determined by the Government of Kuwait in accordance with the Decree issued on 17 January 1981. The formula for establishing the cost of crude oil has been revised in accordance with a resolution by the Supreme Council for Petroleum effective 1 July 1997.

Liquefied petroleum gas and finished products are valued at the lower of cost and net realisable value. Cost is determined using the weighted average method on an individual product basis. Costs are those expenses incurred in bringing each product to its present location and condition. This includes cost of crude oil and natural gas supplied plus an allocation of processing costs and overheads to each product based on their relative market values.



Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion and disposal. Quantities loaned to, less borrowed from, exchange partners are included within inventory unless they are settled in cash on a regular basis in which case they are included within other receivables and prepayments or other payables or accruals as appropriate.

ii) *Other*

Spare parts, materials and supplies mainly used in operations are valued at lower of cost and net realisable value. Cost is determined using the weighted average cost method. Provision is made for slow moving items where necessary and is recognised in the consolidated statement of profit or loss and other comprehensive income.

j) **Deferred expenses**

The deferred expenses mainly represent catalysts used in the refining process which are amortised on a straight line basis over their estimated useful lives less impairment losses. Deferred expenses are recognised to the extent that the expenses incurred represent the future economic benefits to flow to the Group.

k) **Recognition and de-recognition of financial assets and liabilities**

A financial asset or a financial liability is recognised when the Group becomes a party to the contractual provisions of the instrument. A financial asset (in whole or in part) is derecognised either when the Group has transferred substantially all the risks and rewards of ownership or when it has neither transferred nor retained substantially all the risks and rewards and when it no longer has control over the asset or a proportion of the asset. A financial liability is de-recognised when the obligation specified in the contract is discharged, cancelled or expired.

l) **Impairment**

Impairment of non-financial assets

An asset is impaired if its carrying amount exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An assessment is made at each reporting date to determine whether there is objective evidence that an asset may be impaired. If such evidence exists, an impairment loss is recognised in the consolidated statement of profit or loss and other comprehensive income.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows of other assets or groups of assets i.e. CGU. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.



Impairment of financial assets other than available for sale investments

Accounting policy applicable before 1 April 2018

Financial assets not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security; or
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in the consolidated statement of profit or loss and other comprehensive income and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through the consolidated statement of profit or loss and other comprehensive income.

m) **Bank borrowings**

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the consolidated statement of profit or loss and other comprehensive income using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.



n) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) are capitalised as part of the cost of the respective assets. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available for a short term out of money borrowed specifically to finance a project, the income generated from the temporary investment of amounts is also capitalized and deducted from the total capitalised borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the period.

o) Foreign currency transactions

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 are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the consolidated statements of profit or loss and other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The Group's investments in foreign subsidiaries, associates and joint ventures are translated into Kuwaiti Dinars at the year end rates of exchange and the results of the subsidiaries, associated companies and joint ventures are translated into Kuwaiti Dinars at the average rates of exchange for the year. Foreign currency differences on the translation of foreign operations are recognised in other comprehensive income. When a foreign operation is disposed of, the relevant amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

p) Fair values of financial instruments

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

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

The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

For investments and derivatives traded in organised financial markets, fair value is determined by reference to quoted market bid prices at the close of business on the reporting date. The fair value of fund investments or similar investment vehicles is based on the last reported net asset values from the fund managers.



For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by using valuation techniques such as recent arm's length transactions, reference to the current fair value of another instrument that is substantially the same, an earnings multiple, or is based on the expected cash flows of the investment discounted at current rates applicable for items with similar terms and risk characteristics. Fair value estimates take into account liquidity constraints and assessment for any impairment.

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

q) Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. 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.

r) Taxes on income

Income tax expense represents the sum of tax currently payable and deferred tax relating to individual subsidiaries and their local tax jurisdictions. The tax currently payable is based on taxable profit for the year, calculated using tax rates that have been enacted or substantively enacted by the reporting date. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates and interests in joint venture, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

s) Derivatives

Derivative contracts are used in the management of interest rate risk, foreign exchange risk, commodity price risk, and foreign currency cash balances. Derivatives that are not closely related to the host contract in terms of economic characteristics and risks of which the host contract is not a financial asset, are separated from their host contract and recognised at fair value with the associated gains and losses recognised in income.

Derivatives embedded within contracts that are not already required to be recognised at fair value, and that are not closely related to the host contract in terms of economic characteristics and risks, are separated from their host contract and recognised at fair value; associated gains and losses are recognised in income.

In accordance with IFRS 9, all derivatives are measured at fair value. The fair value of a derivative is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Derivatives with positive market values (unrealised gains) are included in other receivables and



prepayments and derivatives with negative market values (unrealised losses) are included in trade and other payables in the consolidated statement of financial position. The resultant gains and losses from derivatives are included in the consolidated income statement.

The Group also enters into sales and purchase contracts as part of its operations. Where these contracts qualify as a derivative or include an embedded derivative as defined by IFRS 9, they are stated at fair value. Fair value is assessed by applying prevailing market prices directly to the contract or embedded derivative, where possible, or by identifying separate financial instruments which have the same terms and are readily traded in the relevant markets.

t) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the best estimate of the amount to be settled.

u) Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

v) Revenue recognition

Accounting policy after 1 April 2019

Sale of goods

Revenue from contracts with customers is recognised upon satisfaction of the performance obligations for the transfer of the promised goods and services. The revenue amount that are recognised reflect the consideration to which the Group expects to be entitled in exchange for those goods and services. Revenue from the sale of finished products is recognised when a customer obtains control of those products, which normally is when title passes at point of delivery, based on the contractual terms of the agreements.

For export sales, a portion of products are sold on cost and freight basis, where the Group is required to provide shipping and handling services after the date at which the products have transferred to the customer. The Group determines that shipping and handling activities is a separately identifiable and distinct performance obligation from the sale of products. The Group allocates a portion of the total transaction price to delivery services based on a best estimate of a similar stand-alone service. Revenues on these services are recognized over the time.

Certain products in certain markets may be sold with variable pricing arrangements. Such arrangements determine that a preliminary price is charged to the customer at the time of transfer of the control of products, while the price of products can only be determined by reference to a time period ending after that time. In such cases, and irrespective of the formula used for determining preliminary and final prices, revenue is recorded at the time of transfer of control of products at an amount representing the expected final amount of consideration that the Group receives. Where the Group records receivable for the preliminary price, subsequent changes in the estimated final price will not be recorded as revenue until such point in time at which the final price is determined.



The Group also pays demurrages for delays caused by incomplete shipments at the customer port. The Group considered demurrages as price adjustments. Under IFRS 15, the Group considered this as variable consideration while determining the transaction price for sale of products.

The Group operates customer loyalty programmes under which part of the consideration received from the sales transactions is allocated to award credits granted, on the basis of their fair value, and recorded in the consolidated statement of financial position item "other liabilities"; such liability is released to the income statement (as a revenue) in the year when award credits are redeemed by customer or rights are cancelled.

Local marketing and distribution network operation

Cost of operating filling stations, gas plant operations and distribution network is reimbursed by the Ministry of Oil and is recognized over the period of time.

Other Services

The Group also provides ancillary services such as car washing, defueling and other maintenance services for which is recognised over a period of time as the related services are performed.

Take or pay and under/over lifts

Revenue from the production of oil, in which the Group has an interest with other producers, is recognised based on the Group's working interest/ entitlement and the terms of the relevant production sharing contracts. Where forward sale and purchase contracts for oil or natural gas have been determined to be for trading purposes, the associated sales and purchases are reported net.

The following criteria are also applicable to other specific revenue transactions as "Other revenue".

For the under/over lifts transactions, the Group follows a commonly used method in the oil and gas industry namely "Adjusting revenue approach" under the "Entitlement method". Under adjustment revenue approach, the excess of product sold during the period over the participant's ownership share of production from the property is recognised by the over lifting party as a liability at the reporting date spot price or prevailing contract price and corresponding effect is disclosed as "Other revenue". Conversely, the underlift party would recognise an underlift asset (receivable) at the reporting date spot price or prevailing contract price and report corresponding effect as "Other revenue".

Under these contracts, the Group makes a long-term supply commitment in return for a commitment from the buyer to pay for minimum quantities, whether or not the customer takes delivery. These commitments contain protective (force majeure) and adjustment provisions. If a buyer has a right to get a "make up" delivery at a later date, revenue recognition is deferred and only recognised when the product is delivered, or the make-up product can no longer be taken. If no such option exists within the contractual terms, revenue is recognised when the take or pay penalty is triggered.

Pipeline tariff

Revenue from pipeline tariff is recognised at the time when hydrocarbons are transported through the pipeline.



Time charter of vessels

Time charter-out revenues and time charter-in costs are recognized in accordance with charter party agreements on a pro-rata basis over the term of the related contracts. Disputed hire revenues and related recoverable claims are recognized as revenue when the final outcome is determined.

Voyage charter

Revenue from voyage charter is recognized on the percentage of completion method. The percentage of revenue to be recognized is determined by reference to the costs incurred to date as a proportion of the estimated total cost of the voyage.

Interest income

Interest income is accrued on a time proportion basis with reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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

Accounting policy before 1 April 2018

Sales are recognised on the date legal title passes to the customer in accordance with the contract of sale. Other operating revenues are recognised as work is performed or over the terms of the related contracts.

Revenues from the production of oil, in which the Group has an interest with other producers, is recognised based on the Group's working interest and the terms of the relevant production sharing contracts. Under adjusting revenue method, the excess of product sold during the period over the participant's ownership share of production from the property is recognised by the overlifting party a liability (deferred revenue) and not as a revenue.

In case of take or pay contracts, the Group makes a long term supply commitment in return for a commitment from the buyer to pay for minimum quantities, whether or not the customer takes the delivery. These commitments contain protective and adjustment provisions. If a buyer has a right to get a make up delivery at a later date, revenue recognition is deferred and only recognised when the product is delivered, or the make up product can no longer be taken. If no such options exists within the contractual terms, revenue is when the take or pay penalty is triggered.

The Group operates some customer loyalty programmes accounted for in accordance with the IFRIC 13. In particular, part of the consideration received from the sales transactions is allocated to award credits granted, on the basis of their fair value, and recorded in the consolidated statement of financial position "Other liabilities"; such liability is released to the profit and loss account (as a revenue) in the year when award credits are redeemed by customers or rights are cancelled.

w) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.



Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of income on a straight-line basis over the lease term.

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

x) Provision for employees' indemnity

Defined benefit and contribution scheme – Parent and local subsidiaries

Provision is made for employees' indemnity in accordance with the Kuwait Labour Law based on employees' salaries and accumulated periods of service or on the basis of employment contracts, where such contracts provide extra benefits. The provision, which is unfunded, is determined as the amount payable to employees as a result of involuntary termination of employment at the reporting date.

Pensions and other social benefits for Kuwaiti employees are covered by The Public Institution for Social Security Scheme, to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Group's share of contributions to this scheme, which is a defined contribution scheme, is charged to the consolidated statements profit or loss and other comprehensive income in the year to which they relate. The difference between Oil Sector Law and Labor Law is also accrued for Kuwaiti employees.

Defined benefit scheme – Foreign subsidiaries

The Group's subsidiaries in the UK, Sweden, Belgium, Germany and Italy (see "Termination allowances" below) provide defined pension schemes for their employees. The funds are valued every period by professionally qualified independent actuaries. The obligations and costs of pension benefits are determined using the projected Unit Credit Method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.



Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in the consolidated statements profit or loss and other comprehensive income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in the consolidated statement of profit or loss and other comprehensive income. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Defined contribution schemes

In addition to the defined schemes described above, the Group's affiliates in the UK, Belgium and Netherlands sponsor defined contribution plans for employees based on local practices and regulations. The Group's contributions relating to defined contribution schemes are charged to the consolidated statements of profit or loss and other comprehensive income in the year to which they relate.

Termination allowances

Employees in the Group's Italian operations are entitled to retirement benefits in the form of termination allowances. These allowances are payable to employees upon retirement or leaving employment according to the amounts provided during the service life of each employee. The allowances may be drawn by employees, in part, during their employment for certain specific purposes. The Group accounts for these arrangements using defined benefit principles.

y) Emissions rights

The Group's subsidiary is a party to the EU Emissions Allowance Trading Scheme under which EU member states are required to set an emission cap for certain installations. The Group records a liability, at fair value, for any deficits arising under this scheme but does not record an asset for any surpluses arising. Profits from the sale of emissions' surpluses are shown within other income.

z) Assets held for sale

Assets classified as held for sale are separately presented in the consolidated statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities classified as held for sale are presented in current assets and liabilities of the consolidated statement of financial position.

aa) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2019, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below:



IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

(i) Leases in which the Group is a lessee

The Group will recognise new assets and liabilities for its operating leases. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

In addition, the Group will no longer recognise provisions for operating leases that it assesses to be onerous contracts. Instead, the Group will include the payments due under the lease in its lease liability.

No significant impact is expected for the Group's finance leases.

(ii) Leases in which the Group is a lessor

As at the reporting date, the Group has not entered into any contracts in which the Group is a lessor.

(iii) Transition

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, if required, with no restatement of comparative information.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

IFRS 16 may have significant impact on amounts reported and disclosures made in the Group's financial statements in respect to the operating leases. Additional disclosures will be made in the financial statements when these standards, revisions and amendments become effective. However, currently it is not practicable to provide a reasonable estimate of effects of the application of these standards until the Group performs a detailed review.

Other standards

The following amended standards and interpretations, which are issued but not yet effective, are not expected to have a significant impact on the financial statements.

- IFRIC 23 Uncertainty over Tax Treatments.
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards.
- Amendments to References to Conceptual Framework in IFRS Standards

4. Significant accounting judgement and estimates

Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, which are described in this note, management has made the following judgments that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

Recognition of provisions

The Group is subject to a number of matters which could lead to an outflow of economic benefits. In making an assessment as to whether such matters require either provision or disclosure, management is required to consider, amongst other factors, whether a constructive obligation exists at the reporting date and whether the resulting risk of an outflow of economic benefits is probable (requiring a provision), less than probable but more than remote (requiring disclosure) or remote (requiring neither provision nor disclosure). In the current year, the most significant judgements made by management relating to the above are:

- The extent to which the Group has constructive obligations in relation to the clean up of environmental exposures in a number of different affiliates;
- The extent to which the Group has constructive obligations at the reporting date in relation to various restructuring programs; and
- The extent to which it is probable that the Group will have to make payments in respect of a number of tax, legal and regulatory disputes.

Further details of amounts for which either provision or disclosure was deemed to be required are given in Notes 21 and 35 respectively.

Impairment of available-for-sale investments- applicable before 1 April 2018

The Group treats available-for-sale 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.

Classification of securities- applicable before 1 April 2018

Management decides on acquisition of securities whether they should be classified as investments carried at fair value through profit or loss or available-for-sale.

The management classifies its securities as carried at fair value through profit or loss if they are acquired primarily for the purpose of short term profit making and the fair value of those securities can be reliably determined.

Classification of securities at fair value through profit or loss depends on how management monitors the performance of these securities when they are not classified as held for trading but have readily available fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified at fair value through profit or loss. Other securities are classified as available-for-sale.

Joint arrangements

Judgement is required to determine when the Group has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Group has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement, including the approval of the annual capital and operating expenditure work program and budget for the joint arrangement, and the approval of chosen service providers for any major capital expenditure as required by the joint operating agreements applicable to the entity's joint arrangements.. The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries.

Performance obligations

The judgments applied in determining what constitutes a performance obligation will impact when control is likely to pass and therefore when revenue is recognised i.e. over time or at a point in time. The Group has determined that two performance obligation exists on its international sales i.e. products and shipping and handling services. Revenue from sale of products are recognised at a point in time and revenue from shipping and handling services is recognised overtime.

Key sources of estimation uncertainty

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

Valuation of unquoted equity securities

Valuation of unquoted equity securities is normally based on one of the following:

- recent 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; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation.

Measurement of provisions

Having concluded that a provision is required for a potential exposure (see above), the amount to be recognised shall be the best estimate of the expenditure required to settle the present obligation at the reporting date, taking into consideration any relevant risks and uncertainties and the time value of money. This requires management to make its best estimates of the likely future outflows, the expected timing of such outflows and the discount rate to be applied to such outflows, taking into account the risks specific to the particular exposure. Further details of the nature of provisions recorded by the Group are provided in Note 21. The majority of these exposures are expected to be settled over a relatively limited number of years which limits the uncertainty in respect of the time value of money.

Reserve and resource estimates

Oil and gas production properties are depreciated on a units of production ("UOP") basis at a rate calculated by reference to total 2P reserves determined using the latest estimates provided by the Group's technical staff, which are based on estimates provided by the field operator. Commercial reserves are determined using estimates of oil in place, recovery factors and future



oil prices, the latter having an impact on the total amount of recoverable reserves and the proportion of the gross reserves which are attributable to the host government under the terms of the Production-Sharing Agreements. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs.

As the economic assumptions used may change and as additional geological information is produced during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the Group's reported financial position and results which include:

- The carrying value of exploration and evaluation assets, oil and gas properties, property, other fixed assets and goodwill may be affected due to changes in estimated future cash flows.
- Depreciation, depletion and amortisation charges in consolidated statement of income may change where such charges are determined using the units UOP method, or where the useful life of the related assets change.
- Provisions for decommissioning may change - where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities.
- The recognition and carrying value of deferred income tax assets may change due to changes in the judgments regarding the existence of such assets and in estimates of the likely recovery of such assets.

Exploration and evaluation expenditures

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that future economic benefits are likely either from future exploitation or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of reserves and resources is itself an estimation process that requires varying degrees of uncertainty depending on sub-classification and these estimates directly impact the point of deferral of exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable extraction operation can be established.

Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised amount is written off in consolidated statement of income in the period when the new information becomes available

Units of production depreciation of oil and gas properties

Oil and gas properties are depreciated using the UOP method over 2P reserves. This results in a depreciation, depletion and amortisation charge proportional to the depletion of the anticipated remaining production from the field.

Each items' life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves of the field at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. The calculation of the UOP rate of depreciation could be impacted to the extent that actual production in the future is different from current forecast production based on total 2P reserves, or future capital



expenditure estimates changes. Changes to reserves could arise due to changes in the factors or assumptions used in estimating reserves, including:

- The effect on proved reserves of differences between actual commodity prices and commodity price assumptions, or
- Unforeseen operational issues.
- Changes are accounted for prospectively.

Impairment of oil and gas properties

The Group assesses each asset or CGU at every reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term oil prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, decommissioning costs, exploration potential, reserves estimates and operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs.

Fair value for oil and gas assets is generally determined as the present value of estimated future cash flows arising from the continued use of the assets, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Management has assessed its CGUs as being an individual field, which is the lowest level for which cash inflows are largely independent of those of other assets.

Impairment of non-current assets, excluding oil and gas properties

Determining whether goodwill, intangible assets or property, plant and equipment, excluding oil and gas properties, are impaired requires an estimation of the fair value less cost of disposal or value in use of the relevant cash-generating units. These calculations require the entity to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. These calculations require the use of estimates and the input factors most sensitive to change.

Impairment of investment in equity accounted investees

After application of equity accounted method, the Group determines whether it is necessary to recognise any impairment loss on Group's equity accounted investees at each reporting date based on the existence of any objective evidence that the investment in equity accounted investees is impaired. If any impairment indicators are identified, the Group calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value and recognise the impairment loss in the consolidated statement of profit or loss.

Remeasurement gains and losses

In calculating the carrying value of its defined benefit schemes, management is required to apply a number of assumptions, the most significant of which are investment growth, future salary growth and discount rate.

Recovery of deferred tax assets

Judgement is required to determine which types of arrangements are considered to be a tax on income in contrast to an operating cost. Judgement is also required in determining whether deferred income tax assets are recognised in the statement of financial position. Deferred income tax assets, including those arising from un-utilised tax losses, require management to assess the likelihood that the Group will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred income tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, oil and natural gas prices, reserves, operating costs, decommissioning costs, capital expenditure, dividends and other capital management transactions) and judgement about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred income tax assets recorded at the reporting date could be impacted.

Decommissioning costs

Decommissioning costs will be incurred by the Group at the end of the operating life of some of the Group's facilities and properties. The Group assesses its decommissioning provision at each reporting date. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors, including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing, extent and amount of expenditure can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. Therefore, significant estimates and assumptions are made in determining the provision for decommissioning. As a result, there could be significant adjustments to the provisions established which would affect future financial results. The provision at reporting date represents management's best estimate of the present value of the future decommissioning costs required.

Measurement of ECLs

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

5. Property, plant and equipment

	Oil and gas					Other property and equipment					
	Oil and gas properties KD '000	Plant and machinery KD '000	Tankage, pipelines and jetties KD '000	Wells and surveys KD '000	Service plant and drilling equipment KD '000	Vessels KD '000	Land, buildings and roads KD '000	Furniture, tools and equipment KD '000	Vehicles, ships and marine craft KD '000	Assets under construction KD '000	Total KD '000
Balance at 1 April 2018, net of accumulated depreciation	2,331,662	3,428,802	1,695,308	2,989,642	26,782	426,214	985,687	23,166	66,157	13,002,320	24,975,740
Additions	159,075	5,781	930	2,008	-	-	4,702	150	222	3,932,204	4,105,072
Disposals	-	(3,066)	(14)	-	-	(14,701)	(467)	(224)	(6)	-	(18,478)
Change in estimate	(14,542)	-	-	-	-	-	-	-	-	(2,506)	(17,048)
Transfers	27,239	338,952	147,704	615,415	981	6,440	55,982	2,824	7,121	(1,181,024)	21,634
Transfer to other assets	-	-	-	-	-	-	-	-	-	(193,842)	(193,842)
Foreign currency translation adjustment	13,612	(18,987)	(3,007)	2,314	-	-	(11,471)	17	(102)	(4,575)	(22,199)
Depreciation for the year	(189,359)	(216,656)	(102,319)	(221,833)	(10,439)	(18,589)	(57,122)	(7,510)	(7,428)	-	(831,255)
Impairment (loss) / reversal	(44,618)	(24,047)	-	-	-	1,518	-	(465)	(103)	-	(67,715)
At 31 March 2019	2,283,069	3,510,779	1,738,602	3,387,546	17,324	400,882	977,311	17,958	65,861	15,552,577	27,951,909
Property, plant and equipment											
At cost	3,981,991	7,863,212	3,455,016	6,078,752	78,382	698,878	1,694,411	117,437	155,871	15,552,577	39,676,527
Accumulated depreciation and impairment losses	(1,698,922)	(4,352,433)	(1,716,414)	(2,691,206)	(61,058)	(297,996)	(717,100)	(99,479)	(90,010)	-	(11,724,618)
Net carrying amount at 31 March 2019	2,283,069	3,510,779	1,738,602	3,387,546	17,324	400,882	977,311	17,958	65,861	15,552,577	27,951,909

The depreciation charged to profit or loss is reduced by KD 463 million (2018: KD 463 million) being the amount charged to the Ministry of Oil in respect of the operations of local wholly owned subsidiaries. Included in assets under construction are amounts of KD 4,079,467 thousand and KD 3,986,162 thousand (2018: KD 2,872,840 thousand and KD 3,594,586 thousand) relating to the Group's new refinery i.e. Al-Zour Refinery Project and Clean Fuels Project ("CFP") respectively.

"Land, buildings and roads" and "Plant and machinery" includes certain building, plant and machinery constructed on land leased from the Government of Kuwait for a renewable period of twenty-five years maturing on 25 June 2023 and 2031. During the year, borrowing costs of KD 8 million (2018: KD 116 million) were capitalised in oil and gas properties and assets under construction. Land, buildings and roads includes land amounted to KD 63 million (2018: KD 70 million). Certain "Property, plant and equipment" are secured against borrowing facilities (Note 21).

مؤسسة البترول الكويتية
Kuwait Petroleum Corporation

5. Property, plant and equipment (continued)

	Oil and gas				Other property and equipment						
	Oil and gas properties KD '000	Plant and machinery KD '000	Tankage, pipelines and jetties KD '000	Wells and surveys KD '000	Service plant and drilling equipment KD '000	Vessels KD '000	Land, buildings and roads KD '000	Furniture, tools and equipment KD '000	Vehicles, ships and marine craft KD '000	Assets under construction KD '000	Total KD '000
Balance at 1 April 2017, net of accumulated depreciation	2,124,275	3,123,940	1,385,055	2,360,128	26,105	461,391	928,378	20,899	71,674	9,977,833	20,479,678
Additions	350,980	32,869	697	14,294	-	-	4,728	999	993	4,907,336	5,312,896
Disposals	(12,838)	(4,284)	(13,126)	-	(769)	(2,764)	(1,445)	(24)	(527)	(1,516)	(37,293)
Change in estimate	20,656	-	-	-	-	-	-	-	-	-	20,656
Transfers	31,660	496,992	414,116	802,253	14,259	3,606	90,745	8,239	1,363	(1,884,962)	(21,729)
Foreign currency translation	-	-	-	-	-	-	-	-	-	-	-
adjustment	(39,859)	25,397	4,203	(922)	-	-	18,523	(97)	157	3,629	11,031
Depreciation for the year	(110,501)	(195,782)	(93,164)	(186,111)	(12,813)	(23,757)	(55,237)	(6,850)	(7,503)	-	(691,718)
Reclassification from assets classified as held for sale	-	-	-	-	-	-	-	-	-	-	-
(Note 16)	-	4,398	(2,473)	-	-	-	-	-	-	-	1,925
Assets classified as held for sale (Note 16)	(3,562)	-	-	-	-	-	(5)	-	-	-	(3,567)
Impairment loss	(29,149)	(54,728)	-	-	-	(12,262)	-	-	-	-	(96,139)
At 31 March 2018	2,331,662	3,428,802	1,695,308	2,989,642	26,782	426,214	985,687	23,166	66,157	13,002,320	24,975,740
Property, plant and equipment											
At cost	3,883,083	7,620,408	3,316,406	5,457,225	78,260	797,831	1,664,688	115,385	149,202	13,002,320	36,084,808
Accumulated depreciation and impairment losses	(1,551,421)	(4,191,606)	(1,621,098)	(2,467,583)	(51,478)	(371,617)	(679,001)	(92,219)	(83,045)	-	(11,109,068)
Net carrying amount at 31 March 2018	2,331,662	3,428,802	1,695,308	2,989,642	26,782	426,214	985,687	23,166	66,157	13,002,320	24,975,740



مؤسسة البترول الكويتية
Kuwait Petroleum Corporation

Notes to the consolidated financial statements
for the year ended 31 March 2019

During the year, the Group's subsidiaries carried out the impairment assessment of property, plant and equipment and concluded that the carrying value of certain assets included oil and gas properties and plant and machinery exceeded its recoverable amount. The recoverable amount is determined based on the higher of fair value less costs to sell and value in use. Accordingly, the Group's subsidiaries recognised an impairment loss of KD 44,168 thousand and KD 24,047 thousand in oil and gas properties and plant and machinery respectively.

6. Goodwill

	2019 KD'000	2018 KD'000
Balance at beginning of the year	122,831	108,194
Acquisitions	189	387
Foreign currency translation effects	(9,160)	14,250
Balance at end of the year	<u>113,860</u>	<u>122,831</u>

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of recoverable amount of the CGU to which goodwill is allocated. The recoverable amount is determined based on the higher of fair value less costs to sell and value in use. The calculations use pre-tax cash flow projections based on five year plans approved by the subsidiary's management. The cash flows are discounted at a pre-tax discount rate ranges from 7.5% to 10% (2018: 7.5% to 10%) per annum. The value in use of the cash-generating units to which goodwill has been allocated, as estimated by the subsidiary's management, indicates that there has been no impairment during the year ended 31 March 2019.

7. Intangible assets

Movements in the net book value of intangible assets were as follows:

	2019 KD'000	2018 KD'000
Balance at beginning of the year	639,964	591,985
Additions during the year	16,724	81,399
Transfer from assets under construction	23	42,280
Transfer to oil and gas properties	(27,239)	(31,660)
Transfer from other receivables and prepayments	-	4,679
Amortisation	(21,947)	(21,010)
Write-off of unsuccessful exploration cost	(28,899)	(16,992)
Impairment loss	(2,338)	(4,650)
Foreign currency translation effects	441	(6,067)
Balance at end of the year	576,729	639,964

The above primarily consists of licenses in respect of the Group's retail network together with capitalized software development costs and exploration and evaluation assets. At the reporting date, the carrying amount of intangible assets includes KD 381 million (2018: KD 425 million) of exploration and evaluation assets.

Kuwait Petroleum Corporation and Subsidiaries
State of Kuwait



Notes to the consolidated financial statements
for the year ended 31 March 2019

8. Other non-current assets

	2019 KD'000	2018 KD'000
Loans to joint ventures	234,818	192,677
Deferred expenses	14,220	17,160
Term deposits	91,260	-
Others	42,460	24,656
	<u>382,758</u>	<u>234,493</u>

In prior years, the Group advanced long term loans denominated in US\$ to NSRP, which carries one month US\$ Libor rate plus 6% per annum. At the reporting date, the outstanding loan balance receivable from NSRP amounts to US\$ 732 million (2018: US\$ 601 million) and is fully repayable on 27 May 2029.

Furthermore, the Group also advanced long term loans denominated in Swedish Krona to OK-Q8, which carries 6 month Stibor rate plus 0.5% per annum till 31 December 2018 and thereafter, 3 months Stibor rate plus 1% till maturity. At the reporting date, the outstanding loan balance receivable from OK-Q8 amounts to US\$ 32 million (2018: US\$ 36 million) and is fully repayable on 1 January 2024 respectively.

Deferred expenses represents catalysts used in the refining process which are amortised on a straight line basis over their estimated useful lives.

9. Investments

	2019 KD'000	2018 KD'000
<i>Available-for-sale investments</i>		
Managed portfolios and funds	-	6,439,491
Others	-	48,997
	<u>-</u>	<u>6,488,488</u>
<i>Financial assets at fair value through other comprehensive income</i>		
<i>Non-current assets</i>		
Equity securities	1,256,516	-
Bonds	2,960,420	-
	<u>4,216,936</u>	<u>-</u>
<i>Current assets</i>		
Bonds	1,401,254	-
	<u>1,401,254</u>	<u>-</u>
<i>Financial assets at fair value through profit or loss</i>		
Funds	240,890	-
Bonds	21	-
	<u>240,911</u>	<u>-</u>

Financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss are denominated predominantly in US\$ and Euros and represent investments in high credit quality bonds and equities quoted on international stock markets.

Kuwait Petroleum Corporation and Subsidiaries
State of Kuwait



Notes to the consolidated financial statements
for the year ended 31 March 2019

10. Investment in equity accounted investees

	2019 KD'000	2018 KD'000
<i>Carrying values of equity accounted investees</i>		
Significant equity accounted investees	612,083	647,273
In-significant equity accounted investees	75,856	97,030
	<u>687,939</u>	<u>744,303</u>
<i>Share of profit of equity accounted investees</i>		
Share of profit of significant equity accounted investees	76,893	169,647
Share of profit of in-significant equity accounted investees	8,407	7,725
	<u>85,300</u>	<u>177,372</u>



Notes to the consolidated financial statements
for the year ended 31 March 2019

10 Investments in equity accounted investees (continued)

The following table provide summarised financial information of significant equity accounted investees of the Group:

2019	Ownership	Total assets KD'000	Total liabilities KD'000	Net assets KD'000	Group's share of net assets/ carrying value of investments KD'000	Revenues KD'000	Expenses KD'000	Profit/(loss) KD'000	Group's share of results KD'000
<i>Associates</i>									
EQUATE	42.5%	2,213,466	2,037,731	175,735	74,687	1,501,321	1,191,207	310,114	131,798
TKOC	42.5%	261,848	87,845	174,003	73,951	279,033	120,096	158,937	67,548
GPIC	33.33%	167,469	17,603	149,866	49,950	103,906	79,455	24,451	8,150
KDC	49%	361,496	265,886	95,610	46,849	120,899	119,397	1,502	736
OULA	24%	116,002	49,257	66,745	16,019	160,704	156,987	3,717	892
SOUR	24%	87,697	19,664	68,033	16,328	163,638	158,167	5,471	1,313
<i>Joint Ventures</i>									
TKSC	57.5%	182,824	54,635	128,189	73,709	216,570	152,652	63,918	36,753
OKQ8	50%	416,829	227,849	188,980	94,490	886,199	871,982	14,217	7,109
NSRP	35.1%	2,511,003	2,376,493	134,510	47,213	441,977	937,848	(495,871)	(174,051)
Duqm Refinery PLC L.L.C	50%	591,859	354,085	237,774	118,887	26	6,736	(6,710)	(3,355)
		6,910,493	5,491,048	1,419,445	612,083	3,874,273	3,794,527	79,746	76,893

The Group's share in the contingent liabilities of associates was KD 107 million (2018: KD 38 million) representing letters of guarantee issued to third parties. During the year, the Group received cash dividend of KD 234,538 thousand from equity accounted investees (2018: cash dividend of KD 173,756 thousand).

At the reporting date, the fair value of listed equity accounted investees amounted to KD 22,724 thousand (2018: KD 21,850 thousand) and the valuation input categorized under level 1 of fair value hierarchy.

Kuwait Petroleum Corporation and Subsidiaries
State of Kuwait



Notes to the consolidated financial statements
for the year ended 31 March 2019

2018	Ownership	Total assets KD'000	Total liabilities KD'000	Net assets KD'000	Group's share of net assets/ carrying value of investments KD'000	Revenues KD'000	Expenses KD'000	Profit/(loss) KD'000	Group's share of results KD'000
<i>Associates</i>									
EQUATE	42.5%	2,134,893	1,958,267	176,626	75,066	1,352,409	1,119,291	233,118	99,075
TKOC	42.5%	315,015	143,505	171,510	72,892	228,564	119,872	108,692	46,194
GPIC	33.33%	162,871	21,616	141,255	47,080	91,779	81,534	10,245	3,415
KDC	49%	379,884	281,979	97,905	47,973	100,572	95,491	5,081	2,490
OULA	24%	91,342	30,375	60,967	14,632	152,410	148,828	3,582	860
SOUR	24%	98,811	32,554	66,257	15,902	154,598	151,138	3,460	830
<i>Joint Ventures</i>									
TKSC	57.5%	161,708	69,597	92,111	52,963	168,845	140,268	28,577	16,432
OKQ8	50%	424,616	225,453	199,163	99,582	820,775	801,494	19,281	9,641
NSRP	35.1%	2,300,691	1,670,540	630,151	221,183	-	26,468	(26,468)	(9,290)
		6,069,831	4,433,886	1,635,945	647,273	3,069,952	2,684,384	385,568	169,647

On 10 April 2017, KPC-Aruba signed a 50:50 partnership agreement with Oman Oil Company to establish a joint venture to build and operate 230,000 barrel per day refinery at Duqm in the Sultanate of Oman. On 14 February 2018, Kuwait Petroleum Europe B.V., a wholly owned subsidiary of KPC-Aruba, signed purchase agreement and acquired 50% of the share capital of Duqm Refinery and Petrochemical Industries Company L.L.C.

During the year, the Group's subsidiary carried out the impairment assessment of its investment in NSRP and concluded that due to changes in the outlook especially related to forecasted refinery margins, the investment in NSRP is impaired for US\$ 378 million, equivalent to KD 155 million (2018: KD nil). The impairment loss is included in the Group's share of net income in NSRP. For the calculation of value in use, a discount rate of 14% is applied.

Kuwait Petroleum Corporation and Subsidiaries
State of Kuwait

Notes to the consolidated financial statements
for the year ended 31 March 2019



11. Inventories

	2019 KD'000	2018 KD'000
Crude oil	81,515	136,832
Liquefied petroleum gas	27,093	32,516
Refined petroleum products	556,893	546,697
Finished petrochemical products	646	9,746
Spare parts, materials and supplies	474,481	441,284
	<u>1,140,628</u>	<u>1,167,075</u>

In 2017, KUFPEC transferred inventories of KD 1,644 thousand to assets classified held for sale related to South East Sumatera Block in Indonesia (Note 16).

12. Trade receivables

95% (2018: 95%) of trade receivables relates to the Corporation and one of its major subsidiary who deal mainly with state owned and international oil companies. The subsidiary is operating mainly in Europe contributes approximately 11% (2018: 11%) of the consolidated total trade receivables and their receivables relate to a large number of corporate customers in that region. The Group's 12 largest customers account for 78% of outstanding trade receivables at 31 March 2019 (2018: 56%).

Trade receivables are denominated predominantly in US Dollars and Kuwaiti Dinars (KD).

Trade receivables include KD 517 million (2018: KD 523 million) receivable from Ministry of Electricity and Water.

13. Other receivables and prepayments

	2019 KD'000	2018 KD'000
Advances to contractors	586,703	510,205
Receivable from exchange and concession partners	132,558	115,844
Marine sub-charter	34,568	36,166
Prepaid expenses	58,508	33,385
Refundable deposits	15,986	16,930
Employee receivables	51,621	49,986
Other	454,683	359,190
	<u>1,334,627</u>	<u>1,121,706</u>

Kuwait Petroleum Corporation and Subsidiaries
State of Kuwait

Notes to the consolidated financial statements
for the year ended 31 March 2019



14. Deferred tax assets and liabilities

Components of deferred tax assets/ (liabilities) are as follows:

a. Income taxes

	2019 KD'000	2018 KD'000
Profit or loss		
Current year expense	12,289	17,138
Deferred tax expense	<u>142,628</u>	<u>32,033</u>
	<u>154,917</u>	<u>49,171</u>

Consolidated statement of financial position

Deferred tax assets	267,262	355,651
Deferred tax liabilities (Note 21)	<u>(151,368)</u>	<u>(97,095)</u>
	<u>115,894</u>	<u>258,556</u>

b. Taxes receivable/ (payable)

Taxes receivable	5,073	15,954
Taxes payable	<u>(159,211)</u>	<u>(179,034)</u>
	<u>(154,138)</u>	<u>(163,080)</u>

Taxes receivable mainly comprise corporate income tax and related refund claims filed by one of the Group's foreign subsidiaries. Taxes payable are predominantly on account of VAT and similar tax liabilities payable by a foreign subsidiary.

15. Bank balances and cash

	2019 KD'000	2018 KD'000
Cash and current accounts at banks	1,411,126	732,393
Short-term bank deposits maturing within three months	<u>469,714</u>	<u>35,426</u>
Cash and cash equivalents	1,880,840	767,819
Short-term bank deposits maturing after three months	<u>156,539</u>	<u>334,989</u>
	<u>2,037,379</u>	<u>1,102,808</u>

Bank balances and cash include Pound Sterling 147 thousand, equivalent to KD 59 thousand (2018: Pound Sterling 146 thousand, equivalent to KD 62 thousand) recovered from former employees against whom the Corporation has initiated legal proceedings for financial irregularities (Note 35).

The corresponding amount of KD 59 thousand (2018: KD 62 thousand) is reported under other credit balances (Notes 22).

The interest rate on short-term deposits ranges from 0.01% to 2.15% (2018: interest rate ranges from 0.03% to 1.85%) per annum.

16. Assets held for sale

Following to the KNPC's Board of Directors resolution dated 21 March 2017, KNPC shut down Shuiaba Refinery ("SHU") operations with effect from 31 March 2017. Consequently, KNPC transferred certain assets to other refineries and decided to dispose off the remaining assets. Subsequent to above, the management classified the transaction as asset held for sale in accordance with *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* and presented separately in the consolidated statement of financial position. Furthermore, a Disposal Committee was established and actively working on identification and negotiation with the potential buyers of the SHU assets. The management determined that substantial period is required for dismantling and transferring of SHU assets to the potential buyer, after conclusion of the sales transaction.

On 24 November 2017, KUFPEC Indonesia (SES) BV, an indirectly owned subsidiary of KUFPEC, entered into a sale and purchase agreement to sell its entire 5% interest in South East Sumatera Block in Indonesia. The management classified the transaction as asset held for sale in accordance with *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* and presented separately in the consolidated statement of financial position. This transaction was subsequently completed on 16 March 2018.

Movement of assets and liabilities classified as held for sale are as follows:

	2019 KD'000	2018 KD'000
Balance at beginning of the year	47,606	40,731
Transfer from property, plant and equipment (Note 5)	-	3,567
Transfer from inventories, net (Note 11)	-	1,644
Trade and other receivables	-	4,313
Reclassification to property, plant and equipment (Note 5)	-	(1,925)
Disposal	(9,524)	-
Reclassification to inventories	(4,922)	(724)
Assets held for sale	33,160	47,606
Decommissioning provision	-	639
Trade and other payables	-	3,258
Liabilities classified as held for sale	-	3,897

17. Statutory reserve

In accordance with Article 12 of Law Decree No. 6 of 1980, the Corporation has resolved to discontinue the annual transfer to statutory reserve since the reserve would exceed 50% of the authorised and paid-up capital.

18. Capital reserve

The capital reserve mainly represents the difference between the Corporation's cost of acquisition of its original subsidiaries, which were transferred by the Government of the State of Kuwait, and their net asset values at 31 December 1979. No transfer to capital reserve has been made for the current year (2018: KD Nil).

19. General reserve

In accordance with Article 12 of Law Decree No. 6 of 1980, 10% of the profit for the year attributable to equity holders of the Corporation is to be transferred to the general reserve, the percentage of which may be changed in accordance with a resolution of the Supreme Council for Petroleum (Note 24).

20. Reserve for replacement and renewal of property, plant and equipment

Article 10 of Law Decree No. 6 of 1980 states that the Corporation may provide part from its profits to meet the costs of replacement and renewal of the Corporation's and its subsidiaries' property, plant and equipment, after approval of the Supreme Council for Petroleum. The reserve is based on the difference between depreciation, calculated on the historical cost of the property, plant and equipment of the Corporation and its Kuwaiti subsidiaries, and depreciation calculated on the replacement cost of assets using their insured (generally replacement) values. The management has proposed to transfer KD 98 million to the reserve as at 31 March 2019 (2018: KD 142 million), which is subject to approval of the Supreme Council for Petroleum.

21. Non-current liabilities

	2019 KD'000	2018 KD'000
Profit available for distribution (Note 24)	3,274,401	-
Employees' terminal benefits (Note 21.1)	1,370,112	1,100,740
Pension fund liabilities (Note 21.1)	40,789	29,992
Long-term loans (Note 21.2)	3,912,191	2,543,648
Deferred tax liabilities (Note 14a)	151,368	97,095
Provisions (Note 21.3)	60,322	53,515
Others (Note 21.4)	327,964	383,725
	9,137,147	4,208,715

21.1. Employees' terminal benefits and Pension fund liabilities

The principal defined benefit funds schemes relating to KPC- Aruba, a wholly owned subsidiary of the Corporation, operate in the United Kingdom, Germany, Belgium and Italy. Provisions for pension obligations are established for benefits payable in the form of retirement, disability and surviving dependent pensions. The benefits offered vary according to the legal, fiscal and economic conditions of each country. Benefits are dependent on years of service and the respective employees' compensation.

The latest actuarial valuations took place on 31 March 2019, and these showed that the funds and schemes in the United Kingdom, Belgium, Germany and Italy had a net deficit. The main assumptions used in the actuarial valuation were a rate of pension increase ranging from 1.75% to 3.1% (2018: 1.75% to 3.1%) per annum, an annual salary increase ranging from 0% to 4.7% (2018: 0% to 4.7%) per annum, a discount rate ranges from 1.2% to 2% (2018: 1.5% to 2.6%) per annum and inflation rate assumed ranging from 2% to 3.2% (2018: 2% to 3.2%) per annum.

The plan assets are invested in quoted equity securities, quoted fixed income financial instruments, quoted investment funds and other and cash.

Sensitivity analysis

A 0.25% increase/ decrease in the rate of pension increase, discount rate, annual salary and inflation assumed at 31 March 2019 would not have any significant effect on the pension fund liabilities as of that date.

21.2. Long-term loans

The long-term loans mainly represent borrowings by KARO , KPC-Aruba, KUFPEC, KNPC, KOTC and KIPIC.

KARO

On 17 May 2007, KARO's subsidiary signed a US\$ 1,400 million term debt facility agreement with a consortium of banks which includes commercial facilities of US\$ 1,053 million and an Islamic loan facility of US\$ 347 million. The term loan is repayable over a period of 11 years in biannual instalments starting from 15 December 2010 and maturing on 15 June 2021. The coupon rate on this facility is LIBOR + 0.4% till the completion of the project, LIBOR + 0.45% till 7th anniversary of the project, LIBOR +0.6% till 10th anniversary of the project and LIBOR + 0.7% till the maturity date. The effective interest rate on the outstanding loan was 2.26% (2017: 1.6%) per annum. The facility contain certain financial covenants which are being met by KARO Group. The facility is secured by a charge over the property, plant and equipment of KARO (Note 5).

KPC-Aruba

The long term loans to KPC-Aruba are denominated in Euro and bear various interest rates. In 2014, KPC-Aruba secured a Euro 450 million long term loan, equivalent to US\$ 484 million, the proceeds of which were used for the acquisition of certain entities. In prior years, the KPC-Aruba renegotiated the above long-term loan facility of Euro 450 million, equivalent to US\$ 481 million (2018: US\$ 512 million). Under the new terms of the agreement, 30% of the amount borrowed is payable in 2017-18, 30% in 2018-19, 20% in 2019-20 and the remaining 20% in 2020-21. The loan bears interest at 6 monthly EURIBOR plus 0.85% (2018: interest rate at 6 monthly EURIBOR plus 0.85%). The facility contain certain financial covenants which are met by KPC-Aruba. At the reporting date, KPC-Aruba repaid 60% of loan amount.

In prior years, a long term loan facility has been secured by Milazzo Refinery, a joint operation. The Group's share of the amount outstanding is US\$ 77 million (2018: US\$ 64 million). The loan carries an interest rate at 6 monthly EURIBOR plus 3.25% and is expected to be fully repaid in 2022-2023.

KUFPEC

As of 31 December 2018, KUFPEC had following two borrowings:

- i. During the year, KUFPEC fully repaid the first borrowing facility of US\$ 1,000 million.
- ii. Second borrowing facility with principal amount of US\$ 2,500 million, equivalent to KD 769 million, is unsecured and its average interest rate during 2018 was 3.22% (2017: 2.50%) per annum. It is repayable in 7 half yearly instalments of US\$ 357 million, equivalent to KD 110 million, starting from 2016 and will be fully repaid in year 2019.

- iii. Third borrowing facility with principal amount of US\$ 1,100 million, equivalent to KD 334 million, is unsecured and its average interest rate during 2018 was 2.98% (2017: Nil) per annum. It is repayable in 7 half yearly instalments of US\$ 157 million, equivalent to KD 47.6 million, starting from 2020 and will be fully repaid in year 2023.

KNPC

On 28 April 2016, KNPC entered into a long term loan agreement ("Facility") of KD 1.2 billion with a consortium of banks. The Facility consists of conventional and Islamic financing and is repayable in semi-annual instalments of KD 80 million from April 2019 till 28 April 2026. The Facility carries an interest rate of 1% (2018: 1%) per annum over and above the Central Bank of Kuwait discount rate and is unsecured. The funds were specifically borrowed to finance the CFP. At the reporting date, KNPC fully utilized Islamic and conventional facility of KD 710 million and KD 470 million respectively.

On 29 August and 31 August 2017, KNPC signed USD 6,245 million (equivalent to KD 1,872 million) long term loan facilities agreement with export credit agencies ("the ECAs Financing"). The ECAs Financing are repayable over a period of 8 to 10 years in biannual instalments starting from 2018 and maturing between 2026 to 2028. Out of the total committed ECAs Financing, USD 500 million (equivalent to KD 150 million) carries fixed interest rate of 3.22% per annum and USD 5,745 million (equivalent to KD 1,772 million) carries variable interest rate of 6 months LIBOR + margin that ranges from 0.75% to 1.25% per annum. Interest is payable on a biannual basis. ECAs Financing is guaranteed by KPC and were specifically borrowed to finance CFP.

ECAs Financing and long term loans carry covenants which are tested on annual basis. These covenants includes leverage covenant, interest cover charge, tangible net worth. At the reporting date, KNPC is in compliance with above said customary covenants.

KOTC

On 15 March 2018, KOTC entered into a murabaha agreement ("Murabaha Financing") with three participating local banks to finance the construction of 8 new vessels comprising of 3 gas tankers, 4 product tankers and 1 oil tanker. The total approved facility is KD 140 million comprising of Tranche A and Tranche B amounting to KD 28 million and KD 112 million respectively. As per the agreement, Tranche A is given 6 months and Tranche B is given 45 days to drawdown the approved facility amount starting from 15 March 2018 and 15 September 2019 respectively. As at 31 March 2019, KOTC had drawdown KD 28 million from Tranche A. Murabaha Financing carries a profit rate of 3.75% (2018: 3.45%) per annum and is repayable in equal semi-annual instalments of KD 9,324 thousand starting from 15 March 2021 to 15 September 2027 with a final instalment amounting to KD 9,464 thousand payable on 15 March 2028.

KIPIC

On 11 June 2018, KIPIC entered into long term loan agreement ("Facility") of KD 390 million with a consortium of local banks. The Facility consists of both commercial and Islamic financing and principal is repayable in 20 equal instalments of KD 19.5 million either three years of disbursement of the Facility or the start-up of LNGI operational activities, whichever falls earlier, and maturing by 2031, whereas interest is payable on biannual instalment basis. This facility carries interest rate of 0.750% per annum over and above the Central Bank of Kuwait discount rate. At the reporting date, KIPIC fully utilized the long term loans financing.

Further, on 31 August 2018, KIPIC signed USD 1.3 billion long term loan facilities agreement with export credit agencies ("the ECAs Financing"). As per terms of the agreement of ECAs financing, the principal is repayable in 20 instalments of USD 65 million either three years of disbursement of ECAs Financing or the start-up of LNGI operational activities, whichever falls earlier, and maturing by 2031, whereas interest is payable on biannual instalments basis. The ECAs Financing carries variable interest rate of 6 months LIBOR + margin that ranges from 0.80% to 0.94% per annum. At the reporting date, KIPIC fully utilized the ECA financing. KIPIC was in compliance with certain financial covenants included in ECA financing.

Export credit agencies loans and long term loans are specifically borrowed to finance LNGI Project and are guaranteed by KPC.

21.3. Provisions

Provisions relate to one of the Corporation's subsidiaries in Europe mainly represents environmental provisions in connection with closure of a refinery and relocation of certain of the subsidiary's management together with restructuring of operations in France, Belgium, Italy and Germany.

	2019 KD'000	2018 KD'000
Environmental (Note i)	59,366	52,450
Restructuring and others (Note ii & iii)	956	1,065
	<u>60,322</u>	<u>53,515</u>

i. Environmental

The Group has accrued for costs associated with environmental clean-up, principally relating to Belgium and Italy. In Belgium, costs are expected to be incurred in the next one to three years and have not been discounted as the net effect of interest and inflation is not considered to be material. There is a related non-current government receivable which relates to contributions to clean-up costs received from a scheme funded by fuel levies set up by the Belgian government. Costs related to logistic facilities and the ex-refinery at Naples in Italy are expected to be incurred in the next few years as the clean-up, which has now started, progresses. Costs related to the clean up of depot facilities at Naples have been adjusted for inflation and discounted at 8.2% as these are not expected to be incurred until at least 2027. Remediation costs to logistics facilities at Silone in Italy are expected to be incurred following to the closure of the facilities but the decision on closure has been deferred.

ii. Restructuring

The Group had accrued for costs associated with business restructuring of the operations in Belgium as well as the relocation of certain Group management and head office functions. These provisions have not been discounted as the net effect of interest and inflation is not considered to be material.

iii. Other

Provisions have also been made in respect of various claims incurred in the normal course of business and principally relate to tax, legal and regulatory disputes in a number of different subsidiaries, all of which are being contested by the Group. All claims are expected to be settled within one to five years and may carry interest.

21.4. Others

As at 31 March 2019, non-current liabilities includes an amount of KD 283,615 thousand (2018: KD 293,583 thousand) which represents provision for decommissioning costs related to KUFPEC.

KUFPEC makes full provision for the future cost of decommissioning oil producing facilities and pipelines on a discounted basis on the installation of those facilities. The decommissioning provision represents the present value of decommissioning costs relating to oil and gas properties, which are expected to be incurred when the producing oil and gas properties are expected to cease operations. These provisions have been estimated based on the KUPEC's internal estimates using operators estimates where applicable. The discount rate used in the calculation of the provision equalled to 3.5% (2017: 3.5%).

22. Other payables and accruals

	2019 KD'000	2018 KD'000
Borrowings	1,049,358	605,110
Provision for annual leave and accrued compensation	133,977	147,746
Payable to contractors	514,632	595,296
Accruals	227,449	234,287
Retention payable	345,128	270,536
Payable to exchange partners	46,661	121,831
Other credit balances	862,159	428,898
	<u>3,179,364</u>	<u>2,403,704</u>

Borrowings represents short-term loans, including bank overdraft, and current portion of long term loans. Short-term loans are unsecured and bear interest at prevailing market rates (Note 21.2). On 7 February 2019, KPC-Aruba entered in a revolving credit facility with the National Bank of Kuwait. This facility is maximum of US\$ 500 million without repayment schedule. The interest paid on the amount borrowed is Libor +1% and for the unused facility a commitment fee of 0.35% is charged.

Other credit balances include funds recovered from former employees, against whom one of the subsidiary companies has initiated legal proceedings for financial irregularities, together with accumulated interest (Notes 15 and 35).

23. Amounts due to Ministry of Oil

Amounts due to the Ministry of Oil represent net amounts payable for purchases of crude oil and natural gas net of amounts receivable for certain services provided by the Corporation and its subsidiaries on behalf of the Ministry of Oil.

These services primarily relate to the exploration for and production of crude oil and natural gas in the State of Kuwait and the local marketing (within the State of Kuwait) of refined products and liquefied petroleum gas. The costs of the wholly owned subsidiaries, Kuwait Oil Company K.S.C. and Kuwait Gulf Oil Company K.S.C., are charged to this account.



24. Profit available for distribution

In accordance with Article 12 of Law Decree No. 6 of 1980, the profit for the year, after transfer to reserves, is payable to the Government of the State of Kuwait.

On 30 July 2018, the National Assembly issued Law No. 193 approved dividend distribution of for the year ended 31 March 2018 amounted to KD 1,791,349 thousand.

On 14 February 2019, KPC signed an agreement with the Ministry of Finance with respect to payment of profit available for distribution amounted to KD 4,574,400 thousand. As per terms of the agreement, the above said amount will be paid in 10 different instalments by 2023. As a result of this arrangement, KPC determined this transactions as transaction with shareholder of the Corporation, and recorded the difference between the carrying value and present value of KD 198,396 thousand in the consolidated statement of changes in equity. During the year, KPC paid dividend of KD 500,000 thousand.

	2019 KD'000	2018 KD'000
Current portion	3,091,348	5,272,796
Non-current portion (Note 21)	3,274,401	-
	<u>6,365,749</u>	<u>5,272,796</u>

25. Revenues

The Group's revenue is derived from contracts with customers and is disaggregated by major products and timing of revenue recognition was disclosed as follows:

	2019 KD'000	2018 KD'000
Crude oil	16,063,719	12,826,346
Refined petroleum products	10,488,359	8,339,174
LPG and lean gases	2,246,581	1,767,733
Petrochemical products	502,081	399,534
Revenue from marketing and distribution activities	117,011	-
Marine	14,685	11,514
Other revenue	44,071	58,628
	<u>29,476,507</u>	<u>23,402,929</u>
<i>Point in time</i>		
Crude oil	16,019,407	-
Refined petroleum products	10,452,641	-
LPG and lean gases	2,242,612	-
Petrochemical products	490,529	-
Other revenue	44,071	-
	<u>29,249,260</u>	<u>-</u>
<i>Over the time</i>		
Revenue from marketing and distribution activities	117,011	-
Marine	14,685	-
Shipping and handling services	95,551	-
	<u>227,247</u>	<u>-</u>
	<u>29,476,507</u>	<u>-</u>



Remaining performance obligations represent the transaction price of firm sales arrangements for which volumes have not been delivered. At the reporting date, remaining performance obligations for revenue recognise over the time has not been disclosed because the original duration of these services falls within one year.

26. Investment income

Investment income mainly represents interest income, released gain or loss on sale of bonds, dividend income from equity securities and realised / unreleased gain or loss from investments classified as fair value through profit or loss.

27. Other income (net)

	2019 KD'000	2018 KD'000
Recovery of financial cost	-	324,203
Foreign currency exchange gain / (loss)	22,518	(40,373)
Income realised on transfer of sea cooling tower	-	34,151
UN compensation received (Note 30)	2,172	-
Miscellaneous income- net	100,500	76,899
	<u>125,190</u>	<u>394,880</u>

On 15 May 2018, the Council of Ministries approved not to recognize recovery of financial cost for year ended 31 March 2019.

28. Directors' remuneration

The directors' remuneration represents the remuneration relating to the Board of Directors of the Corporation, which are subject to approval of the Supreme Council for Petroleum.

29. Staff costs

Total staff costs for the year amounting to KD 1,887,286 thousand (2018: KD 1,674,592 thousand) are included in cost of revenues and general and administrative expenses shown on the consolidated statement of comprehensive income. Of the staff costs for the year, KD 1,392,810 thousand (2018: KD 1,167,077 thousand) has been included in cost of revenues and KD 494,475 thousand (2018: KD 507,515 thousand) has been included in general and administrative expenses.

Staff costs consist of the following:

	2019 KD'000	2018 KD'000
Salaries, wages and other benefits	1,834,968	1,626,427
Pension and other retirement benefit expenses:		
- defined contribution	8,437	8,154
- defined benefit	32,059	28,572
Compensation of key management personnel (Note 32):		
- short-term benefits	6,467	6,444
- termination benefits	5,355	4,995
	<u>1,887,286</u>	<u>1,674,592</u>



30. UN compensation claims

In respect of losses suffered as a result of the Iraqi invasion and occupation of Kuwait in 1990, the Governing Council of the United Nations Compensation Commission has approved an amount of USD 18,864 million, equivalent to KD 5,689 million, to the Group and the Government of the State of Kuwait for payment as and when funds become available.

As at 31 March 2019, the Corporation received USD 12,937 million, equivalent to KD 3,902 million (2018: USD 12,932 million, equivalent to KD 3,900 million).

During the year, the Corporation received compensation claims from the United Nations KD 2,172 thousand (2018: KD Nil) (Note 27).

31. Fair value information

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in orderly transactions between market participants at the measurement date. Fair values are determined from quoted prices in active markets for identical financial assets or financial liabilities where these are available. Where the market for a financial instrument is not active, fair value is established using a valuation technique. These valuation techniques involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data. Investment securities classified as FVOCI are stated at fair values except for certain investments carried at cost. For other financial asset and liabilities carried at cost less impairment or amortized cost, the carrying value is not significantly different from their fair values as most of these assets and liabilities are of short term maturity or re-priced immediately based on market movement in interest rates.

The Group, mainly through a wholly owned foreign subsidiary, uses derivative financial instruments for managing risks arising from changes in crude oil and petroleum product prices, exchange rates and interest rates. The Group does not use derivatives for speculative purposes.

All foreign currency derivative instruments are marked to market at the end of each month. At year end the gross contract amounts of such contracts, none of which extended beyond 12 months, were as follows:

	2019 USD'000	2018 USD'000	2019 KD'000	2018 KD'000
Foreign exchange contracts	936,077	1,148,450	284,755	344,248

The net fair value of these contracts was asset of KD 1,679 thousand (2018: KD 2,106 thousand), level 2 inputs. The above amount is included in foreign currency exchange gain in the consolidated statement of profit or loss and other comprehensive income.

Determination of fair value and fair value hierarchy:

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: quoted prices in active market for the same instrument.

Level 2: quoted prices in active market for similar instruments or other valuation techniques for which all significant inputs are based on observable market data and

Level 3: valuation techniques for which any significant input is not based on observable market data



The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Level 1 KD'000	Level 2 KD'000	Level 3 KD'000	Total KD'000
2019				
Financial assets at fair value through other comprehensive income	5,600,192	13,227	4,771	5,618,190
Financial assets at fair value through profit or loss	-	240,911	-	240,911
2018				
Available-for-sale financial assets	6,288,872	59,749	-	6,348,621

There have been no transfers between fair value levels during the year ended 31 March 2019.

In 2018, the table does not include KD 139 million of available-for-sale financial assets that are measured at cost, less any impairment losses, and for which disclosure of fair value is not provided.

32. Related parties

Related parties represent associates, joint ventures, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. All related party transactions are carried out on terms approved by the Group's management.

The principal transactions with related parties included in the consolidated statement of profit or loss and other comprehensive income are as follows:

	Associates and joint ventures KD'000	Other related parties KD'000	Total 2019 KD'000	Total 2018 KD'000
Purchases	2,956	-	2,956	2,633
Sales	207,690	-	207,690	188,882
Cost of production	34,505	-	34,505	38,233
Marketing fees received	1,601	-	1,601	1,155
Compensation of key management personnel (Note 29)	-	11,822	11,822	11,439

Balances with related parties included in the consolidated statement of financial position are as follows:

	Associates and joint ventures KD'000	Other related parties KD'000	Total 2019 KD'000	Total 2018 KD'000
Non-current receivables from joint venture	234,818	-	234,818	192,677
Due from related parties	17,251	304	17,555	14,203
Trade receivables and prepayments	19,674	-	19,674	20,830
Due to related parties	47	16,024	16,071	27,638

Kuwait Petroleum Corporation and Subsidiaries State of Kuwait

Notes to the consolidated financial statements for the year ended 31 March 2019

33. Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Chief Executive Officer has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The Risk Management Committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities. The Group has estimated and gathered all factors relating to the exposure of credit risk.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk. Approximately 78% (2018: 56%) of the Group's outstanding trade receivables is attributable to 12 customers (Note 12). However, geographically there is no significant concentration of credit risk.

Kuwait Petroleum Corporation and Subsidiaries
State of Kuwait



Notes to the consolidated financial statements
for the year ended 31 March 2019

مؤسسة البترول الكويتية
Kuwait Petroleum Corporation

The Pricing Committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. Purchase limits are established for each customer particularly for long term sales contracts, which represents the maximum open amount without requiring approval from the Pricing Committee.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim. The Group does not require collateral in respect of trade and other receivables.

Exposure to credit risk

At the reporting date, the carrying amount of the following financial assets represents the maximum credit exposure:

	2019 KD'000	2018 KD'000
Other non-current assets (other than deferred expenses)	250,087	209,221
Available-for-sale investments	-	4,797,084
Financial assets fair value through other comprehensive income	4,361,695	-
Trade and other receivables	4,598,308	4,273,276
Bank balances and cash	1,969,609	1,102,808
	<u>11,179,699</u>	<u>10,382,389</u>

The maximum exposure to credit risk net of impairment losses for trade receivables and other non-current assets (other than deferred expenses) at the reporting date by geographic region was:

	2019 KD'000	2018 KD'000
Middle East	785,115	627,983
Europe (other than United Kingdom)	700,661	535,206
United Kingdom	126,375	176,578
Other regions	2,781,176	2,641,076
	<u>4,393,327</u>	<u>3,980,843</u>

Kuwait Petroleum Corporation and Subsidiaries
State of Kuwait



Notes to the consolidated financial statements
for the year ended 31 March 2019

مؤسسة البترول الكويتية
Kuwait Petroleum Corporation

The maximum exposure to credit risk net of impairment losses for trade receivables and other non-current assets (other than deferred expenses) at the reporting date by type of customer was:

	2019 KD'000	2018 KD'000
Government	1,448,191	1,305,066
Private sector	2,945,136	2,675,777
	<u>4,393,327</u>	<u>3,980,843</u>

The aging of trade receivables at the reporting date was as follows:

	2019 KD'000	2018 KD'000
Not past due	3,662,994	3,452,462
Past due not more than one year	435,795	457,155
Past due more than one year	64,743	92,085
	<u>4,163,532</u>	<u>4,001,702</u>

The movement in the allowance for impairment in respect of trade receivables and other receivables was as follows:

	2019 KD'000	2018 KD'000
Balance at 1 April	20,860	21,289
Provision for expected credit losses	21,997	3,804
Other changes	(4,591)	(4,233)
Balance at 31 March	<u>38,266</u>	<u>20,860</u>

Provision for expected credit losses are include in "provision for impairment loss on property, plant and equipment, goodwill and others" in the consolidated statement of profit or loss.

Expected credit losses

Trade receivables and other receivables

Loss allowance for trade receivables and other receivables is measured at an amount equal to lifetime ECLs. The lifetime ECLs on trade receivables are assessed based on the Group's historical credit loss experience, adjusted for factors that are specific to the customers, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Impairment was assessed to be insignificant as there has been no history of default and there has been no dispute arising on the invoiced amount from customers.

Due from related parties balances

Transactions with related parties are carried out on a negotiated contract basis. The related parties are with high credit rating and repute in the market. Impairment on the due from a related party have been measured on the basis of lifetime expected credit losses. The Group considers that these have low credit risk based on historical experiences, available press information and experienced credit judgment. As on 31 March 2019, these are neither impaired nor due. The lifetime ECL computed on due from related parties are not significant.

Kuwait Petroleum Corporation and Subsidiaries
State of Kuwait

Notes to the consolidated financial statements
for the year ended 31 March 2019



Bank balances and cash

Impairment on bank balances and cash has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its bank balance and cash have low credit risk based on the external credit ratings of the counterparties.

Investments

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a credit rating of at least A1 from Standard & Poor's and A from Moody's. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

Impairment on investments has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its investments have low credit risk based on the external credit ratings of the counterparties.

Liquidity risk

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

**Kuwait Petroleum Corporation and Subsidiaries
State of Kuwait**



Notes to the consolidated financial statements
for the year ended 31 March 2019

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

2019	Carrying amount KD'000	Contractual maturities KD'000	6 months or less KD'000	6 to 12 months KD'000	1 - 2 years KD'000	2 - 5 years KD'000	More than 5 years KD'000
Non-derivative financial liabilities							
Long term loans and borrowings	5,626,228	5,683,882	332,084	862,095	35,254	2,385,067	2,012,812
Trade payables	1,538,812	1,538,812	885,534	653,278	-	-	-
Other payables and accruals	2,130,006	2,130,006	1,504,825	478,453	-	143,852	2,876
Taxes payable	159,211	159,211	9,173	150,038	-	-	-
Amounts due to Ministry of Oil	2,156,106	2,156,106	2,156,106	-	-	-	-
Profit available for distribution	6,365,749	6,564,145	2,591,348	500,000	1,396,850	2,075,947	-
	<u>17,976,112</u>	<u>18,232,162</u>	<u>7,479,070</u>	<u>2,643,864</u>	<u>1,432,104</u>	<u>4,604,866</u>	<u>2,015,688</u>
2018							
Non-derivative financial liabilities							
Long term loans and borrowings	3,148,758	3,294,558	45,018	457,428	-	1,629,018	1,163,094
Trade payables	1,223,738	1,223,738	-	1,223,738	-	-	-
Other payables and accruals	1,798,594	1,798,594	-	1,798,594	-	-	-
Taxes payable	179,034	179,034	24,251	154,783	-	-	-
Amounts due to Ministry of Oil	1,908,755	1,908,755	1,908,755	-	-	-	-
Profit available for distribution	5,272,796	5,272,796	5,272,796	-	-	-	-
	<u>13,531,675</u>	<u>13,677,475</u>	<u>7,250,820</u>	<u>3,634,543</u>	<u>-</u>	<u>1,629,018</u>	<u>1,163,094</u>

Kuwait Petroleum Corporation and Subsidiaries
State of Kuwait



Notes to the consolidated financial statements
for the year ended 31 March 2019

مؤسسة البترول الكويتية
Kuwait Petroleum Corporation

Market risk

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

Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, the Euro, USD and Pound Sterling (GBP). The Group's exposure to the risk of changes in foreign exchange rates relates primarily to such operating activities and the Group's net investments in foreign subsidiaries. The currencies in which these transactions primarily are denominated are Euro, USD, GBP, Australian Dollar (AUD), Japanese Yen (JPY) and Bahraini Dinar (BHD).

The Group's net significant exposure to foreign currency risk was as follows based on notional amounts.

	2019 Equivalent position long/(short) KD'000	2018 Equivalent position long/(short) KD'000
EURO	(46,438)	(95,732)
USD	4,949,054	6,315,194
GBP	43,171	41,197
JPY	109,138	70,505
BHD	4,194	(46)
Others	638,445	773,859

Sensitivity analysis

A five percent strengthening of the KD against the following currencies at 31 March 2019 would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for the year ended 31 March 2018.

	Effect in thousands of Kuwaiti Dinars	Equity	Profit or (loss)
2019			
EURO	(3,108)		2,322
USD	(382,697)		(247,453)
GBP	(2,159)		(79)
JPY	(5,457)		(2,742)
BHD	(210)		(210)
Others	(31,922)		(2,297)
	<u>(425,553)</u>		<u>(250,459)</u>

Kuwait Petroleum Corporation and Subsidiaries
State of Kuwait



Notes to the consolidated financial statements
for the year ended 31 March 2019

مؤسسة البترول الكويتية
Kuwait Petroleum Corporation

Effect in thousands of Kuwaiti Dinars

2018

	Equity	Profit or (loss)
EURO	(3,980)	4,787
USD	(389,686)	(315,760)
GBP	(2,063)	(2,063)
JPY	(6,526)	(6,526)
BHD	2	2
Others	(38,698)	(38,698)
	<u>(440,951)</u>	<u>(358,258)</u>

Interest rate risk

At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments was:

	2019 KD'000	2018 KD'000
Variable rate instruments		
Financial assets	5,161,746	5,360,176
Financial liabilities	(4,960,465)	(3,148,758)
Net exposure	<u>201,281</u>	<u>2,211,418</u>

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates would have increased or decreased profit before taxation by KD 2,013 thousand (2018: KD 22,114 thousand).

Other market price risk

Equity price risk arises from financial assets carried at FVOCI equity securities. Management of the Group monitors the mix of debt and equity securities in its investment portfolio based on market indices.

The primary goal of the Group's investment strategy is to maximise investment returns.

The Group does not enter into commodity contracts other than to meet the Group's expected usage and sale requirements; such contracts are not settled net.

Sensitivity analysis

For the majority of the Group's equity investments, quoted market prices are readily available. For such financial assets carried at FVOCI, a 3% increase or decrease in stock prices at the reporting date would have increased or decreased equity by KD 88,813 thousand (2018: an increase or decrease of KD 39,340 thousand). The analysis is performed on the same basis for the year ended 31 March 2018.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net profit divided by average capital employed.

There were no changes in the Group's approach to capital management during the year.

The Corporation is not subject to any externally imposed capital requirements.

34. Expenditure commitments

a) Operating lease commitments

The minimum annual rental commitments under operating leases are as follows:

	2019 KD'000	2018 KD'000
Future minimum lease payments:		
Within 1 year	69,791	36,199
Between 1 and 5 years	135,607	105,545
After 5 years	122,463	105,883
	<u>327,861</u>	<u>247,627</u>

b) Other commitments

	2019 KD'000	2018 KD'000
Estimated contracted capital expenditure	4,274,374	3,865,031
Supply commitments	432,879	779,141

The Group's foreign subsidiary fuel marketing operations in Belgium and Netherlands have entered into third-party supply contracts with BP, Lotos and VARO, which require certain contractual volume uplifts. Such binding commitments are lower than existing operational needs and the monetary value of these commitments will rise and fall in line with the market price of the products involved.

35. Contingent assets/ liabilities

Contingent assets

Legal case

- a. A new management that was formed in 1992 at one of the subsidiary companies discovered certain fraud cases and financial irregularities in the subsidiary company's contracts and bank accounts and, therefore, the subsidiary company's Board of Directors formed a fact-finding committee to investigate those irregularities.

On 6 January 1993, the subsidiary submitted a report to His Excellency the Attorney General on its suspicion about the occurrence of financial irregularities in previous years, whereby the Public Prosecution conducted the necessary investigations and prepared the indictment sheet in December 1993 and its regulation against five of the accused parties.

The accused, Abdul-Fatah Al-Badr, absconded before submitting the notification to His Excellency the Attorney General. Hassan Qabazard admitted the facts before the Attorney General, and made payment of US Dollars 6,200 thousand on allegation that this was the entire amount taken by him. This amount was deposited in a special bank account as a fixed deposit of the subsidiary which amounts to US Dollar 13,157 thousand equivalent to KD 3,754 thousand including interest at 31 March 2016 (2015: US Dollars 13,157 thousand equivalent to KD 3,754 thousand).

The case was deliberated before different Kuwaiti courts, culminating in a final and conclusive cessation verdict on 21 July 2013.

Mandated by the former Minister of Oil, Sheikh Saud Al-Nasser Al-Sabah, the Company sent a letter to the Attorney General on 14 December 1998. The Attorney General considered this letter as a notification and transferred the same to the Investigating Committee concerned with court actions against Ministers, which, in its first formation, considered it as a notification and, subsequently, undertook the investigation procedures. The subsidiary provided the committee with 40 documents including those deliberated to the English courts with respect to the certain amounts embezzled by the accused parties or other parties. Subsequently this committee resigned and a new committee was formed on 29 April 2000. On 16 May 2001, the committee considered that the case was not fully complete, without discussions with any witness.

On 29 May 2001 the former Minister of Oil Adel Al-Subaih sent a notification to this committee against the five defendants. The defendants include the former Minister of Oil. On 19 May 2003, the committee considered the action as serious and heard statements of witnesses. On 30 October 2007, a resolution was issued from the Investigating Committee concerned with court actions to suspend the notification submitted against Sheikh Ali Al Khalifa due to the lack of evidence. On 26 December 2007, His Excellency the Minister of Oil by proxy submitted a grievance complaint from the suspension decision to the court of ministers and on 27 December 2007 the attorney of the subsidiary submitted another grievance complaint. The judgment was challenged before the court of Cessation. On 17 February 2009, the court ruled to dismiss the appeal.

In parallel steps, the subsidiary has initiated civil cases in the United Kingdom, Switzerland, and other countries, and with the efforts of those working on the case, it won the case filed in the United Kingdom and obtained a judgment against three of the defendants for an amount of US Dollars 136,000 thousand excluding interest. In addition to this, the case ended with the rejection by the UK House of Lords on 10 December 2000 of the appeal submitted by Abdul Fatah Al-Bader. An amount of US Dollars 85,351 thousand has been collected till 7 May 2006. This collected amount was invested in deposits. The collected amounts along with interest till 7 May 2006 amounted to US Dollars 92,757 thousand (which has been subsequently distributed) plus an amount of US Dollars 6,200 thousand transferred by the Public Prosecution from the accused Hassan Qabazard and received by the subsidiary in Kuwait, which was invested in a deposit renewable with its interest thereon pending a decision on crime No. 275/93. The deposit of USD 6,200 thousand along with accumulated interest reached US Dollars 13,157 thousand till 31 March 2016 (31 March 2015: US Dollars 13,157 thousand). Legal measures are being carried out to collect the remaining balance. However, the uncollected amounts of US Dollars 151,709 thousand pending in the liability of the accused parties



comprise of the balance remaining from the total amounts awarded in favour of the subsidiary according to the verdict from London, and inclusive of interest till August 2005 amounting to US Dollars 123,559 thousand plus such amounts, being the difference between the amounts claimed before London Court and those mentioned in the Public Prosecution Charge Report in connection with crime No.275/93 amounting to US Dollars 25,000 thousand, for which a civil case was filed where a final and conclusive verdict was announced in the session dated 7 March 2011 by rejecting the appeal, plus an amount of US Dollars 3,150 thousand (Chesapeake- selling debris of Surf City Vessel) for which a case was filed where a final and inclusive verdict was announced in hearing dated on 18 February 2014 in the appeal No. 9/commercial 2000/976 by rejecting the appeal. In 18 March 2014, appeal in cassation was filed against the rule and no hearing scheduled.

A committee was formed comprising of representatives of the subsidiary and Parent Corporation to distribute the amounts collected from the accused parties to the entitled parties, after deducting the expenses of the lawsuits from inception to date. Subsequently, the Audit Committee of Parent Corporation's Board of Directors approved on 7 May 2006 the report submitted by the Company on the method of distributing the amounts collected from the accused parties, net of the expenses of the lawsuit from 1992-1993 till 2005-2006, as 54% to the Company and 46% to the Parent Corporation. Subsequent to the distributions made in 2006, the remaining distributable amount was US Dollars 61,607 thousand. The Parent Corporation's share amounting to US Dollars 28,339 thousand was transferred on 24 May 2006.

The subsidiary's share amounting to US Dollars KD 33,267 thousand (KD 9,714 thousand) and the lawsuit expenses of US Dollars 31,150 thousand (KD 9,096 thousand) deducted from the collected amounts, were included in the consolidated statement of income for the year ended 31 March 2007.

Further, the subsidiary's attorney in Kuwait filed civil cases before the Kuwaiti courts against the accused parties and certain persons who received the embezzled amounts, to claim refund of the funds illegitimately embezzled by the accused parties and others, which are still deliberate in the court. In one of these cases, the attorney of the subsidiary filed civil case No. 2008/3019 (commercial/ civil/ total/ government)/ 8 against four accused parties for a temporary civil compensation amounted to KD 5 thousand and one KD. The court decided to refer the case to Sixth Civil Department where the case number was changed to 2009/1321 (civil/total)/6 and a first degree verdict has been issued against the second, third and fourth accused parties to pay an amount of KD 5 thousand and one as a compensation. This verdict has been appealed by one of the accused heir. On 19 December 2011, a verdict has been issued by Court of Appeals against the four accused parties to jointly pay an amount of KD 5 thousand and one KD and to pay KD 300 as an attorney fees.

Then the both verdicts was appealed at the Court of Cassation by the heirs of the late Abdul Fatah Al Bader No. 2011/166 and No. 2012/603 cassation v/2 to appeal the verdict issued by Court of Appeals No. 2012/271 commercial /4 at the session dated 28/05/2012 the court has sentenced to refuse a request to cease the enforcement of the verdict. In the hearing dated 24 November 2014, the court verdict first to accept the appeal 166/2011 in terms of formalities and with respect to the subject matter the court rejected it then obligated the appellant to settle the expenses plus KD 20 as attorney fees. Secondly, the court accepted the appeal in cassation No. 2012/603 civil 2 in terms of formalities, with respect to the subject matter the court partially cancelled the verdict appealed in cassation. For the appeal No. 271/2012 civil to the extent of petition of appeal in cassation to amend the appealed verdict to jointly obligate the appellants to settle the compensation each one according to his share of inheritance succession and otherwise affirm the judgment.



The court obligated the appellees to settle appropriate expenses plus KD 10 for the attorney fees. An amount of Sterling Pounds 120 thousand was received on 11 October 2006, and invested in a deposit renewable with interest thereon. This amount plus interest amounted to Sterling Pounds 143 thousand (KD 64 thousand) at 31 March 2016 (2015: Sterling Pounds 142 thousand (KD 67 thousand), and will be distributed later according to the above agreed distribution share.

By virtue of the award of the Court of Appeal for the case No. 2228/2003 (commercial/total), filed by the subsidiary and the Parent Company against Ms. Noura Ali Al Muzaini and Mr. Abdul Fattah Sulaiman Khaled Al-Bader, based on the judgment of the Court of Appeal dated 31 March 2015 that the defendants shall pay the subsidiary and its Parent Company USD 1,000,000 equals to KD 352,001. The Parent company received its share amounting KD 151,834, and the same was deposited in its account on 9 January 2017. Regarding the amount due to the subsidiary as a result of the same judgment, the formalities are being process for creating a power of attorney to the subsidiary's lawyer to be able to receive the amount of KD 151,834 as per the said judgment.

Further, the subsidiary's attorney in Kuwait filed a lawsuit No. 2025/2010 (commercial/total) before the Kuwaiti courts to claim implementing a foreign verdict pronounced by London court in favor of the Company on 15/12/1998 for the case no. 1212/2004 and its appeals. Also, he requested to annex the verdict in its executive formula pursuant to provision of Article no. (1) of Law no.38 for 2007 concerning amending paragraph one of Article no. (199) of Law of civil & Commercial Procedure issued by Decree by Law no. 38 for 1980.

The court verdict has been issued by the judge to annex the foreign verdict in the executive formula and command its implementation in the State of Kuwait. An appeal of cassation has been petitioned by the accused and appealed to stop the verdict issued by the Court of Appeal, however on 14 June 2011 the Court of Cassation ruled to refuse that request with no decision taken about the verdict of court of cassation in original legal case.

A hearing session was scheduled on 8 March 2012 as the first hearing for the appealed of cassation to the verdict No. 3273/2010 to commercial appeal / 5 and case under No. 133/2011 appeal of cassation, Commercial 4. On 12 April 2012 the court ruled to accept the two appeals in its form and regarding its merits the court referred the challenged verdict to court of cassation and obligate the first appellee (respondent) in both appeal cases to settle the expenses in addition to KD twenty as attorneys' fees. Secondly regarding the merits of 2 appeal cases No. 3273 and 3287 of 2010 commercial, the court resolved annulment of the appealed sentence and inadmissibility of the proceedings since it was previously ruled by the case No. 246 of 2002 commercial total and obligated the appellee in the 2 appeal cases to settle expenses for 2 degrees plus KD twenty for attorneys' fees.

Further, he filed a law suit No.3560/2010 (commercial/total) before the Kuwait courts to claim implementing a foreign verdict pronounced by London court in favor of subsidiary and SITKA on 17 October 2008. Also, he requested to annex the verdict in the executive formula. However, the law suit is still pending at the Kuwaiti courts. A first degree court verdict has been issued on 15 January 2012 to dismiss that proceedings which became final sentence.

Also the subsidiary attorney assigned to file a lawsuit before Kuwaiti courts under No. 1527/2012 civil total / 12 against the heirs of Abdul Fattah Al-Bader and others to claim the final compensation which includes the reported in the sentence in crime No.3589/94 felonies, public money jurisdiction 94/245 Investigation department as well as the amounts subject to the judgment issued in London that the Court of Cassation rejected to annex in



the executive formula since the case was deliberated by the Court of First Instance and on 4 December 2014 the Court sentenced to reject the case and the verdict has been appealed and registered under No. civil 5261/2014 civil. In 9 June 2015, the court amended the appealed judgment by dismissing the lawsuit on as is basis and confirmed other rulings. The subsidiary has filed appeal of cassation against the appealed judgement and registered under No. 1322/2015. Opponent also filed appeal of cassation enrolled under No. 1339/2015 and no hearing has been scheduled till date hereof.

b. Dry Cargo (358/94 crimes)

This case has been filed against five indictees. This case was referred to the Criminal Court on 2 April 2006 for charges of embezzling funds, illegal profits and forgery. The value of the amounts claimed in the Public Prosecution's report amounted to approximately US\$ 10,000 thousand.

In the hearing on 17 June 2006, the court ruled for the imprisonment of indictees for five years with labour and execution, to dismiss them from their jobs, oblige them to refund the embezzled funds, and fine each of them an amount equivalent to that embezzled by him, as well as to deport the third, fourth and fifth accused parties from the country after serving the said penalty, and to refer the civil case to the competent civil court. The fourth indictee challenged the verdict passed against him. In the hearing on 16 September 2006, the court ruled to dismiss the objection and upheld the challenged verdict, which was appealed by the second and fourth indictees. On 24 July 2007, a verdict was issued by the court of appeal condemning the accused and partially amending the judgment through deducting the equivalent of the present value in US dollars of an amount of KD 300 thousand paid by the second party of the adjudged fine and by refunding penalties as well as clearing the fourth indictee from crimes attributed to him. The appealed judgment was challenged before the Court of Cassation. On 13 May 2008, the court ruled to dismiss the appeal.

Contingent liabilities

- a. At the reporting date, the Group had contingent liabilities of approximately US\$ 32.44 million, equivalent to KD 9.9 million (2018: US\$ 35.9 million, equivalent to KD 10.76 million). These principally relate to a variety of tax, legal and regulatory disputes, all of which are being vigorously contested by one of the subsidiaries of the Group.

In 2015, there was an accusation in Italy that a subsidiary and its management failed to comply with environmental laws and regulations. As a precaution the local Public Prosecutor has ordered the seizure of certain company assets which may not be disposed pending resolution of the case. Management believes that it has always complied with the laws and regulations and will defend itself from these charges both in the investigative phase and before the Court through the most appropriate legal actions. Evidence and other defence arguments will be presented to the Court but the timing of such proceedings remains unknown. At this early stage it is not possible to reliably estimate the potential liabilities.

On 21 January 2013, Alitalia in temporary receivership summoned Kuwait Petroleum Italia S.p.a. and other oil companies before the Court of Rome for generic damages due to anti-competitive activities related to the supply of jet fuel. The Group's legal counsel confirms the likelihood and existence of a contingent liability is possible. Because the amount requested is exorbitant and disclosure of potential loss could seriously prejudice the position of the Group, only the general nature of the dispute has been described. No amounts have been accrued in the consolidated financial statements. The most recent legal hearing was in March 2018 at which the judge formally appointed the expert.



There is a long outstanding claim for compensation relating to the sale of assets and equipment of the former Naples refinery. A legal ruling, subject to appeal, states that the buyers have to reimburse the Group.

Subsequent to the sale of Europoort refinery in 2016, the buyer has filed a legal claim for compensation relating to the price agreement. The case is being strongly defended. A hearing took place on 13 December 2017, in which the Court rejected all claims filed by the buyer. Formal ruling is expected to be in May 2018. Subsequent to above, the buyer decided to appeal the ruling and filed appeal, in which claims was reduced significantly and other legal arguments were introduced to the claim damages. This claim was strongly rejected by the Group and a statement of defence was filed recently. The Court is expected to convoke the parties to a hearing at Appeal Court, which is expected by summer 2019. The Group believes that the claim has very limited options to succeed and is confident that the Appeal Court will maintain the first instance ruling.

KPC provided a guarantee to Mizuho Corporate Bank, Ltd guaranteeing the performance of Kuwait Petroleum Europe B.V. to meet its obligations in respect of sponsoring the NSRP working capital facility. The risk that Kuwait Petroleum Europe B.V. would not be able to meet its obligation is considered remote and as a result, no liability is recorded.

On 1 February, the EPC contractor ("the Contractor") initiated separate arbitration proceedings in Singapore by filing a Notice of Arbitration against NSRP which is amended on 21 February 2019 ("the Amended Notice of Arbitration"). The Contractor has advanced a number of monetary claims against NSRP in the Amended Notice of Arbitration, which includes alleged false representation made by NSRP, extension of time, other compensation claims, wrongful demand claims etc. The full quantum of the Contractor's claims yet to be calculated, therefore it is not possible to provide a precise figure which represents the sum of the monetary claims made by the Contractor. On 7 March, NSRP filed a response to the Amended Notice of Arbitration in which it denied each of the allegations made against it and made counterclaims against the Contractor. The precise value of the monetary claims made by NSRP and the Contractor may change in the arbitration.

On 14 May 2019, the Group and certain of its subsidiaries received a pre-claim letter from the lawyers of the State of the Netherland, announcing its intention to claim the amount of Euro 62 million for alleged damages suffered as a consequence of the existence of a Bitumen Cartel, as evidenced by the Decision of the European Commission of 13 September 2006. This pre-claim is made jointly and severally to all Bitumen Cartel members. The Group has been given a three month period to respond, acknowledge or reject, otherwise the State of The Netherlands reserves its right to file the claim at Court. This pre-claim letter and the accompanying report are now being analysed by external and internal legal counsels of the Company. At this stage, it is too early to make a proper assessment of the level of risk involved for the Group arising from this pre-claim. There is a risk that the Company could finally be sued at Court by the State of The Netherlands and face to pay damages and then initiate proceedings to apportion the damages amongst all other Cartel Members.



36. Investment in joint operations

Kuwait Gulf Oil Company K.S.C.C, a subsidiary, has participation in two joint operations for exploration, drilling, and production of oil and gas, which are as follows;

- Al Khafji Joint Petroleum Operation ("KJO"); and
- Wafra Joint Operation ("WJO").

The consolidated financial statements include the following items that represent the Group's 50% interest in joint operations:

	KJO		WJO	
	31 December 2018 KD'000	31 December 2017 KD'000	31 December 2018 KD'000	31 December 2017 KD'000
Statement of financial position				
Total assets	889,493	880,290	319,402	354,658
Total liabilities	(184,994)	(149,078)	(64,376)	(60,725)
Net assets	704,499	731,212	255,026	293,933
Proportionate share in joint operation capital commitment	125,434	93,375	3	13,288

Proportionate share in joint operating lease commitments

Minimum operating lease commitments on non-cancellable lease are as follows:

	31 December 2018 KD'000	31 December 2017 KD'000
Not later than one year	9,471	11,465
Later than one years and not later than five year	2,436	5,642
Later than five years	725	1,038
	12,632	18,145

A decision was taken unilaterally by the Chairman, Joint Operations Committee, KJO to shut down KJO's crude oil production facilities with effect from 16 October 2014. This decision was neither endorsed by Joint Operations Committee nor Joint Executive Committee of KJO. The management is to preserve the KJO's facilities during the shut down period. Furthermore, Dorra offshore gas field development continues to be on hold as at 31 December 2016 pending instructions from Khafji Joint participants. Crude oil production at WJO has been stopped effective from 11 May 2015 to carry out maintenance activities.

Both KJO and WJO are expected to continue their business, as their managements have been instructed to continue with all drilling, maintenance operations and capital investment activities. Furthermore, both the KJO and WJO Joint Participants have been funding the activities based on cash calls.

Raffineria di Milazzo S.p.A.

The Group allocates revenues and expenses of its joint operation, Raffineria di Milazzo S.p.A., on the basis of the relative performance of each party to the joint arrangement and the parties have agreed to share the profit or loss relating to the arrangement on the basis of a specified proportion. The expected financial performance of the joint operation is designed to operate at



break-even, or to generate losses that will be funded by the parties in the joint operation. The substantial part of the output produced at Raffineria di Milazzo S.p.A, is purchased by the parties in this joint arrangement.

The investment in Raffineria di Milazzo S.p.A is accounted for using the proportional consolidation method. As at 31 March 2019, the ownership remained unchanged. The consolidation method for revenues and expenses is made on the basis of the relative performance of each party to the joint arrangement.

The financial statements of Raffineria di Milazzo S.p.A are not presented since its not material for the Group.

37. Oil and gas reserves of a local subsidiary with foreign operation (unaudited)

	2018 (mmboe)	2017 (mmboe)
Proved and probable reserves at beginning of year		
-Fields in production	480.86	182.62
-Projects under development	9.18	322.74
	490.04	505.36
Changes during the year		
-Discoveries	-	18.87
-Revision of previous estimates	13.33	11.27
-Additions associated with acquisitions	-	33.61
-Production associated with acquisitions	-	(1.35)
-Production (from on-going projects)	(33.88)	(24.11)
-Reserves removed upon cancellation of acquisition	-	(53.61)
	(20.55)	(15.32)
Proved and probable reserves at end of year		
-Fields in production	460.25	480.86
-Projects under development	9.24	9.18
	469.49	490.04

Proven reserves are the quantities of crude oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions.

Probable reserves are those additional reserves which are not yet proven but together with proven reserves are estimated to have a 50% or better chance of being technically and economically producible.

Oil reserves include the oil equivalent of natural gas. Oil and gas reserves cannot be measured exactly since estimation of reserves involves subjective judgment and arbitrary determinations. Therefore, all estimates are subject to periodic revision. The above oil and gas reserves belong to one of the group companies and relate to the Group's reserves outside Kuwait.

Reserves, reserves volumes and reserves related information and disclosures are referred to as "unaudited" as a means of clarifying that this information is not covered by the audit opinion of the independent auditor that has audited and reported on the Group's consolidated financial statements.

38. Comparative figures

Where necessary, certain comparative figures have been reclassified to conform to the current year's presentation. Such reclassifications did not affect previously reported profit or loss, equity or opening balances of the earliest comparative period presented.

39. Subsidiaries, associates and joint ventures

a) Principal subsidiaries registered in the State of Kuwait:

Directly held

Name of company	Proportion held	Principal activities
Kuwait Oil Company K.S.C. ("KOC")	100%	Exploration for and production of crude oil and natural gas in the State of Kuwait.
Kuwait National Petroleum Company K.S.C. ("KNPC")	100%	Refining, LPG manufacturing, and local marketing of refined products.
Kuwait Integrated Petroleum Industries Company K.S.C.C. ("KIPIC")	100%	Refining, LPG manufacturing, and local marketing of refined products.
Kuwait Oil Tanker Company S.A.K. ("KOTC")	100%	Operation of a fleet of crude oil tankers and liquefied petroleum gas and oil product carriers.
Petrochemical Industries Company K.S.C. ("PIC")	100%	Production of petrochemical products and their distribution and marketing.
Kuwait Foreign Petroleum Exploration Company K.S.C. ("KUFPEC")	100%	Exploration for and development of oil and gas outside the State of Kuwait.
Kuwait Gulf Oil Company K.S.C. (Closed) ("KGOC")	100%	Exploration for and production of crude oil and natural gas.
Oil Sector Service Company K.S.C. (Closed) ("OSSCO")	100%	Liaison, public services and oil sector supporting services.

Indirectly held

Name of company	Proportion held	Principal activities
Kuwait Aromatics Company K.S.C.C. ("KARO")	80%	Producing and selling perfume products and other derivatives.
Kuwait Aviation Fuelling Company K.S.C. ("KAFCO")	100%	Supply of aviation fuel.

b) Principal directly and wholly-owned subsidiaries registered outside the State of Kuwait:

Name of company	Country of incorporation	Principal activities
KPC Holdings (Aruba) AEC ("KPC-Aruba")	Aruba	Refining, and marketing of refined products
KPC Energy Ventures, Inc. ("KPC EV")	British West Indies	Investment in new energy technologies

c) Principal associates

Name of company	Country of incorporation	Proportion held	Principal activities
Kuwait Drilling Company K.S.C. ("KDC")	Kuwait	49%	Contract drilling
Equate Petrochemical Company K.S.C. ("EQUATE")	Kuwait	42.5%	Petrochemicals
Gulf Petrochemical Industries Company B.S.C. ("GPIC")	Bahrain	33.33%	Petrochemicals
Kuwait Olefins Company K.S.C.C. ("TKOC")	Kuwait	42.5%	Petrochemicals
Al-Oula Local Fuel Marketing Company K.S.C. ("OULA")	Kuwait	24%	Fuel marketing
Al-Sour Fuel Marketing Company K.S.C. ("SOUR")	Kuwait	24%	Fuel marketing
Equate Marketing Company E.C. ("EMC")	Bahrain	49.9%	Fuel marketing

d) Principal joint ventures

Name of company	Country of incorporation	Principal activities
The Kuwait Styrene Company K.S.C.C. ("TKSC")	Kuwait	57.5%
OKQ8 AB ("OKQ8")	Sweden	50%
Nghi Son Refinery Product ("NSRP")	Vietnam	35.1%
Duqm Refinery and Petrochemical Industries Company L.L.C. ("DRPIC")	Oman	50%

e) Principal joint operations

Name of company	Country of incorporation	Effective equity interest as at 31 March 2018
Reffineria di Milazzo S.p.A.	Italy	50%
Al Khafji Joint Petroleum Operation ("KJO")	Kuwait	50%
Wafra Joint Operation ("WJO")	Kuwait	50%

40. Subsequent events

On February 2019, Woodside Energy and KUFPEC were jointly awarded the WA-536-P petroleum exploration permit, which is located in the Northern Carnarvon Basin, 150 kilometers west of Dampier, Western Australia.



