مؤسسة البترول الكويتية
Kuwait Petroleum Corporation

# 2012 - 2013
## Annual Report

Sustaining
# Stability

**“It is one of our highest priorities to leave a leading positive impression in our society, hence we will always invest in our children”**

Bayt Abdullah is a Specialized children’s Hospice dedicated to providing the proper care to children with terminal illnesses and providing the chance to create and experience a beautiful childhood, a dream that never fades and is held within us all. KPC saw the humanitarian call and took the initiative to sponsor the building of a theme park at Bayt Abdulla, with a look towards creating a land where children have a chance of making their dreams a reality, this essence also being behind the kite-themed design of the KPC Report, aiming to resemble that spirit, and portray the simple idea of dreams that soar as high as kites can become an attainable reality.

# Annual Report 2012-2013

مؤسسة البترول الكويتية

Kuwait Petroleum Corporation

**H.H. Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah**

The Amir of the State of Kuwait

**H.H. Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah**

The Crown Prince of the State of Kuwait

**Mustafa Jassim Al-Shamali**

Minister of Oil

Chairman of Kuwait Petroleum Corporation

# KPC's Board of Directors

**Nizar Mohammed Al-Adsani**
Deputy Chairman and CEO, KPC

**Abdulhadi Marzouq Al-Waad**
Board Member

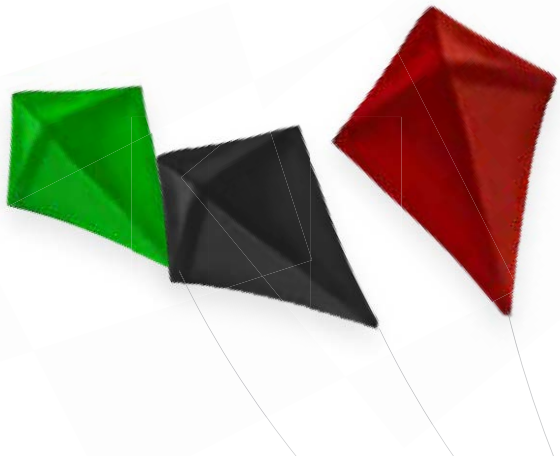
**Abdullah Saud Al-Humaidi**
Board Member

**Abdullatif Hamad Al-Tourah**
Board Member

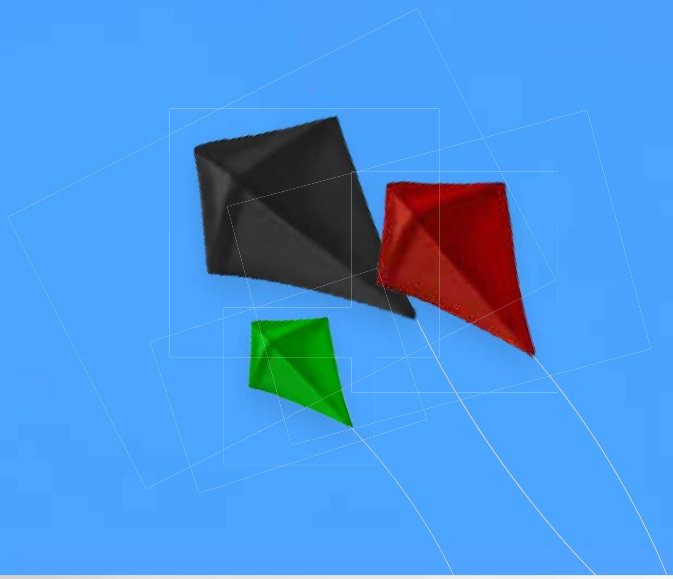
**Abdulwahab Mohammad Al-Wazzan**
Board Member

**Hamza Abdullah Bakhsh**
Board Member

**Khaled Saleh Bu Hamra**
Board Member



# Annual Report
2012 - 2013



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# KPC Mission

Kuwait Petroleum Corporation (KPC) is a corporation of economic character, run on a commercial basis and fully owned by the State. It is one of the world's major oil & gas companies and its activities are focused on petroleum exploration and production, refining, marketing, petrochemicals, and transport.

KPC's mission is to manage and operate these integrated activities worldwide in the most efficient and professional manner, in addition to growing shareholder value whilst ensuring the optimum exploitation of Kuwait's hydrocarbon resources.

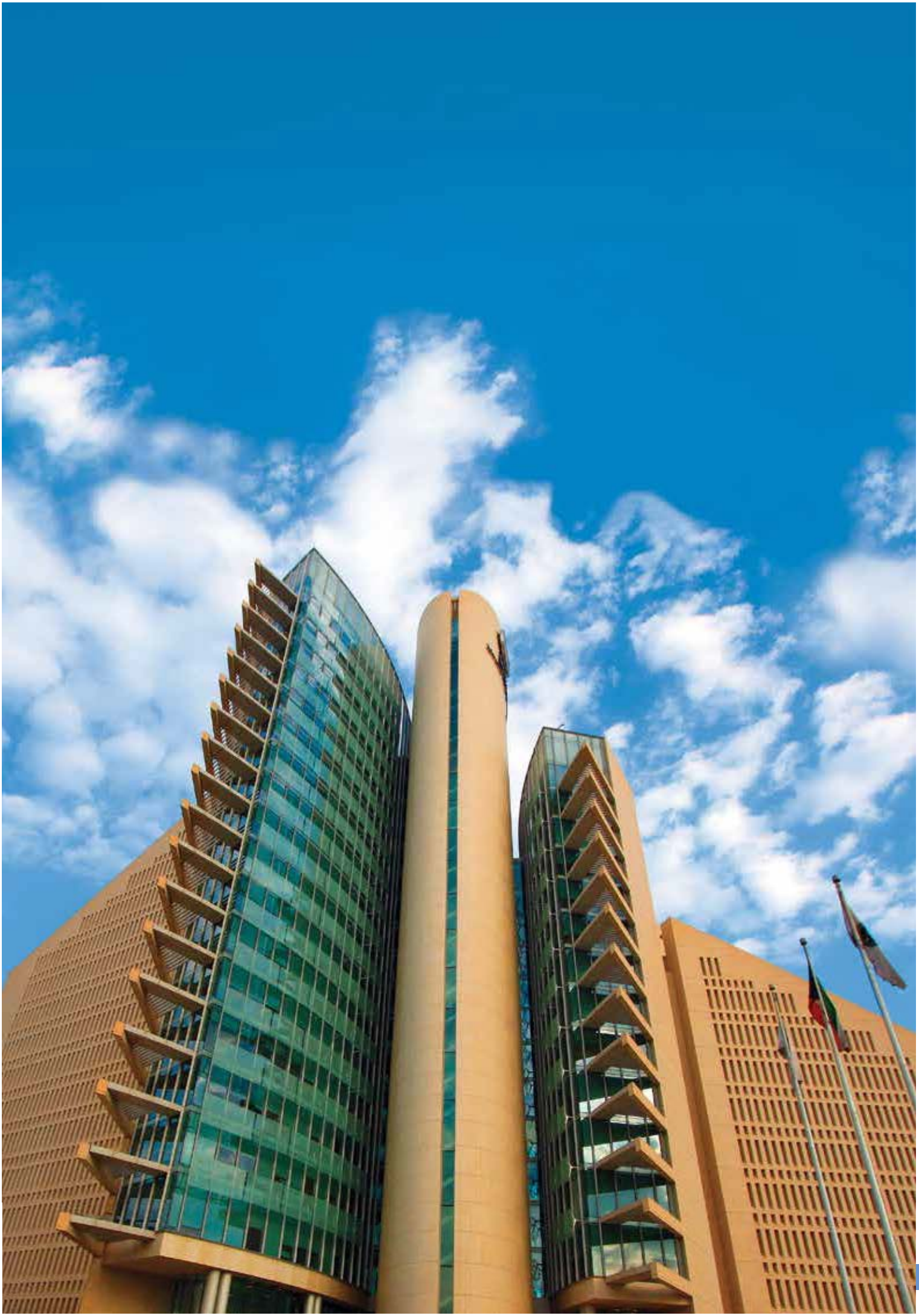
KPC has an important role in contributing to the support and development of the Kuwaiti economy, developing national manpower, maintaining superior commercial and technical expertise and proactively managing the environmental, health and safety aspects related to KPC's businesses.

# KPC Vision

- Be a highly profitable and performance driven company.
- Contribute significantly to the support and development of the Kuwaiti economy.
- Strengthen the world class reputation of all KPC operations.
- Encourage continuous learning in all areas related to KPC's business.
- Become a regional leader in HSE performance and apply the latest and the most appropriate technologies in KPC's operations.

# KPC Values

- Encouragement
- Client Satisfaction
- Team Work
- Trust
- Commitment to Health, Safety and Environment
- Honesty, Integrity and Transparency
- Quality Distinction
- Innovation and Quick Responses



# Chairman's Message

The Fiscal Year (FY) 2012-2013 saw growth in the performance of the world economy, however still below the heights of past years, the entry of many European countries currently in economic stagnation ignited by the Euro crisis that dominated a large part of the political scene there. This was reflected in the levels of world oil consumption accompanied by a drop in crude oil rates in the oil market. Geopolitical developments also impacted oil supply in the market, which encouraged OPEC countries, including Kuwait, to increase their crude oil production with the average reaching 3 million bpd. Kuwait Petroleum Corporation (KPC) succeeded in making consolidated profits amounting to KD2.5 billion. Oil contributes to almost half of the Gross Local Product (GLP), by a rate of 94% of the state general income.

KPC is keen on pursuing the development of the local production sector potentials to support the role of the State of Kuwait in providing the oil market with sufficient supplies. In line with this course, crude oil production capacity rate in the State of Kuwait amounted to around 3.127 million bpd.

The corporation resolved to focus on producing free gas, of which the daily production rate amounted to around 114 million cubic feet per day. It also sought to boost its production of the associated gas with a rate that amounted to around 1.5 billion cubic feet per day in the previous year.

Out of the corporation's endeavors to realize a leading position in the domain of Health, Safety and Environment (HSE), Kuwait Oil Company (KOC) obtained the International Safety Excellence Award and the International Safety

Merit Award from the British Security Council as a result of the clear leadership commitments and in compliance with the high Health, Security and Safety standards in the Export, Marine Operations and West Kuwait area. Meanwhile, the International Royal Society for the Prevention of Accidents granted the Export and Marine Operations Group of KOC the Occupational Health and Safety Golden Award.

Since attention to environment tops KPC's priorities, the corporation is keen on developing the Kuwaiti oil products so that they meet the clean environment requirements and the modes of future demand. In this course, a contract preparing the project sites at Ahmadi and Mina Abdulla Port refineries was signed for developing both of them so that they become an integrated refining complex along with increasing the downstream capacity of the two refineries for facing future challenges and requirements of the international market for oil products of high quality and specifications. Accomplishment of the project is expected in April 2018.

With regards to setting up permanent liquefied gas import facilities for the long term to meet the local market need of fuel and the seasonal demand for fuel at the electric energy generation stations during peak times throughout summer, a feasibility study and the selection of Al-Zour site have been accomplished in addition to obtaining the approval of the KPC Board of Directors to start implementing the preliminary pre-engineering design works. The project is expected to be accomplished by 2020.

Regarding petrochemicals, the preliminary economic feasibility study for PTA/PET Project has been accomplished. The project aims at benefiting from PX substance that is available in Kuwait.

Concerning exploration and production outside Kuwait, Kuwait Foreign Petroleum Exploration Company (KUFPEC) acquired a new project in Pakistan in October 2012 and entered a new exploration concession there with a holding interest of 75%, which enabled the company to assume the role of operator. In the same year, KUFPEC increased its interest in one of its projects in Australia up to 100%, which also enabled it to assume the role of operator in the same concession.

With regards to refining and marketing outside Kuwait, Kuwait Petroleum International (KPI) succeeded in achieving a large part of the preliminary engineering design works of establishing a new refinery with a refining capacity of 300,000 bpd in integration with a petrochemical manufacturing and marketing complex. In Vietnam, the company holding the oil refinery project and the petrochemical complex project was established. Also accomplished was the process of choosing the project management consultant and signing the construction contract with the construction contractor. Taking a final decision for investment is expected after completing the financing processes, provided that the establishment of partnership for marketing the products would synchronize with construction.

The corporation consolidated its presence in international markets through the application of its plans aimed at availing the basic opportunities available in traditional markets and special opportunities in promising markets.

At the level of research and development, a roadmap in the domain of technology was placed for KPC and its' subsidiaries in implementation of the KPC 2030 strategic plan for research and technology. The geographic site was selected; the preliminary design and a detailed plan were made for establishing a research center that follows the Kuwaiti oil sector with the aim of providing applied research services in exploration, production, refining and manufacture. A study was also prepared on re-evaluating the program of investment in the new energy technology in cooperation with an international consultant house.

In recognition of the importance KPC gives to the human element, many intensive training programs were allocated for upgrading and developing the national efficiencies and different leaderships. Within this framework, 1,576 training programs of different specializations were implemented. 24,343 people participated in these programs. Eight people on scholarship obtained Master's Degrees in Engineering, Administration and Dentistry while five students admitted to scholarship system for the children of the oil sector employees obtained engineering specialization certificates. An intensive media program for the oil sector leaderships was implemented to consolidate communication between KPC and the mass media.

In conclusion, I would like to express my deepest gratitude and wholehearted thanks to His Highness the Amir, His Highness the Crown-Prince and His Highness the Prime Minister for their constant support of oil sector employees for constant success, devotion and development.

**Mustafa Jassim Al-Shamali**

Minister of Oil
Chairman of Kuwait Petroleum Corporation

# Financial Performance

The consolidated revenues of Kuwait Petroleum Coporation (KPC) and subsidiaries amounted to KD 41,272.5 million during the Fiscal Year (FY) ended March 31, 2013 of which KD 40,192.6 million were current operation revenues and KD 1,079.9 million other revenues. Consolidated expenditure amounted to KD 38,771.2 million.

Consolidated profits amounted to KD 2,501.2 million (compared to KD 1,498.1 million in FY 2011/2012) of which KD 1,795.4 million were operation profits (KD 1,307.1million in FY 2011/2012) and investment revenues of KD 427.8 million (KD 350.5 million in FY 2011/2012).

Average invested capital was 11.6% (7.8% in FY 2011/2012) while the return on average shareholders equity was 11.9% (8.1% in FY 2011/2012).

Total assets stood at KD 30.217.6 million (compared to KD 27,309.3 million in FY 2011/2012). Total shareholders equity amounted to KD 22,497.0 million (compared to KD 19,496.0 million in FY 2011/2012)at an increase of KD 3,001.0 million, basically owing to the increase in the general reserve by KD 2,501.2 million resulting from retaining the fiscal year profits, increase of the reserve for the exchange and renewal of properties, installations and equipment by KD 284.0 million for this year, the increase in net fair value change by KD 201.1 million the increase of foreign exchange reserve change, and the increase in uncontrolled interests by KD 14.7 million.

KPC was able to finance the program of its current capital projects from self-financing sources. The volume of investment in fixed assets during FY 2011/2012 amounted to KD 2,121.6 million compared to KD 1,703.2 million during the previous FY.

# Domestic Activities

## 1.Exploration & Production

Based on its long-term strategic plan it placed for 2030 with the aim to raise its production capacity of crude oil to 4 million bpd by 2020, KPC is earnestly seeking to gradually realize this pursued goal and cope with the most up-to-date developments in terms of scientific research, prospecting, exploration, drilling and extraction.

Throughout the Fiscal Year (FY) 2012-2013, the average rate of crude oil production capacity at KPC stood at around 3.127 million bpd, with a slight drop by around 1% compared to that of the previous year.

KPC resolved to concentrate on producing free gas by a rate of 120 million cubic feet per day. Meanwhile, the average rate of free gas production this year stood at around 114 million cubic feet per day. Failure to hit the targeted rate refers to cutting down gas production from the Early Production Unit No. (50) as a result of the shutdown of one of the gas liquefaction lines.

For greatly benefiting from the natural resources conferred by the Almighty Allah upon Kuwait, KPC sought to promote its associated gas production with a rate of around 1.505 billion cubic feet per day. However, the ratio of gas flaring out of gas production rate amounted to around 1.44% compared to 1.45%, a ratio requested to stay not exceeded. KPC scored the lowest flaring gas rate ever throughout its history in August when the percentage amounted to 0.55%. Meanwhile, it scored an unprecedented gas flaring ratio of 0.11% in Northern Kuwait in September 2012. The reason of this slight rise in the gas flaring ratio refers to the stall of acidic gas processing units for periods longer than the ones in previous years.

The achievement made by KPC did not stop at the aforesaid rates of crude oil, free and associated gas. It was rather associated with a number of important domestic achievements during FY 2012-2013. Some important achievements are as follows:

- Start of work at Booster Station No.160, which will contribute to boosting the capacity of dealing with the produced gas by around 500 million cubic feet of associated gas. This boosts the flexibility and capacity of the produced gas network to deal with the quantities expected from increasing gas production during maintenance operations and shutdown of other reinforcement plants.
- A study was accomplished on improving oil extraction plants at Mawdood Reservoir in Northern Kuwait (lab. Study & reservoir simulation study) with the aim of increasing oil reserves at that reservoir by around 600 million barrels.
- Start of seismic survey project in Northern Kuwait with the aim of adding production capacity equivalent to 750 thousand barrels of oil and 1.5 billion cubic feet of gas by 2030.
- Drilling and connecting 37 horizontal wells, which led to production increase equivalent to around 40 thousand barrels per day.
- Discovery of an extension to Masterkhtiyan Reservoir at South Um-Ghadir Field through drilling the Evaluation and Determining Well (SUG-M5).
- Addition of 38 million barrels of oil (KOGC interest) to verified reserves through improving the efficiency of proportions extracted from productive reservoirs and drilling of evaluation wells for oil potentials and converting the same into verified reserves.
- Drilling of 92 (developmental, determining and evaluation) new wells, carrying out works of repair, maintenance, deepening and change of track of more than 214 wells in the two joint operation areas (Wafra & Khafji).
- Carrying out a 3D survey of Al-Hout Field within an area of 300 square kilometers.
- Implementation of two leaders development programs, of which the first has been (Leader Development Program at the Business Administration Dept., Harvard University, USA) and the second (Master & PHD Program).
- Training 83 newly appointed employees of different specializations.
- Application of isolation technology special for drilling rigs to enable production through the double system for wells .
- Using Visco Elastic Surfactant system for Minagish Well No. 160 in Western Kuwait operation area, thus resulting in the increase of production from 2.840bpd to 8.200 bpd.
- Testing ICD flow control system in Northern Kuwait operation area on RA-0499 Well, thus resulting in the increase of production to 4.580 bpd and drop of the associated water quantity by 2%.
- Kuwait Oil Company (KOC) obtained the International Safety Excellence Award and the International Safety Merit Award from the British Security Council in view of the clear leadership commitments and in compliance with the high Health, Security and Safety standards in the sectors of Export, Marine Operations and West Kuwait area.In Addition, the International Royal Society for the Prevention of Accidents granted the Export and Marine Operations Group of the said company the Occupational Health and Safety Golden Award.
- Signing the Soil Management agreement with the Kuwaiti National Liaison Point and KNFP for environment preservation, land reclamation and soil cleaning.
- Signing three contracts for projects of reclaiming the soil polluted from KOC operations.
- KOC obtained the International Gas Flaring Reduction Award (GGFR).
- Opening Al-Abdaliya Reserve environmental project in Western Kuwait operation area for cleaning 1,200,000 square meters of waste, growing around 18,000 desert trees and plants familiar to the Kuwaiti environment.
- Signing a contract for designing and building nine tugboats (TBP 80) and five tugboats (TBP 50) for developing sea terminals and boosting export operation potentials.
- Installation of reserve operation unit at Gathering Center (GC-03) to reduce the stall period required for changing the basic operation unit.

### Development of heavy oil and free gas activities

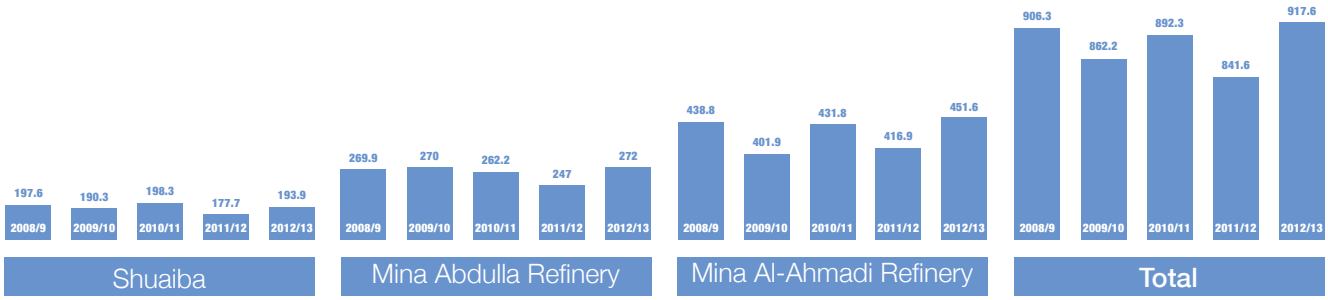
In line with the intensive research activities made by KPC and the distinct technical operations it implemented to promote its production of crude oil, free gas and associated gas, the corporation gave great attention to operations aimed at developing and producing heavy oil by using the best approaches applied in producer countries and the most up-to-date customary international methods. KPC was able to make many noticeable achievements in this field as follows:

- Drilling more than 700 wells, implementing experimental projects, e.g. production of heavy oil from shallow horizontal wells and the regular steam shooting (CSS) project at various phases.
- Drilling 15 exploration and developmental wells to reach the targeted free gas quantity.
- Achieving the preliminary designs of heavy oil production, transport and storing project and obtaining the necessary approvals and funds in preparation for Phase I (production of 60 thousand barrels by 2017-2018).
- The Method of Steam Injection was introduced to the expanded "Alaisoin Reservoir" trial project with the goal of injecting steam into the reservoir that is located in the Wafra Joint Operations Area.

## 2. Crude oil refining, gas liquefaction and domestic marketing

The steady efforts made by KPC to consolidate its activity of refining operations at the three refineries (Ahmadi, Shuaiba and Mina Abdulla) yielded the desired fruit. Thanks to applying the most up-to-date scientific means, those refineries were able to increase the refining rate by 9% so that it rose during FY 2012-2013 to 917.6 thousand bpd compared to around 841.6 thousand bpd in the previous FY.

Rates of refining at the three refineries during the recent five years were as follows (daily rate in 1000 barrels):




The focus upon oil derivatives also realized it's pursued goals. Net quantities produced from those products during this year amounted to around 45.3 million metric tons, at an increase of 8.8% over that of the previous year.

### Gas Liquefaction

**KPC sought to promote its activity in the field of gas liquefaction and increasing the proportions realized**. It was able to achieve from the gas liquefaction plant at Ahmadi port the total production of around 6126 thousand metric tons of liquid products this year, compared to around 5781thousand metric tons in the previous year, at an increase of around 5.7%. That increase was realized due to increasing the available actual amounts of field and refinery gases as a feedstock for the gas plant.

**The aforesaid achievements in refining, domestic manufacture and gas liquefaction activity were part of the important achievements realized by KPC in this field, including:**

**The new refinery project**

The land preparation study was accomplished and the approval by all the authorities concerning of the project site in Southern Al-Zour Area was obtained. The project aims at meeting the growing demand for plants that generate electric energy from fuel oil with low-sulfuric content (less than 1% sulfur). The production capacity of the new refinery is around 615,000 bpd and, its accomplishment is expected in December 2018.

**The environmental fuel project(development and expansion of the company refineries-Phase II)**

A contract for preparing the project sites at the two Ahmadi port and Mina Abdulla refineries was signed with Samsung Company for providing the basic facilities. The project aims at developing the two refineries so that they turn into an integrated refining complex with a refining capacity of 800 thousand bpd following the shutdown of Shuaiba refinery alongside increasing the downstream capacity of the two refineries for meeting future challenges and requirements of the international market in the quest of oil products with high quality and specifications. The project is expected to be accomplished by April 2018.

**A project for establishing a fourth unit to produce LPG at Ahmadi port refinery**

The project aims at establishing a fourth unit for processing LPG with a record capacity of 805 million cubic feet per day and 106 thousand bpd of condensates to address the future expected increase of gases and condensates resulting from oil and gas fields, converting them into liquefied gases for export and separating each of methane and ethane gases. The project is expected to be accomplished as of January 2014.

**A project for establishing a fifth unit to produce LPG at Ahmadi port**

The project aims at establishing a fifth unit to produce LPG in light of the expectations of a rise in the production of gas and condensates resulting from plans aimed at further developing the exploration of new gases in the future oil and gas fields. Accomplished were the preliminary engineering designs of the project expected to be implemented in November 2017.

**A project for establishing new northern tanks for liquefied gas at Ahmadi port refinery**

The project aims at ensuring the possibility of storing and exporting the additional gas products expected after completing the expansion of liquefied gas production facilities at Ahmadi port refinery after adding the fourth and fifth pipelines highlighted by KPC strategic plans. The project is expected to be accomplished in June 2015.

**A project for establishing permanent LNG import facilities on the long term**

The project comes in implementation of KPC guidelines for establishing facilities to take up delivery and re-steaming of LNG permanently so as to meet the local market needs of fuel in the long term, in addition the to the goal of further meeting the seasonal demand for fuel from the electric energy generation plants at times of peak during summer. A feasibility study was accomplished, Al-Zour site chosen, the KPC Board of Directors' approval was obtained to commence implementing the preliminary pre-engineering design works. The project is expected to be accomplished by 2020.

**A project for establishing new facilities and revamping the existing facilities for sulfur handing over at Ahmadi port refinery**

Tender documents invited engineering, supply and construction works, offers were received and evaluation commenced. The project is expected to be accomplished by November 2016.

**A project for expanding and revamping Ahmadi warehouse**

The preliminary engineering designs of the project were completed and, it is expected to be accomplished by October 2017.

**A project for establishing a warehouse for petroleum products in Mitla' area and pipelines for transporting the products from the refineries**

The project feasibility study and the study for evaluating the environmental impact were accomplished. The project is expected to be accomplished in June 2020.

**A study for establishing energy management system at the three refineries**

Phase I was accomplished and, the implementation of Phase II kicked off. Phase II includes energy consumption audits, preparation of work and training procedures besides projects aimed at optimizing energy consumption at the refineries.

## 3.Chemical Fertilizers & Petrochemicals

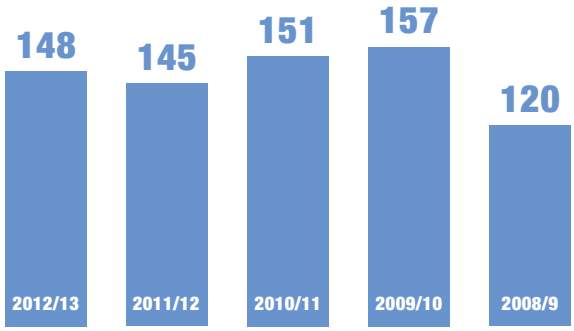
### Chemical Fertilizers

In line with the international developments relating to giving attention to petrochemicals and in continuation of the excellence seen by the fertilizer industry in Kuwait throughout many decades, KPC sought to promote its activity in this connection and continuously develop the production operations.

As regards to chemical fertilizers, KPC local production is represented in the plants producing ammonia and urea. This year, the production of ammonia plants amounted to around 599 thousand metric tons, at an increase of 2.9% over that of the previous year. Meanwhile, the urea plants produced 875 thousand metric tons, at an increase of 4.4% over that of the previous year. The volume of ammonia sales amounted to 71.6 thousand metric tons. Meanwhile, the volume of urea sales amounted to 873 thousand metric tons, at an increase of 2.9% over that of the previous year.

### Petrochemicals

In regards petrochemicals, the polypropylene plant production stood at 148,000 metric tons, with an increase of 3% over that of the previous year. Meanwhile, the volume of sales amounted to 148.5 thousand metric tons, at an increase of 54.5% over that of the previous year.




**Quantities of polypropylene in the previous five (5) years**

Each of the Petrochemical Industry Company (PIC), a subsidiary of KPC, and Dow Chemical Company hold 42.5% of the shares of EQUATE Petrochemicals Company, while the remnant shares are held by the local private sector companies.

EQUATE made, towards the end of FY, profits amounting to US$ 576.7 million, at an increase of 11.5% over that of the previous year. The company›s production of polyethylene and ethylene glycol amounted to 1.186 million tons, at an increase of 13% over that of the previous year. Meantime, the volume of sales amounted to1.191 million tons, at an increase of 16.5% over that of the previous year.

The Kuwait Olefins Company (TKOC) where PIC interest is 42.5% made US$ 513million in profits, with a fallback of 4.6% below that of the previous year owing to the drop of rates globally. Ethylene glycol production amounted to 802 thousand tons, at an increase of 14.6% over that of the previous year. Meanwhile, the volume of sales amounted to 812 thousand tons, at an increase by 16% over that of the previous year.

The Kuwait Aromatics Company (TKAC) where PIC holds a 40% interest made US$ 35.8 million in profits, at an increase of 217% over that of the previous year owing to technical amendments for production hike- up.

TKAC production of paraxylene amounted to 868 thousand metric tons, at an increase by 34% over that of the previous year. Meanwhile, the production of benzene amounted to 361.4 thousand metric tons, at an increase of 38.6% over that of the previous year. Paraxylene exports amounted to 852.3 metric tons, increasing by 29.3% over that of the previous year.

The Kuwait Styrene Company (TKSC) where PIC interest is at 57.5% made US$ 58.98 million in profits, at a fallback of 40.2% below that of the previous year owing to the plant's 22-day stall for regular maintenance. TKSC production of styrene amounted to 420 thousand tons, at a fallback of 12.3% below that of the previous year. Meanwhile, the volume of sales amounted to 419 thousand tons, at a fallback of 11.6% below that of the previous year.

**At a parallel level of the achievements made by KPC petrochemical sector in production, sales and profits, there are other important achievements, including:**

- Study of the economic feasibility of PTA/PET Project, which aims at benefiting from PX material available in Kuwait.
- Accomplishment of a technical study to hike-up the production of the Aromatics plant and improve its economic conditions.
- Export of 22900 tons of ammonia, the largest shipment since 1990 and, the shipment of the largest quantity of ammonia estimated at over 50 thousand tons.
- Opening new outlets for marketing the product of polypropylene in Russia, Mozambique, Ukraine, Bulgaria and Tanzania besides scoring a record figure in shipping quantities of polypropylene during April 2012 where the quantity amounted to15.9 thousand metric tons.
- Reaching a 10-million man-hours of safe work milestone at the fertilizer plants.

## 4. Marine Transport

The Kuwait oil tankers have been plying seas and oceans over the previous decades with millions of barrels of the natural resource on board to most of the world's continents, reaping international awards in safety, maintenance and security in addition to the preservation of the environment and its resources.

This year, KPC transported 22.7 million metric tons of crude oil, petroleum products and liquefied gas to different ports worldwide, scoring a large increase by around 20% over that of the previous year. Meanwhile, the volume of loads transported from Kuwait amounted to 13.3 million metric tons, at a rise of 7.4%. Tanker operation rate saw a rise of 0.8% over that of the previous year, scoring an operation ratio of 96.5%.

KOTC, a KPC subsidiary, owns a fleet consisting of 25 tankers, inclusive of 8 crude oil supertankers, 13 different-size petroleum product tankers and 4 liquefied gas supertankers. The total load of the fleet is around 3.620 million deadweight metric tons. The KOTC fleet is chartered in full to KPC under the annual charter system.

This year, KOTC took delivery of the petroleum product tanker (Bnaider) from Daewoo, S. Korea. It is the sixth and last tanker within Phase II projects for fleet revamping. Bnaider load is around 800 thousand barrels. It is 250 meters long and 42 meters wide with a draft of 15 meters depth. Its speed is 15 knots per hour. KOTC also took delivery of the two service boats (Nakilat10) and (Nakilat11) so that they will join service at the Marine Agency Branch.

Furthermore, KOTC made many significant achievements in the domain of marine transport, most importantly are the following:

- Obtaining the Green Award certification authorized by the Foundation Green Award for environment protection, which grants KOTC tankers great facilities at international ports.
- Achieving around 98% of engineering design and supply works at LPG Filling Plant project located at Umm Al-Aish area, in Northern Kuwait.
- Preserving the quality and safety of the fleet and environment through regular dry docking according to set dates in line with marine navigation laws.
- Obtaining KPC CEO›s Award for the year 2013 for "Modification of Danaos Incident Module Project"which aims at promoting the programs used for the fleet-communicated reports, including incidents, near miss and insecure acts.

**Total loads transported to world ports***

| | 2008/2009 | 2009/2010 | 2010/2011 | 2011/2012 | 2012/2013 |
|---|---|---|---|---|---|
| Crude Oil | 12.17 | 10.21 | 5.58 | 10.45 | 14.68 |
| Petroleum Products | 6.82 | 6.54 | 8.90 | 7.16 | 6.72 |
| Liquefied Gas | 1.07 | 1.14 | 1.41 | 1.28 | 1.27 |
| **Total** | **22.06** | **17.89** | **15.89** | **18.89** | **22.67** |

*Loads in Million Metric Tons

## 5. Aviation Fuelling

The Kuwait Aviation Fuelling Company (KAFCO), a KPC subsidiary, made KD 5,123.501 million in net profits during FY 2012/2013 compared to KD 10,705.974 million profit during FY 2011/2012. Profit fallback refers to the rise of overall expenses and the drop of sales.

KAFCO fuel sales for A-1and JP-8 airplanes dropped to 748,421.058 million liters this year compared to around 813,508.518 million liters in the previous year, at a decrease of 8.7% owing to the fallback of air traffic at Kuwait International Airport.

The number of airplanes fuelled at Kuwait International Airport during this year came to 43089 compared to 43177 airplanes in the previous year, at a decrease of 0.2% owing to the withdrawal of some airlines from Kuwait International Airport, the reduction by many others of their flights and amending air traffic routes to some destinations owing to the absence of turnout and lack of economic feasibility.

# International Activities

Since the start, KPC and subsidiaries did not confine themselves to the local market and recede to a narrow work corner inside Kuwait, but had a broad vision with an international-dimension, whether in regard to exploration and production operations, refining, marketing and foreign supply or petrochemicals.

## 1.Exploration and Production

With regards to exploration and production, the daily production rate of the Kuwait Foreign Petroleum Exploration Company (KUFPEC), a KPC subsidiary, amounted to 74.875 Barrels of Oil Equivalent (BOE), at a rise over the quantity of the previous year amounting to 72.186 BOE by a rate of around 4% owing to the company›s acquisition of assets in Indonesia and The Philippines with in the «Real Steel» project.

The following table shows the daily average production during the previous five years (BOE/day):

| 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| 74,875 | 72,186 | 77,512 | 60,033 | 55,764 |

In March 2013, KUFPEC obtained the Higher Petroleum Council approval for increasing its capital from KD 200 million to KD 1.2 billion. The hydrocarbon reserve stood at around 344 million BOE, including 20 million BOE added from the acquisition of two oil fields in the UK sector in the North Sea and the acquisition of traditional and non-traditional assets in Indonesia and the Republic of the Philippines.

The average production this year stood at around 76 thousand BOE/day, with an increase of 3.7% over that of the previous year. Meanwhile, the company›s net profit stood at around US$ 200 million.

In October 2012, KUFPEC entered a new exploratory concession in Pakistan with a possession interest of 75%, which enabled it to assume the role of operator. In the same year, the company increased its interest in one of its projects in Australia (WA-427) to bring its possession to 100%, which also enabled it to assume the role of operator in the concession itself.

However, KUFPEC realized many explorations and achievements in its current projects in Pakistan, Australia, Indonesia, Vietnam and Malaysia.

Locally, KUFPEC defined seven new opportunities, held five fruitful workshops for discussion of cooperation and transfer of expertise with KOC and KOGC in many relevant domains. The company accomplished training programs for 26 employees in cooperation with operators and partners in the fields and concessions it possesses and further with a number of international expertise houses and it's own external offices in a number of world capitals with the aim of augmenting the expertise of its employees and upgrading their professional skill and efficiency.

Among the most important new projects this year have been the acquisition of Alma & Ghalia developmental project in the North Sea by 35%, entering in WA-481-P exploration project in Australia by 30%, getting awarded the Jati exploratory project in Pakistan for KUFPEC to assume the operator role there, its acquisition of Apatchi Co. interest in WA- 427-P project in Australia to assume the operator role there and its acquisition in Indonesia and the Philippine of Real Steel productive and developmental project.

## 2.Refining, Marketing and Foreign Supply

In the domain of refining, marketing and foreign supply, KPC sought, via Kuwait Petroleum International (KPI), to focus on the

rapidly- emerging markets in realization of the strategic objectives aimed at expansion in the refining and marketing activity outside Europe through the entry in investment opportunities with large economic feasibility.

KPI is still focusing on investment in the fast-growing markets in Asia through expansion in the domain of refining, petrochemicals and marketing (e.g. retail sale), on condition that KPI provides the refineries where it is investing with Kuwaiti crude oil on the long term. Monitoring other markets is ongoing to know the latest developments and the possibility of availing of investment opportunities there.

In China, a large part of preliminary engineering design works were accomplished for the project of establishing a new refinery at a refining capacity of 300 KBD in integration with a complex for manufacturing and marketing petrochemicals. The accomplishment of those designs remained unannounced until the end of March 2013, owing to an intent to amend some designs relating to the operational units.

In Vietnam, the company holding the project of oil refinery and the petrochemical complex – Nghi-Son was established in partnership between each of KPI, the Vietnamese Oil & Gas Co. (PetroVietnam), Idemitsu Kosan and Mitsui Chemical Co. The process of choosing the project management consultant and signing the construction contract with the construction contractor was accomplished and, the final investment decision is expected to be taken after the financing operations have been completed, provided that the establishment of the products marketing partnership would coincide with the construction.

KPI acted this year amid a hard economic climate indicative of many European countries falling under the state of economic stagnation ignited by the Euro crisis which dominated the bigger political and economic scene therein. Therefore the amended operation profits resulting from company marketing remained below the expectation.

KPC was able to increase its market share in the domain of fuel retail sale stations in the countries where it is operating, as a result of the success of the marketing campaigns and the activities of developing the network of its stations. However, the decline of demand was balanced with a positive development in the profit margins of the marketing stations round the year. KPI endeavored to implement the performance improvement and cost control program, but the total unit profit margin in Italy and Denmark came under great pressure as a result of the sheer competition in fuel rates in the two countries.

Despite the difficulties in the European market, profit margins rose at refineries with high downstream capacity, such as Milazzo refinery, which made profits during this year. Refineries with limited downstream capacity, such as Europort refinery, sustained losses this year. Focus was on refinery projects aimed at hiking the profitability and dependence on the long term.

## 3. Petrochemicals

PIC sought to expand regionally and internationally in the domain of petrochemicals by engaging in several partnerships. The most prominent achievements of these partnerships during FY 2012/2013 are as follows:

**Gulf Petrochemical Industries Co.(GPIC):**

GPIC, in which PIC holds a 33.3%, made US$ 212 million in profits, at a decrease by 20% below that of the previous year owing to the regular maintenance of plants and drop of prices in the international market.

GIPC production of urea, ammonia and methanol amounted to 1.454 million metric tons, at a decrease of 8% below that of the previous year, owing to regular maintenance. However, the exported quantity of these products amounted to1.106 million metric tons, at a decrease of 5.5% below that of the previous year.

GIPC achieved 14.4 million man- hours without incidents. The company obtained the Safety Award for the petrochemical sector from the Royal Society for Prevention of Accidents (RoSPA) and American Society for Training & Development.

**ME Global (HQ-Canada):**

PIC holds an equal interest in ME with Dow Chemical of 50% each. ME Global owns a plant in Canada for the production of monoethylene glycol (MEG) and diethylene glycol (DEG). Production of MEG and DEG amounted to 992 thousand metric tons this year, at a decrease by 13% below that of the previous year. ME Global-Canada made US$ 199 million in profits, at a decrease of 40% owing to the drop of production quantities as a result of maintenance works, a drop of the sale price of polyethylene and the rise of production costs as a result of the rise of feedstock price.

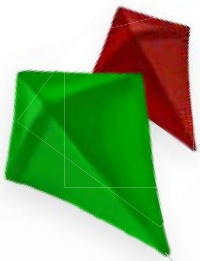
**ME Global BV(HQ-Dubai):**

PIC holds 50% of ME Global BV-Dubai, which markets the ethylene glycol produced by its partners, as well as the products of (ME Global) plants.

(ME Global BV) made this year US$ 138 million in profits, at an increase of 7% over that of the previous year. The volume of sales amounted to 2.95 million metric tons vis-à-vis 2.97 million metric tons in the previous year, with sale revenues standing at US$ 3.1billion.

On the 1st July 2011, Equipolymers Co., which produces and exports PET to ME Global BV was acquired.

The production of PET at Equipolymers plants amounted to around 300 thousand metric tons, and exports of 304 thousand metric tons, increasing1.6% over that of the previous year.



# International Marketing

KPC consolidated its presence in international markets in implementation of its plans aimed at the availing of the basic opportunities available in traditional markets and other special opportunities in promising markets.

In this connection, KPC was able to sign a contract with ( EMARAT) Co. to provide Dubai International Airport with aviation fuel, sign a new contract with the Indian (HMEL) Co. to provide it with four kinds of Kuwaiti oils, renew (Formosa) Co. contract with C & F delivery system added and increasing the quantity of crude oil besides signing a new contract with the largest user of sulfur in the Chinese market "YUC".

Domestically, KPC succeeded in extending the term of natural gas import during the period March – October 2012 according to the Ministry of Electricity & Water (MEW) need. Meanwhile, KPC realized for the national tanker fleet a striking operational ratio up to 88.51%.

## Supporting Activities

Since supporting activities at KPC represent an essential element indispensable for carrying out the duties assigned thereto, the national responsibilities it is assuming and the distinct deeds it is accomplishing inside Kuwait, the corporation endeavors to give such activities great consideration and attention commensurate with their pursued major role.

Supporting activities at KPC are represented in four domains; Health, Safety & Environment (HSE), Research & Technology, Human Resources (HR), Social & Information Services.

## 1. HSE

HSE activity is a key axis of KPC, in view of its great importance and vital role. Out of the vision aimed at reaching a leading level in this domain, KPC and subsidiaries have realized many achievements, most importantly are the following:

- Organizing the CEO HSE Award that met large participation that included 90 programs and projects in different HSE domains presented by all oil companies, contractors and governmental authorities dealing with the oil sector.
- Realizing distinguished performance for reducing industrial accidents. The ratio of accidents with time loss stood at 0.029 compared to 0.044 in the previous year.
- Promoting Health at the level of senior leaders through holding four specialized workshops where CEO and 55 leaders, including Board of Directors Chairmen, Managing Directors (MDs) and Deputy Managing directors (DMDs), participated.
- Carrying out regular medical check-up for around 850 employees to keep a Health Profile for KPC employees.
- Organizing an awareness campaign at KPC and subsidiaries on the occasion of holding «Tobacco Int›l Day.
- Implementing more than 30 health awareness activities that included theoretical presentations and, distributing awareness leaflets and different stickers.
- Organizing an environmental conference titled «Liquid and Solid Waste Management» attended by around 220 participants besides organizing a large number of environmental awareness programs.
- Issuing the first edition of "Sustainable Development"report for KPC and subsidiaries.
- Participating in preparing the "Sustainable Development Report" for the State of Kuwait and presenting the same to the coordination meeting of OPEC member countries in preparation for the Rio de Janeiro summit 20+ in Brazil.
- The Obtaining of, by the HSE Group at KPC, of ISO Certifications (ISO 9001, ISO 14001, OSHAS 18001) related to implementing the Integrated Quality, Health, Safety and Environment (Q, HSE) Management System.

- Implementing an environmental reserve in Abdaliya area (Western Kuwait) with an area of around 3 million square meters.
- Establishing and commissioning the sanitary drainage water treatment plant in KOC areas located in Southeastern and Northern Kuwait for treatment of all sanitary drainage water extracted from the company areas.
- Signing the contract of (Installation of Gauging Systems to Monitor and Control User Network System) for monitoring more than 2000- km pipes and 100-valve centers, instant detection and control of any spill besides increasing the profit through income retrieval and improving the control of the level of fuel source usage.
- KNPC created the "Industrial Odor Management System" for protecting the environment and preserving the health of employees and community.
- Shuaiba refinery realized a new achievement in the domain of reducing the emission of sulfur oxides through implementing the project of hydrogen sulfide removal from the gaseous fuel used in the refinery furnaces and boilers.
- PIC succeeded in preventing ammonia gas emission (=Zero Ammonia Emission) from the urea plants into the atmosphere with the aim of environment protection and preservation.
- KUFPEC obtained ISO 18001 certification of occupational health.
- Oil Sector Services Company (OSSC) registered no occupational injury (=Zero Incidents) for the third consecutive year, thus obtaining the British Higher Council Safety Award with honors.
- The company unified its security services under the supervision of a unified central leadership managed by the company itself, created forces specialized in coastal protection, industrial security and detection of explosives.
- KAFCO obtained ISO 18001 certification of occupational health.
- KAFCO implemented the project using benzene-free aviation fuel which is much more environmentally friendly than the previously used kind.

## 2. Research and Technology

Based on KPC's vision aimed at realizing a distinct level in research and technology and, in implementation of the long-term strategic plan in this domain, KPC and subsidiaries realized many achievements, most importantly are the following:

- Implementing a research project, in cooperation with the Kuwait Institute for Scientific Research (KISR), for KNPC service on the (evaluation and combating the growth of microbes at fuel storage warehouses in Shuaiba and Ahmadi refineries as well as at the local marketing tanks in Sabhan and Ahmadi- Phase I: determining the amount of microorganisms and their types in the ATK tanks).
- Implementing a research project with Kuwait University on (environment-friendly catalysts used for industrial gas flaring).
- Re-structuring the Research & Technology Management Group in implementation of the research and technology plan 2030 for KPC and subsidiaries.
- Placing a technological roadmap for KPC and subsidiaries in implementation of KPC research and technology strategic plan 2030.
- Selecting the geographic location and placing the preliminary design and the detailed plan for establishing a research center for the Kuwaiti oil sector with the aim of providing applied research services in the domain of exploration, production, refining and manufacture.
- Preparing a study on the re-evaluation of the program for investment in the new energy technology in cooperation with a global consultant house.
- Making around US$55 thousand in profits by the program of investment in the new energy technology. The profits resulted from the sale of many companies in investment portfolios.
- Organizing a workshop on "Applications of Injecting Wells with Carbon Dioxide to Improve Oil Extraction" in cooperation with delegations from OPEC and representatives of IEA.
- Completion of Phase I of a study on developing solar energy technology to meet the requirements of the Kuwaiti oil sector.

## 3. Human Resources (HR)

KPC realizes that the oil sector employees are the sector›s source of strength and its real resource. As such and, in implementation of the corporation›s HR mission and vision, KPC has made steady efforts to push forth the development and investment of its human resources in such a way that reflects positively on the productivity of this sector. This resulted in many important achievements as follows:

- Operational and non-operational manpower totaled 18338 employees by the end of February 2013. The number of Kuwaiti employees in the oil sector increased from 14606 by 81.5% at the beginning of the said period to 15071 by 82.2% at its end.
- 744 Kuwaitis and 140 non-Kuwaitis were employed during this year.
- Preparing the necessary procedures pertinent to amending some provisions of the Special Insurance Fund system according to a decision issued by the corporation›s Board of Directors stipulating the addition of new articles to the system for including the disabled (employees) in the entitlement to retirement pension from the Fund.
- Approval of many rules, systems and regulations of activities and benefits provided by KPC, e.g. the system of honoring long-serving employees and leaders during their service in the oil sector and the system of honoring the employees and leaders at the end of their service in the oil sector.
- Completion of programming and operating a set of automatic systems for automating the manpower services provided for KPC employees within the manpower strategy for HR Function Integration Initiative in the oil sector.
- Participants in the training courses implemented by the Petroleum Training Center totaled 24343. Employees joined 1576 different training courses while the training programs needed 10131participants only, thus bringing the implementation ratio to 240%.
- The Petroleum Training Center was ahead of other centers at the world level in graduating 134 trainees in Refinery Operator program according to the new financial system (QCF) compatible with (NVQ) system.
- Eight employees on scholarship attained Masters Degrees in Engineering, Administration and Dentistry. Meanwhile, five children of oil sector employees, being students admitted to scholarship system attained Engineering Specialization Certifications.
- Implementing an intensive media program for the oil sector leaderships for promoting communication between KPC and the mass media.
- Organizing «Coach to Coach» program for Managers and Team Leaders.
- Organizing 31 workshops special for the project of training during work hours.
- Organizing a specialized program in exploration, drilling, prospection and production attended by 95 newly-graduated male and female engineers.
- Completing the implementation of the Employee Engagement initiatives which measures the employee job satisfaction level at KPC and its subsidiaries.
- Organizing a 3-month intensive program for the newly-appointed employees of KPC and subsidiaries.
- PIC and KOC commenced implementing the Pilot Training Project.
- Placing a 5-year plan for training the Kuwaiti labor force working with contractors, including 26000 participants during the implementation period.

## 4. Social and Media Services

KPC has sought to consolidate its image inside and outside Kuwait as an international organization of importance in the oil industry. It has also strengthened its relations with all supervisory and legislative bodies as well as with its subsidiaries. KPC has also developed its social and media services with both public and private entities.

To this effect, KPC made many achievements this year, including the establishment of the first network for official spokespersons of the oil sector, launching the site of KPC and subsidiaries media room which brought together the oil sector archive in a single site, commencing to implement the quick-implementation objectives of the communication strategy 2030, responding to all parliamentary questions addressed to the oil sector by MPs and coverage of the minutes of sessions special for that sector.

The corporation organized the first intensive media program for the oil sector leaderships. It produced a documentary film on the drive of HSE system in that sector. It also launched the oil sector›s electronic library, which provides millions of scientific sources free of charge. KPC participated in organizing several media campaigns of its major projects and participated in many local and external exhibitions.

Realizing the vital role played by social media sites, KPC has expanded its use of social mediums and established an account on Instagram and launched an application on the iPad for all periodicals and special editions.

In consolidation of its role in the domain of social responsibility, KPC contributed to a number of relevant activities, such as sponsoring the Central Play Area Park incorporating a Ferris Wheel, rooftop walkway, observation tower and more named (KPC Land) at Bayt Abdulla Children's Hospice. It also sponsored a number of oil and economic conferences inside and outside Kuwait, a number of activities and scientific, social, environmental and cultural conferences besides other activities relating to people of special needs as well as organized some activities for KPC employees, e.g. the Spring Camp, subscription to health clubs and providing chalets during summer.

مؤسسة البترول الكويتية
Kuwait Petroleum Corporation

# Consolidated Financial Statements and Independent Auditor's Report for the Year Ended 31 March 2013

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# Independent Auditor's Report

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

**Report on the consolidated financial statements**

We have audited the accompanying consolidated financial statements of Kuwait Petroleum Corporation ("the Corporation") and its subsidiaries (together referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 March 2013, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

**Auditor's responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting polices used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2013, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the Law Decree No. 6 of 1980.

## 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 account. We have not become aware of any contravention, during the year ended 31 March 2013, of the Law Decree No. 6 of 1980, that would materially affect the Group's activities or its consolidated financial position.

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

Kuwait: 24 July 2013

# Consolidated Statement of Financial Position

as at 31 March 2013

| | Notes | 2013 KD'000 | 2012 KD'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 5 | 10,807,982 | 9,611,795 |
| Goodwill | 6 | 164,102 | 159,550 |
| Intangible assets | 7 | 156,148 | 143,911 |
| Deferred tax assets | 14 | 30,746 | 28,586 |
| Other non-current assets | 8 | 240,847 | 228,516 |
| Available-for-sale investments | 9 | 5,133,398 | 4,698,143 |
| Investments in equity accounted investees | 10 | 412,106 | 408,875 |
| | | **16,945,329** | **15,279,376** |
| **Current assets** | | | |
| Inventories | 11 | 2,212,989 | 2,006,978 |
| Trade receivables | 12 | 4,554,781 | 5,305,832 |
| Other receivables and prepayments | 13 | 864,134 | 859,217 |
| Taxes receivable | 14 | 29,812 | 19,142 |
| Bank balances and cash | 15 | 5,610,591 | 3,838,796 |
| | | **13,272,307** | **12,029,965** |
| **Total assets** | | **30,217,636** | **27,309,341** |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Authorised and paid-up share capital | | 2,500,000 | 2,500,000 |
| Statutory reserve | 16 | 1,250,000 | 1,250,000 |
| Capital reserve | 17 | 232,945 | 232,945 |
| General reserve | 18 | 15,731,827 | 13,230,637 |
| Reserve for replacement and renewal of property, plant and equipment | 19 | 2,287,691 | 2,003,691 |
| Cumulative changes in fair values | | 463,417 | 262,343 |
| Foreign currency translation reserve | | (10,674) | (23,827) |
| **Equity attributable to equity holder of the Corporation** | | **22,455,206** | **19,455,789** |
| **Non-controlling interest** | | **41,811** | **40,174** |
| **Total equity** | | **22,497,017** | **19,495,963** |
| Non-current liabilities | 20 | 1,155,005 | 1,127,211 |
| **Current liabilities** | | | |
| Trade payables | | 857,432 | 785,899 |
| Other payables and accruals | 21 | 1,942,137 | 2,047,099 |
| Taxes payable | 14 | 295,203 | 289,720 |
| Amounts due to Ministry of Oil | 22 | 3,470,842 | 3,563,449 |
| | | 6,565,614 | 6,686,167 |
| **Total liabilities** | | **7,720,619** | **7,813,378** |
| **Total equity and liabilities** | | **30,217,636** | **27,309,341** |

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

**Nizar M. Al-Adsani**
Deputy Chairman & CEO

**Mohammed A. Al-Farhoud**
Managing Director for Planning & Finance

# Consolidated Statement of Comprehensive Income

for the year ended 31 March 2013

| | Notes | 2013 KD'000 | 2012 KD'000 |
|---|---|---|---|
| **Revenues** | | | |
| Sales of crude oil, gas, refined products and petrochemicals | | 39,928,082 | 40,098,278 |
| Revenues from consultancy and other operations | *24* | 264,524 | 278,398 |
| | | **40,192,606** | **40,376,676** |
| **Cost of revenues** | | | |
| Cost of sales of crude oil, gas, refined products and petrochemicals | | (37,522,489) | (37,460,878) |
| Cost of consultancy and other operations | | (247,199) | (252,396) |
| | | **(37,769,688)** | **(37,713,274)** |
| **Gross profit** | | **2,422,918** | **2,663,402** |
| Depreciation and amortisation | | (339,185) | (318,063) |
| General and administrative expenses | | (356,595) | (316,988) |
| Writeback of provision/ (provision for) a legal claim | *38* | 84,910 | (695,400) |
| Provision for doubtful debts | | (926) | (1,367) |
| Provision for impairment on property, plant and equipment and goodwill | | (12,970) | (32,325) |
| **Operating profit** | | **1,798,152** | **1,299,259** |
| Interest income | | 38,406 | 30,249 |
| Interest expense | | (15,163) | (14,607) |
| Net interest income | | 23,243 | 15,642 |
| Investment income | *25* | 233,580 | 164,375 |
| Share of profit of equity accounted investees | *10* | 155,837 | 155,861 |
| Other income (net) | *26* | 649,321 | 231,792 |
| Directors' remuneration | *27* | (97) | (99) |
| **Profit before provision for income tax** | | **2,860,036** | **1,866,830** |
| Income tax expense | *14* | (72,573) | (96,205) |
| | | 2,787,463 | 1,770,625 |
| Provision for replacement and renewal of property, plant and equipment | *19* | (284,000) | (270,000) |
| **Profit for the year** | | **2,503,463** | **1,500,625** |
| **Other comprehensive income** | | | |
| Foreign currency translation differences for foreign operations | | 13,153 | (70,817) |
| Net change in fair value of available-for-sale investments | | 201,074 | 51,866 |
| **Other comprehensive income for the year** | | **214,227** | **(18,951)** |
| **Total comprehensive income for the year** | | **2,717,690** | **1,481,674** |
| **Profit attributable to:** | | | |
| Equity holder of the Corporation | | 2,501,190 | 1,498,074 |
| Non-controlling interest | | 2,273 | 2,551 |
| **Profit for the year** | | **2,503,463** | **1,500,625** |
| **Total comprehensive income attributable to:** | | | |
| Equity holder of the Corporation | | 2,715,417 | 1,479,123 |
| Non-controlling interest | | 2,273 | 2,551 |
| **Total comprehensive income for the year** | | **2,717,690** | **1,481,674** |

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

# Consolidated Statement of Changes in Equity

for the year ended 31 March 2013

| | Attributable to equity holder of the Corporation | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Authorised and paid-up share capital | Statutory reserve | Capital reserve | General reserve | Reserve for replacement and renewal of fixed assets | Cumulative changes in fair values | Foreign currency translation reserve | Total | Non-controlling interest | Total equity |
| | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 |
| **Balance at 31 March 2011** | **2,500,000** | **1,250,000** | **232,945** | **11,732,563** | **1,733,691** | **210,477** | **46,990** | **17,706,666** | **38,673** | **17,745,339** |
| Profit for the year | - | - | - | 1,498,074 | - | - | - | 1,498,074 | 2,551 | 1,500,625 |
| Other comprehensive income | - | - | - | - | - | 51,866 | (70,817) | (18,951) | - | (18,951) |
| Total comprehensive income | - | - | - | 1,498,074 | - | 51,866 | (70,817) | 1,479,123 | 2,551 | 1,481,674 |
| Reserve for replacement and renewal of fixed assets | - | - | - | - | 270,000 | - | - | 270,000 | - | 270,000 |
| Net movement in non-controlling interest | - | - | - | - | - | - | - | - | (1,050) | (1,050) |
| **Balance at 31 March 2012** | **2,500,000** | **1,250,000** | **232,945** | **13,230,637** | **2,003,691** | **262,343** | **(23,827)** | **19,455,789** | **40,174** | **19,495,963** |
| Profit for the year | - | - | - | 2,501,190 | - | - | - | 2,501,190 | 2,273 | 2,503,463 |
| Other comprehensive income | - | - | - | - | - | 201,074 | 13,153 | 214,227 | - | 214,227 |
| Total comprehensive income | - | - | - | 2,501,190 | - | 201,074 | 13,153 | 2,715,417 | 2,273 | 2,717,690 |
| Reserve for replacement and renewal of fixed assets | - | - | - | - | 284,000 | - | - | 284,000 | - | 284,000 |
| Net movement in non-controlling interest | - | - | - | - | - | - | - | - | (636) | (636) |
| **Balance at 31 March 2013** | **2,500,000** | **1,250,000** | **232,945** | **15,731,827** | **2,287,691** | **463,417** | **(10,674)** | **22,455,206** | **41,811** | **22,497,017** |

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

# Consolidated Statement of Cash Flows

for the year ended 31 March 2013

| | Notes | 2013 KD'000 | 2012 KD'000 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Profit for the year | | 2,503,463 | 1,500,625 |
| **Adjustments for:** | | | |
| Depreciation and amortisation | | 339,185 | 318,063 |
| Provision for replacement and renewal of property, plant and equipment | | 284,000 | 270,000 |
| Provision for doubtful debts | | 926 | 1,367 |
| Provision for impairment on property, plant and equipment and goodwill | | 12,970 | 32,325 |
| Write off of unsuccessful exploration | | 26,188 | 19,768 |
| Provision for employees' terminal benefits and pensions | | 49,107 | 113,234 |
| (Gain) / loss on disposal of property, plant and equipment | | (4,165) | 1,286 |
| Share of profit of equity accounted investees | | (155,837) | (155,861) |
| Interest income | | (38,406) | (30,249) |
| Interest expense | | 15,163 | 14,607 |
| Income tax expense | | 72,573 | 96,205 |
| Investment income | | (233,580) | (164,375) |
| | | **2,871,587** | **2,016,995** |
| **Changes in operating assets and liabilities:** | | | |
| Increase in inventories | | (206,011) | (15,591) |
| Decrease/ (increase) in trade receivables | | 728,285 | (1,294,691) |
| (Increase)/ decrease in other receivables and prepayments | | (4,917) | 17,286 |
| Increase in non-current liabilities | | 13,590 | 30,111 |
| Increase in trade payables | | 71,533 | 32,761 |
| (Decrease) / increase in other payables, accruals and other credit balances | | (104,962) | 941,076 |
| Increase in amounts due to Ministry of Oil | | 402,187 | 1,059,649 |
| Cash generated from operations | | 3,771,292 | 2,787,596 |
| Interest paid | | (15,163) | (14,607) |
| Taxes paid (net) | | (7,347) | (9,864) |
| Net cash from operating activities | | **3,748,782** | **2,763,125** |
| **Cash flows from investing activities:** | | | |
| (Increase) / decrease in deposits maturing after 3 months | | (2,500) | 113,177 |
| Increase in available-for-sale investments | | (601) | (3,850) |
| Net movement in equity accounted investees | | 152,606 | 132,073 |
| Additions to intangible assets | | (8,144) | (11,050) |
| Additions to goodwill | | (2,966) | (2,286) |
| Increase in other non-current assets | | (63,064) | (56,625) |
| Purchase of property, plant and equipment | | (2,121,558) | (1,703,248) |
| Proceeds from disposal of property, plant and equipment | | 53,662 | 74,139 |
| Interest received | | 38,406 | 30,249 |
| Net cash used in investing activities | | **(1,954,159)** | **(1,427,421)** |
| **Cash flows from financing activities:** | | | |
| Decrease in term loans, net | | (34,903) | (141,361) |
| Change in non-controlling interest | | (636) | (1,050) |
| Net cash used in financing activities | | (35,539) | (142,411) |
| Net effect of foreign currency translation adjustments | | 10,211 | (60,390) |
| Net increase in cash and cash equivalents | | 1,769,295 | 1,132,903 |
| **Cash and cash equivalents at beginning of the year** | | **2,911,796** | **1,778,893** |
| **Cash and cash equivalents at end of the year** | *15* | **4,681,091** | **2,911,796** |
| Short-term deposits maturing after 3 months | *15* | **929,500** | **927,000** |
| **Bank balances and cash at end of the year** | *15* | **5,610,591** | **3,838,796** |

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

## 1. Corporate information

The Kuwait Petroleum Corporation ("the Corporation") 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. The principal subsidiaries, associates and joint ventures are set out in note 35. The Group operates principally in the Middle East, Far East, Western Europe and the U.S.A.

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 2013 were authorised for issue in accordance with a resolution of the directors on 24 July 2013. 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).

### b) Basis of measurement

The consolidated financial statements are prepared under the historical cost convention, modified for the measurement at fair value of available-for-sale investments 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 presentation currency. All financial information presented in Kuwaiti Dinars has been rounded to the nearest thousand.

### 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) New standards, interpretations and amendments effective from 1 April 2012**
None of the new standards, interpretations and amendments, effective for the first time from 1 April 2012, have had a material effect on the consolidated financial statements.

## 3. Significant accounting policies

The accounting policies set out below have been applied consistently by the Group 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 principal subsidiaries. Details of the principal consolidated subsidiaries are included in note 35.

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 principally represent the portion of profit or loss and net assets in subsidiaries of Kuwait Aromatics Company K.S.C. and Petrochemical Industries Company K.S.C. not held by the Corporation and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated Statement of financial position, separately from the Corporation's equity.

Subsidiaries are those enterprises controlled by the Corporation. Control exists when the Corporation has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Intra-group balances and transactions, including intra-group profits and unrealised profits and losses are eliminated on consolidation. The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

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.

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.

**Accounting periods of subsidiaries**
The Group's financial year was from 1 April 2012 to 31 March 2013. 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. ("KARO"), whose financial years were from 1 January 2012 to 31 December 2012. 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**

Oil and gas exploration and producing activities are accounted for using the "successful efforts" method of accounting, whereby costs of geological and geophysical operations and exploratory drilling costs proven to be non-productive are expensed. Successful exploratory and developmental drilling costs are capitalised and amortised using the unit-of-production method for operations outside the State of Kuwait. Exploration and development drilling costs for operations in the State of Kuwait are capitalised and amortised on a straight-line basis over 10 years.

**ii. Other property, plant and equipment**

Other property, plant and equipment are initially recorded at cost. Costs incurred for routine and cyclical maintenance and repairs and renewals are expensed when incurred. The costs of major inspection or overhaul costs are capitalised as a separate inherent component of an asset if they can be reliably estimated, future economic benefits are expected to flow and the Group has already depreciated an amount representing the inherent components that have been replaced or restored by the major inspection or overhaul. Major repairs and renewals of an asset or major components thereof, which improve the standard of performance or which extend the useful life of the asset beyond that originally assessed at the time of acquisition, are capitalised and depreciated over the useful life of the asset.

**iii. Other assets under construction**

Assets in the course of construction are carried at cost, less any recognized impairment loss. 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.

**c) Depreciation**

Depreciation is provided on a straight-line basis on other property, plant and equipment, other than freehold land and assets under construction. The rates of depreciation are based upon the following estimated useful lives:

| | |
|---|---|
| Oil and gas properties | 3 - 10 years |
| Tankage, pipelines and jetties | 5 - 25 years |
| Plant and machinery | 3 - 33 years |
| Oil and gas tankers | 5 - 20 years |
| Camps, buildings and facilities | 4 - 40 years |
| Vehicles, transportation equipment and other assets | 3 - 20 years |
| Construction and general equipment | 5 years |
| Well drilling and seismic surveys | 10 years |

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

**d) Goodwill**

**Goodwill recognised as an asset**

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest; and over the net identifiable assets acquired and liabilities assumed. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill on acquisitions after 31 March 2004 is not amortised. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash generating unit and part of the operation within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

**Excess of fair value over purchase consideration**

Excess of fair value over purchase consideration on acquisition is measured at the excess of the Corporation's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Excess of fair value over purchase consideration is recognised immediately in profit or loss.

**e) Intangible assets**

Intangible assets consist of application software, license costs, intellectual property and other agreements. 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. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditures are charged against profits in the year in which the expenditure is incurred. All intangible assets have finite lives and are amortised on a straight line basis over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. The amortisation expense on intangible assets with finite lives is recognised in profit or loss.

The Group amortises certain licence costs over a thirty year period, rather than twenty years as presumed by IAS 38, 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.

**f) Available-for-sale investments**
Available-for-sale investments are recognised and derecognised, on a trade date basis, when the Group becomes, or ceases to be, a party to the contractual provisions of the instrument.

Investments designated as available-for-sale are initially recorded at fair value plus any attributable transaction costs and subsequently measured at fair value, unless this cannot be reliably measured in which case they are carried at cost less impairment losses.

Fair value changes are recognised in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

**g) Investments in associated companies (equity accounted investees)**
The Group's investments in its associates are accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate.

The profit or loss reflects the share of the results of operations of the investee. Where there has been a change recognised in other comprehensive income of the associate, the Group recognises its share of any changes and discloses this, when applicable, in other comprehensive income.

Distributions received from an associate reduce the carrying amount of the investment.

An assessment of investment in an associate is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist.

**h) Interests in joint ventures**
A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

Interests in joint ventures 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 ventures with the similar items, line by line, in its consolidated financial statements. The financial statements of the joint ventures are prepared at 31 December; accordingly, adjustments are made for the effect of any significant events or transactions occurring in the months between the year end of the joint ventures and 31 March.

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

The joint ventures 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 ventures. All intra-group transactions and balances are eliminated to the extent of the Group's share in the joint ventures.

**i) Inventories**

**i. Crude oil and petroleum products**

Crude oil inventory is valued at the lower of 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.

**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 profit or loss.

**j) Trade receivables**

Trade receivables 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.

**k) 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 Corporation.

**l) Cash and cash equivalents**

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.

**m) 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.

**n) 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 higher of an asset's net selling price and value in use. Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. An assessment is made at each reporting date to determine whether there is objective evidence that an asset may be impaired. If such evidence exists, an impairment loss is recognised in profit or loss.

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 (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss in respect of goodwill is not reversed. 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 and un-collectibility of financial assets**

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

i. For assets carried at fair value, impairment is the difference between acquisition cost and fair value;
ii. For assets carried at cost, impairment is the difference between cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
iii. For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised in other comprehensive income.

**o) Trade payables**

Trade payables are stated at their amortised cost.

**p) 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 profit or loss 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.

**q) Foreign currency translation**
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 profit or loss.

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.

**r) Fair values**
For investments traded in an active market, fair value is determined by reference to quoted market bid prices.

For unquoted equity investments, fair value is determined by reference to recent arm's length market transactions, market value of a similar investment, expected discounted cash flows or other valuation models.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

The fair value of forward foreign exchange contracts is calculated by reference to current forward exchange rates with the same maturity.

Investments with no reliable measures of their fair values and for which no fair value information could be obtained are carried at their initial cost less impairment in value.

For other financial assets and liabilities, fair value is determined based on expected future cash flows and management's estimate of the amount at which these assets could be exchanged for cash on an arm's length basis or a liability settled to the satisfaction of creditors.

**s) 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.

**t) 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.

**u) Derivatives**

Derivative products principally include forward foreign exchange contracts, futures, options and swaps.

Derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market using prevailing market rates or internal pricing models. Derivatives with positive market values (unrealised gains) are included in other receivables and derivatives with negative market values (unrealised losses) are included in other payables in the consolidated statement of financial position. The resultant gains and losses from derivatives held for trading purpose are included in profit or loss.

The Group also enters into sales and purchase contracts as part of its international operations. Where these contracts qualify as a derivative or include an embedded derivative as defined by IAS 39, 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.

**v) 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.

**w) 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.

**x) Revenue recognition**

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.

Interest is recognised on the accrual basis.

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

**y) Leases**

Rentals paid under operating leases are expensed on a straight-line basis over the lease term, irrespective of the terms of payment.

**z) Provision for employees' indemnity**

**Defined benefit scheme – Parent, local subsidiaries and associates**

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 under International Accounting Standard (IAS) 19 – Employee Benefits is charged to profit or loss in the year to which it relates.

**Defined benefit scheme – Foreign subsidiaries and associates**

The Group's subsidiaries in the UK, Sweden, Belgium, the Netherlands, 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.

The projected Unit Credit Method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to determine the final obligation. Past service costs are recognised on a straight-line basis over the average period until the benefits become vested. Gains and losses on the curtailment or settlement of pension benefits are recognised when the curtailment or settlement occurs.

The Group immediately recognises as income or expense that portion of cumulative unrecognised actuarial gains and losses at the end of the reporting period which exceeds the greater of 10% of the present value of obligations and 10% of the fair value of scheme assets at that date.

The pension liability recognised in the consolidated statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains or losses and unrecognised past service cost, and as reduced by the fair value of plan assets.

If the amount initially recorded in the consolidated statement of financial position using this method is an asset, this amount is restricted to the net total of any unrecognised actuarial losses and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

**Defined contribution schemes**

In addition to the defined schemes described above, the Group's operations in Denmark and Sweden sponsor defined contribution plans for full-time employees based on local practices and regulations. The Group's contributions relating to defined contribution schemes are charged to profit or loss 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.

**aa) Emissions' rights**

The Group 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.

**bb) New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 April 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, with the exception of:

• Amendments to IAS 1 Presentation of Items of Other Comprehensive Income, which becomes mandatory for the Group's 2013-2014 consolidated financial statements, with earlier application permitted, change the grouping of items presented in Other Comprehensive Income (OCI). The main change resulting from these amendments is a requirement for entities to group items presented in OCI on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment affects presentation only and therefore has no impact on the Group's financial position or performance.

•IAS 19 Employee Benefits (Amended). The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The Group is currently assessing the impact that this standard will have on the financial position and performance.

• Amendments to IFRS 7 and IAS 32 Offsetting Financial Assets and Financial Liabilities. The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement. The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required. The Group's management anticipates that

the application of these amendments to IAS 32 and IFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

• IFRS 9 Financial Instruments, which becomes mandatory for the Group's 2015-2016 consolidated financial statements, with earlier application permitted, and could change the classification and measurement of financial assets. The Group is currently considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

• Consolidation Standards. A package of consolidation standards are effective for annual periods beginning or after 1 January 2013: IFRS 10 Consolidated financial statements, IFRS 11 Joint arrangements, IFRS 12 Disclosure of interests in other entities, Consequential amendments to IAS 27 Separate financial statements, and IAS 28 Investments in associates and joint ventures. The Group's management have yet to assess the impact of these new and revised standards on the Group's consolidated financial statements.

• IFRS 13 Fair Value Measurement, which becomes mandatory for the Group's 2013-2014 consolidated financial statements, with earlier application permitted, replaces existing guidance of fair value measurement in different IFRSs with a single definition of fair value, a framework for measuring fair values and disclosure about fair value measurements. The Group is currently reviewing its methodologies in determining fair values.

## 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 discourse). 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 20, 34 and 38 respectively.

**Impairment of available-for-sale investments**

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**

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.

**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 arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; 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 20. 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.

**Impairment of goodwill**

Determining whether Goodwill is impaired requires an estimation of the value in use of the cash-generating units to which the cost has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Residual value and useful life of oil and gas tankers

Due to the specialised nature of these tankers and changing market conditions, the estimation of these requires significant judgement.

**Impairment of oil and gas tankers**

The Group determines whether these tankers are impaired, at least on an annual basis. This requires an estimation of the recoverable amount (higher of value in use and fair value less costs to sell). Estimating the recoverable amount requires the Group to ascertain the value in use and fair value less costs to sell. Determining the value in use requires the Group to make an estimate of the expected future cash flows from the tanker and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Determining the fair value less costs to sell requires the Group to use an appropriate valuation model to compute the fair value and to estimate the costs to sell based on past experience and future expectations.

**Actuarial 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.

**Depletion of oil and gas properties**

Depletion of the cost of oil and gas properties and information reported on estimated quantities of proved oil and gas reserves are based on estimated oil and gas reserves which have been determined by competent and qualified petroleum engineers. Management believes these reserves to be commercially productive and will provide revenues to the Group adequate to recover remaining net un-depreciated and un-depleted capitalised oil and gas properties.

**Decommissioning liability**

The Group has made provision for decommissioning costs relating to the future abandonment of fields based on the present value of expected expenditures required to settle the obligation. The estimates used to determine decommissioning liability have been reviewed and revised, as appropriate, during the year by competent and qualified petroleum engineers.

## 5. Property, plant and equipment

| | Oil and gas properties | Tankage, pipelines and jetties | Plant and machinery | Oil and gas tankers | Camps, buildings and facilities | Vehicles, transportation equipment and other assets | Construction and general equipment | Well drilling and seismic surveys | Assets under construction and in transit | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 |
| **Balance at 1 April 2012, net of accumulated depreciation** | **826,190** | **1,577,318** | **2,241,545** | **306,790** | **634,567** | **86,725** | **36,929** | **1,007,913** | **2,893,818** | **9,611,795** |
| Additions | 322,517 | 5,078 | 21,477 | - | 36,663 | 5,442 | 3,109 | - | 1,727,272 | 2,121,558 |
| Disposals | (379) | (32) | (10,480) | - | (19,893) | (150) | (30) | - | (18,533) | (49,497) |
| Transfers | 38,819 | 77,967 | 322,608 | 22,548 | 65,344 | 8,323 | 9,592 | 216,970 | (762,171) | - |
| Transfer to intangible assets (note 7) | - | - | - | - | - | - | - | - | (25,622) | (25,622) |
| Currency translation effects | 6,619 | 2,160 | (5,310) | - | (1,932) | 38 | (222) | - | (174) | 1,179 |
| Depreciation for the year | (129,529) | (138,980) | (288,502) | (22,628) | (51,436) | (12,357) | (4,698) | (164,656) | - | (812,786) |
| Write off of unsuccessful exploration | (26,188) | - | - | - | - | - | - | - | - | (26,188) |
| Impairment loss | (34,153) | - | - | 21,696 | - | - | - | - | - | (12,457) |
| **At 31 March 2013** | **1,003,896** | **1,523,511** | **2,281,338** | **328,406** | **663,313** | **88,021** | **44,680** | **1,060,227** | **3,814,590** | **10,807,982** |
| Property, plant and equipment | | | | | | | | | | |
| At cost | 2,162,903 | 3,047,596 | 5,676,622 | 482,817 | 1,208,336 | 235,109 | 97,273 | 2,359,139 | 3,814,590 | 19,084,385 |
| Accumulated depreciation | (1,159,007) | (1,524,085) | (3,395,284) | (154,411) | (545,023) | (147,088) | (52,593) | (1,298,912) | - | (8,276,403) |
| **Net carrying amount at 31 March 2013** | **1,003,896** | **1,523,511** | **2,281,338** | **328,406** | **663,313** | **88,021** | **44,680** | **1,060,227** | **3,814,590** | **10,807,982** |

The depreciation charged to profit or loss is reduced by KD 494 million (2012: KD 446 million) being the amount charged to the Ministry of Oil in respect of the operations of local wholly owned subsidiaries.

Property, plant and equipment relating to joint ventures in a foreign subsidiary to the value of KD 30,796 thousand is pledged as security against bank loans as at 31 March 2013 (2012: KD 33,436 thousand) (refer note 20.2).

Included in assets under construction are amounts of KD 324,453 thousand and KD 268,497 thousand (2012: KD 319,254 thousand and KD 265,054 thousand) relating to the Group's new refinery project and the clean fuels project respectively. During the current year, the Supreme Petroleum Council approved the Group's plan to go ahead with the implementation of the new refinery project and clean fuels project.

## 5. Property, plant and equipment (continued)

| | Oil and gas properties | Tankage, pipelines and jetties | Plant and machinery | Oil and gas tankers | Camps, buildings and facilities | Vehicles, transportation equipment and other assets | Construction and general equipment | Well drilling and seismic surveys | Assets under construction and in transit | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 |
| **Balance at 1 April 2011, net of accumulated depreciation** | **751,266** | **1,069,077** | **2,248,088** | **219,516** | **535,257** | **88,517** | **38,197** | **632,260** | **3,198,485** | **8,780,663** |
| Additions | 150,454 | 2,275 | 17,423 | - | 15,273 | 5,989 | 615 | - | 1,511,219 | 1,703,248 |
| Disposals | (836) | (67) | (2,267) | - | (1,744) | (1,304) | (32) | - | (9,810) | (16,060) |
| Transfers | 85,924 | 626,204 | 298,094 | 121,558 | 147,323 | 3,688 | 3,141 | 510,944 | (1,796,876) | - |
| Currency translation effects | (5,450) | (1,804) | (34,740) | - | (7,590) | (147) | (434) | - | (9,200) | (59,365) |
| Depreciation for the year | (119,973) | (118,193) | (285,053) | (17,619) | (53,893) | (10,018) | (4,558) | (135,291) | - | (744,598) |
| Write off of unsuccessful exploration | (19,768) | - | - | - | - | - | - | - | - | (19,768) |
| Impairment loss | (15,427) | (174) | - | (16,665) | (59) | - | - | - | - | (32,325) |
| **At 31 March 2012** | **826,190** | **1,577,318** | **2,241,545** | **306,790** | **634,567** | **86,725** | **36,929** | **1,007,913** | **2,893,818** | **9,611,795** |
| **Property, plant and equipment** | | | | | | | | | | |
| At cost | 1,813,179 | 2,963,993 | 5,380,882 | 460,269 | 1,173,191 | 228,940 | 82,010 | 2,142,760 | 2,893,818 | 17,139,042 |
| Accumulated depreciation | (986,989) | (1,386,675) | (3,139,337) | (153,479) | (538,624) | (142,215) | (45,081) | (1,134,847) | - | (7,527,247) |
| **Net carrying amount at 31 March 2012** | **826,190** | **1,577,318** | **2,241,545** | **306,790** | **634,567** | **86,725** | **36,929** | **1,007,913** | **2,893,818** | **9,611,795** |

## 6. Goodwill

| | 2013 KD'000 | 2012 KD'000 |
|---|---|---|
| At beginning of the year | 159,550 | 161,999 |
| Additions during the year | 2,966 | 2,286 |
| Impairment | (513) | - |
| Currency translation effects | 2,099 | (4,735) |
| | **164,102** | **159,550** |

## 7. Intangible assets

Movements in the net book value of intangible assets other than goodwill during the year were as follows:

| | 2013 KD'000 | 2012 KD'000 |
|---|---|---|
| At beginning of the year | 143,911 | 158,216 |
| Additions during the year | 8,144 | 11,050 |
| Transfer from assets under construction (note 5) | 25,622 | - |
| Amortisation | (20,191) | (19,690) |
| Currency translation effects | (1,338) | (5,665) |
| | **156,148** | **143,911** |

The above primarily consists of licenses in respect of the Group's retail network together with capitalized software development costs.

## 8. Other non-current assets

| | 2013 KD'000 | 2012 KD'000 |
|---|---|---|
| Long term portion of trade receivables | 115,068 | 93,228 |
| Deferred expenses | 39,344 | 45,569 |
| Amount due from the Public Authority for Industry (PAI) | 60,297 | 60,297 |
| Others | 26,138 | 29,422 |
| | **240,847** | **228,516** |

Long term portion of trade receivables includes KD 115 million (2012: KD 93 million) due from the Ministry of Electricity and Water which does not carry any interest or fixed or determinable repayment dates.

A significant portion of these receivables has been outstanding for a number of years, as payment of these balances was subject to formalities, including the approval of the Ministry of Electricity and Water expenditure budget.

The Group is currently negotiating with the Ministry of Electricity and Water to settle the outstanding balance, and it is expected that the Ministry will include the outstanding balance in its next budget. Accordingly, the remaining outstanding balance of KD 115 million is measured on an undiscounted basis.

Approximately KD 19 million (2012: KD 26 million) of deferred expenses represents catalysts used in the refining process which are amortised on a straight line basis over their estimated useful lives.

Amount due from the Public Authority for Industry (PAI) represents costs incurred by the Group to construct sea water cooling tower on behalf of PAI. The Group started construction on the project in May 2006 and was completed in 2009. The project is to be transferred to PAI subject to the finalization of all legal and operational requirements between the Group and PAI. In the current year, the net revenue generated by the project on behalf of PAI amounted to KD 3 million (2012: 4 million) and is recorded as non-current liabilities.

## 9.Available-for-sale investments

| | 2013<br>KD'000 | 2012<br>KD'000 |
|---|---|---|
| Managed portfolios and funds | 5,096,743 | 4,656,349 |
| Others | 36,655 | 41,794 |
| | **5,133,398** | **4,698,143** |

Available-for-sale investments are denominated predominantly in US Dollars and Euros and represent investments in high credit quality bonds and equities quoted on international stock markets.

## 10. Investments in equity accounted investees

The Group's share of profit in its equity accounted investees for the year was KD 155,837 thousand (2012: KD 155,861 thousand). Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the Group:

| 31 March 2013 | Ownership | Total assets | Total liabilities | Revenues | Expenses | Profit | Share of results |
|---|---|---|---|---|---|---|---|
| | | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 |
| Kuwait Drilling Company K.S.C. | 49% | 168,125 | 81,705 | 10,301 | 4,391 | 5,910 | 2,896 |
| Equate Petrochemical Company K.S.C. | 42.5% | 1,118,607 | 782,875 | 173,490 | 12,253 | 161,237 | 68,526 |
| Gulf Petrochemical Industries Company B.S.C. | 33% | 153,984 | 15,493 | 83,033 | 17,966 | 65,067 | 21,472 |
| The Kuwait Olefins Company K.S.C.C | 42.5% | 590,557 | 306,289 | 148,838 | 5,196 | 143,642 | 61,048 |
| Al-Oula Fuel Marketing Company K.S.C. | 24% | 58,631 | 12,405 | 12,964 | 9,114 | 3,850 | 924 |
| Al-Sour Fuel Marketing Company K.S.C. | 24% | 55,556 | 12,527 | 13,004 | 8,957 | 4,047 | 971 |
| Equate Marketing Company E.C. | 49.9% | 230 | 65 | 1,139 | 1,139 | - | - |
| | | **2,145,690** | **1,211,359** | **442,769** | **59,016** | **383,753** | **155,837** |

| 31 March 2012 | Ownership | Total assets | Total liabil-ities | Revenues | Expenses | Profit | Share of results |
|---|---|---|---|---|---|---|---|
| | | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 |
| Kuwait Drilling Company K.S.C. | 49% | 169,718 | 84,747 | 10,714 | 4,981 | 5,733 | 2,809 |
| Equate Petrochemical Company K.S.C. | 42.5% | 1,196,619 | 830,162 | 159,246 | 14,882 | 144,364 | 61,355 |
| Gulf Petrochemical Industries Company B.S.C. | 33% | 156,167 | 10,461 | 94,758 | 18,211 | 76,547 | 25,260 |
| The Kuwait Olefins Company K.S.C.C | 42.5% | 594,342 | 325,751 | 156,616 | 5,426 | 151,190 | 64,256 |
| Al-Oula Fuel Marketing Company K.S.C. | 24% | 55,394 | 12,949 | 12,468 | 8,176 | 4,292 | 1,030 |
| Al-Sour Fuel Marketing Company K.S.C. | 24% | 55,556 | 12,527 | 12,615 | 7,820 | 4,795 | 1,151 |
| Equate Marketing Company E.C. | 49.9% | 199 | 39 | 1,184 | 1,184 | - | - |
| | | **2,227,995** | **1,276,636** | **447,601** | **60,680** | **386,921** | **155,861** |

## 11. Inventories

| | 2013 KD'000 | 2012 KD'000 |
|---|---|---|
| Crude oil | 619,265 | 495,633 |
| Liquefied petroleum gas | 2,035 | 1,605 |
| Refined petroleum products | 1,116,852 | 1,073,208 |
| Finished petrochemical products | 80,932 | 70,900 |
| Spare parts, materials and supplies | 393,905 | 365,632 |
| | **2,212,989** | **2,006,978** |

Inventories related to a foreign subsidiary to the value of KD 31,527 thousand (2012: KD 29,346 thousand) are pledged as security against bank loans as at 31 March 2013 (see note 20.2).

## 12. Trade receivables

The Corporation and one of its major subsidiaries, comprising 84% (2012: 87%) of the consolidated total trade receivables, deal mainly with major state owned and international oil companies. Another major subsidiary operating mainly in Europe and accounting for approximately 12% (2012: 10%) of the consolidated total trade receivables deals with a large number of corporate customers in that region. The Group's 12 largest customers account for 59% of outstanding trade receivables at 31 March 2013 (2012: 59%).

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

Trade receivables include KD 521 million (2012: KD 777 million), which represents the short-term portion of amounts due from Ministry of Electricity and Water.

Trade receivables related to a foreign subsidiary to the value of KD 74,267 thousand (2012: KD 80,612 thousand) are pledged as security against bank loans as at 31 March 2013 (see note 20.2).

## 13. Other receivables and prepayments

| | 2013 KD'000 | 2012 KD'000 |
|---|---|---|
| Marine sub-charter and other receivables | 126,716 | 146,920 |
| Insurance, local tax and other claims | 8,198 | 9,641 |
| Prepaid expenses | 46,645 | 30,246 |
| Receivable from exchange and concession partners | 8,040 | 5,777 |
| Advances to contractors | 351,338 | 393,016 |
| Refundable deposits | 20,457 | 23,970 |
| Employee receivables | 17,717 | 18,879 |
| Other | 285,023 | 230,768 |
| | **864,134** | **859,217** |

## 14. Deferred tax assets and liabilities

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

**Income taxes**

| | 2013 KD'000 | 2012 KD'000 |
|---|---|---|
| **Profit or loss** | | |
| Current year | 87,471 | 96,859 |
| Deferred tax expense | (14,898) | (654) |
| | 72,573 | 96,205 |
| **Consolidated statement of financial position** | | |
| Deferred tax assets | 30,746 | 28,586 |
| Deferred tax liabilities (see note 20) | (74,734) | (75,664) |
| | **(43,988)** | **(47,078)** |
| **Other taxes receivable / (payable)** | | |
| Taxes receivable | 29,812 | 19,142 |
| Taxes payable | (295,203) | (289,720) |
| | **(265,391)** | **(270,578)** |

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

## 15. Bank balances and cash

| | 2013 KD'000 | 2012 KD'000 |
|---|---|---|
| Cash and current accounts at banks | 2,221,949 | 1,353,051 |
| Short-term bank deposits and highly liquid investments maturing within 3 months | 2,459,142 | 1,558,745 |
| Cash and cash equivalents | 4,681,091 | 2,911,796 |
| Short-term bank deposits maturing after 3 months | 929,500 | 927,000 |
| | **5,610,591** | **3,838,796** |

**Bank balances and cash include:**

• US$ 13,157 thousand (KD 3,754 thousand) (2012: US$ 13,075 thousand (KD 3,637 thousand)) recovered from a former employee, against whom the Corporation has initiated legal proceedings for financial irregularities. During the year, a final judgement was granted in favor of the Group and corresponding amount of KD 3,754 thousand has been recognized as other income in these consolidated financial statements (2012: KD 3,637 thousand was reported under other payables and accruals) (see note 34).

• Pound Sterling 141 thousand (KD 61 thousand) (2012: Pound Sterling 140 thousand (KD 62 thousand)) recovered from former employees against whom the Corporation has initiated legal proceedings for financial irregularities (see note 34).

The corresponding amount of KD 61 thousand (2012: KD 3,699 thousand) is reported under other credit balances (see notes 21 and 34).

## 16. 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.

## 17. 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.

## 18. 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 23).

## 19. 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' fixed assets, 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 284 million to the reserve as at 31 March 2013 (2012: KD 270 million), which is subject to approval of the Supreme Council for Petroleum.

## 20. Non-current liabilities

| | 2013 KD'000 | 2012 KD'000 |
|---|---|---|
| Employees' terminal benefits (see note 20.1) | 485,325 | 444,679 |
| Pension fund liabilities (see note 20.1) | 27,755 | 17,690 |
| Long-term loans (see note 20.2) | 388,682 | 423,585 |
| Deferred income taxes (see note 14a) | 74,734 | 75,664 |
| Provisions (see note 20.3) | 49,151 | 47,840 |
| Others (see note 20.4) | 129,358 | 117,753 |
| | **1,155,005** | **1,127,211** |

### 20.1 Employees' terminal benefits and Pension fund liabilities

The principal defined benefit funds schemes relating to KPC Holding (Aruba) A.E.C. operate in the United Kingdom, Sweden, the Netherlands, 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 between 31 December 2012 to 31 March 2013, and these showed that the funds and schemes in the United Kingdom, Belgium, Sweden, Italy and the Netherlands had a net deficit. The main assumptions used in the actuarial valuation were an expected return on assets of 3.2% to 4.5% per annum (2012: 3.8% to 6.1%), an annual salary increase of 0% to 4.9% (2012: 0% to 4.7%) and a discount rate of 3.2% to 4.5% (2012: 3.6% to 4.9%).

### 20.2 Long-term loans

The long-term loans mainly represent third party loans to Kuwait Aromatics Company K.S.C., KPC Holdings (Aruba) and Petrochemical Industries Company K.S.C.

On 17 May 2007, the Kuwait Aromatics Company K.S.C. (Closed). signed a KD 394 million term debt facility agreement with a consortium of banks which includes a commercial facility of KD 296 million and an Islamic loan facility of KD 98 million. The term loan is repayable over a period of 11 years in biannual instalments starting from 15 December 2010 and carries an average interest rate ranging from LIBOR +0.4% to LIBOR +0.7% per annum.

The long term loans to KPC Holdings (Aruba) AEC are denominated in Euro and bear various interest rates, however the majority of the loan balance bears interest at a rate of EURIBOR plus a margin specific to each loan. Certain of the loan balances include covenants relating to the statutory financial position of the relevant subsidiary.

The long term loans to Petrochemical Industries Company K.S.C. are denominated in USD and Euro and bear various interest rates, however majority of the loan balances bears average interest at LIBOR or EURIBOR plus a margin ranging from 1.5% to 1.75% per annum. The loans are secured by a mortgage over certain assets (see notes 5, 11 and 12).

### 20.3 Provisions

Provisions represent the present obligations of one of the Corporation's subsidiaries in Europe relating mainly to environmental provisions relating to the closure of a refinery, and business restructuring in respect of the relocation of certain of the subsidiary's management together with restructuring of operations in France, Belgium, Italy and Germany.

| | 2013 KD'000 | 2012 KD'000 |
|---|---|---|
| Refinery closure (see note i) | 18,935 | 18,527 |
| Environmental (see note ii) | 26,539 | 26,037 |
| Restructuring (see note iii) | 223 | 230 |
| Other (see note iv) | 3,454 | 3,046 |
| | **49,151** | **47,840** |

#### a) Refinery closure

The Group has provided for the clean-up costs associated with closure of a refinery in Italy. Allowance has been made for the net effect of inflation and discounting. The major part of the costs is expected to be incurred over the next eight years.

#### b) Environmental

The Group has accrued for costs associated with environmental clean-up, principally relating to Belgium and Italy and during the year to a lesser extent in Denmark and the Europoort refinery in the Netherlands. 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 by the Belgian government. In Italy, costs related to logistic facilities are expected to be incurred over the next 20 years and have been adjusted for inflation and discounting.

In addition to the provisions reported above, a liability was recorded in 2012 related to a settlement with the Italian Environment Ministry.

There were no significant accruals to provisions during the year.

#### c) Restructuring

The Group has accrued for costs associated with business restructuring of the operations in France, Belgium, Germany and Italy 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.

**d) Other**

The Group contributes to an obligatory fund for the environmental clean up of service stations in Denmark and is expected to continue to make payments until 2015. 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 vigorously contested by the Group. All claims are expected to be settled within one to five years and may carry interest.

### 20.4 Others

Included in non-current liabilities as at 31 March 2013 is an amount of KD 86,025 thousand which represents a provision made for decommissioning costs related to a subsidiary.

## 21. Other payables and accruals

| | 2013 KD'000 | 2012 KD'000 |
|---|---|---|
| Provision for a legal claim (note 38) | 626,194 | 695,400 |
| Other payables and marine sub-charter | 443,463 | 446,347 |
| Short-term bank loans | 139,170 | 190,728 |
| Provision for annual leave and accrued compensation | 218,492 | 158,686 |
| Payable to contractors | 101,678 | 78,289 |
| Accruals | 177,893 | 144,874 |
| Payable to exchange partners | 62,027 | 51,542 |
| Other credit balances | 173,220 | 281,233 |
| | **1,942,137** | **2,047,099** |

Short-term bank loans are secured and bear interest at prevailing market rates (note 20.2).

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 (see notes 15 and 34).

## 22. Amounts due to Ministry of Oil

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

These activities 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.

## 23. Profit to be distributed

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 its meeting dated 21 January 2010, the Corporation's Board of Directors agreed on a recommendation to the Supreme Council for Petroleum that the Corporation's profits for the five-year plan (2010 – 2015) be retained, subject to approval of the Supreme Council for Petroleum.

## 24. Revenues from consultancy and other operations

| | 2013 KD'000 | 2012 KD'000 |
|---|---|---|
| Consultancy and construction | 26,546 | 22,855 |
| Marine operations | 43,544 | 23,761 |
| Merchandise and other services | 194,434 | 231,782 |
| | **264,524** | **278,398** |

## 25. Investment income

Investment income mainly represents income from managed portfolios.

## 26. Other income (net)

| | 2013 KD'000 | 2012 KD'000 |
|---|---|---|
| Gain/ (loss) on disposal of property, plant and equipment | 4,165 | (1,286) |
| Recovery of financial cost | 135,262 | 125,837 |
| Foreign currency exchange gain | 60,542 | 30,435 |
| Miscellaneous income/ (expense) | 37,195 | (67,507) |
| UN compensation claims (see note 29) | 412,157 | 144,313 |
| | **649,321** | **231,792** |

## 27. 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.

## 28. Staff costs

Total staff costs for the year amounting to KD 1,325,648 thousand (2012: KD 1,180,211 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 859,176 thousand (2012: KD 770,914 thousand) has been included in cost of revenues and KD 466,472 thousand (2012: KD 409,297 thousand) has been included in general and administrative expenses. Staff costs consist of the following:

| | 2013 KD'000 | 2012 KD'000 |
|---|---|---|
| Salaries, wages and other benefits | 1,284,205 | 1,156,438 |
| **Pension and other retirement benefit expenses:** | | |
| defined contribution | 842 | 2,737 |
| defined benefit | 29,132 | 13,158 |
| **Compensation of key management personnel (see note 31):** | | |
| short-term benefits | 7,898 | 6,290 |
| termination benefits | 3,571 | 1,588 |
| | **1,325,648** | **1,180,211** |

## 29. 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 US $ 18,864 million to the Group and the Government of the State of Kuwait for payment as and when funds become available. During the year, a further amount of KD 412.2 million (2012: KD 144.3 million) was received in part settlement.

## 30. Fair values of financial instruments

In the normal course of business, the Group uses primary financial instruments such as cash and deposits, available-for-sale investments, short-term borrowings, receivables and payables. 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.

Non-current trade receivables totalling KD 115 million (2012: KD 93 million) are due from the Ministry of Electricity and Water (note 8). Since this balance does not carry a fixed or determinable date of future payment, it is not possible to estimate with sufficient reliability its fair value. However, in the opinion of the management, the fair value is not significantly different from the carrying value.

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:

| | 2013 USD'000 | 2012 USD'000 | 2013 KD'000 | 2012 KD'000 |
|---|---|---|---|---|
| **Foreign exchange contracts** | 997,364 | 900,290 | 284,563 | 250,425 |

**Fair value hierarchy**

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

| | Level 1 KD'000 | Level 2 KD'000 | Level 3 KD'000 | Total KD'000 |
|---|---|---|---|---|
| 31 March 2013 | | | | |
| **Available-for-sale financial assets** | 4,830,840 | 72,770 | - | 4,903,610 |
| 31 March 2012 | | | | |
| **Available-for-sale financial assets** | 4,398,703 | 72,664 | - | 4,471,367 |

There have been no transfers between fair value levels during the year ended 31 March 2013.

The above table does not include KD 230 million (2012: KD 227 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.

## 31. 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 profit or loss are as follows:

| | Joint ventures KD'000 | Associates KD'000 | Other related parties KD'000 | Total 2013 KD'000 | Total 2012 KD'000 |
|---|---|---|---|---|---|
| Purchases | 82,741 | 3,190 | - | 85,931 | 2,215 |
| Cost of production | 22,397 | 10,143 | - | 32,540 | 9,964 |
| Marketing fees received | - | 2,342 | - | 2,342 | 2,363 |
| Finance costs | - | - | - | - | - |
| Loss on USD/EUR cross currency swap | 17,888 | - | - | 17,888 | 2,037 |
| Compensation of key management personnel (see note 28) | - | - | 11,469 | 11,469 | 7,878 |
| General and administrative expenses | 571 | - | - | 571 | - |

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

| | Joint ventures KD'000 | Associates KD'000 | Other related parties KD'000 | Total 2013 KD'000 | Total 2012 KD'000 |
|---|---|---|---|---|---|
| Due from related parties | - | - | 99 | 99 | 298 |
| Other receivables and prepayments | 3,424 | - | - | 3,424 | - |
| Other payables and accruals | 11,127 | - | - | 11,127 | - |
| Due to related parties | - | 10,863 | 747 | 11,610 | 7,627 |

## 32. 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 59 percent (2012: 59 percent) of the Group's outstanding trade receivables is attributable to transactions with 12 customers (see notes 8 and 12). However, geographically there is no concentration of credit risk.

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.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for Groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

**Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

| | 2013 KD'000 | 2012 KD'000 |
|---|---|---|
| Other non-current assets (other than deferred expenses) | 201,503 | 182,947 |
| Available-for-sale investments | 5,133,398 | 4,698,143 |
| Trade receivables | 4,554,781 | 5,305,832 |
| Bank balances and cash | 5,610,591 | 3,838,796 |
| | **15,500,273** | **14,025,718** |

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:

| | 2013 KD'000 | 2012 KD'000 |
|---|---|---|
| Domestic | 957,990 | 1,584,359 |
| Europe (other than United Kingdom) | 3,157,089 | 3,240,539 |
| United Kingdom | 550,696 | 573,563 |
| Other regions | 90,509 | 90,318 |
| | **4,756,284** | **5,488,779** |

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:

| | 2013 KD'000 | 2012 KD'000 |
|---|---|---|
| Government | 1,714,026 | 1,778,470 |
| Private sector | 3,042,258 | 3,710,309 |
| | **4,756,284** | **5,488,779** |

**Impairment losses**

The aging of trade receivables and other non-current assets (other than deferred expenses) at the reporting date was:

| | Gross 2013 KD'000 | Impairment 2013 KD'000 | Gross 2012 KD'000 | Impairment 2012 KD'000 |
|---|---|---|---|---|
| Not past due | 4,086,292 | - | 4,493,558 | (11) |
| Past due not more than one year | 554,808 | - | 901,951 | - |
| Past due more than one year | 131,863 | (16,679) | 112,626 | (19,345) |
| | **4,772,963** | **(16,679)** | **5,508,135** | **(19,356)** |

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

| | 2013 KD'000 | 2012 KD'000 |
|---|---|---|
| Balance at 1 April | 19,356 | 17,989 |
| Impairment loss recognized | 926 | 1,413 |
| Provision no longer required | (3,603) | (46) |
| Balance at 31 March | 16,679 | 19,356 |

**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.

### 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.

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

| At 31 March 2013 | Carrying amount KD'000 | Contractual cash flows 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** | | | | | | | |
| Term loan | 527,852 | 527,852 | 13,695 | 125,475 | 39,889 | 147,339 | 201,454 |
| Trade payables | 857,432 | 857,432 | - | 857,432 | - | - | - |
| Other payables and accruals | 1,802,967 | 1,802,967 | - | 1,802,967 | - | - | - |
| Taxes payable | 360,379 | 360,379 | - | 295,203 | - | 65,176 | - |
| Amounts due to Ministry of Oil | 3,470,842 | 3,470,842 | - | 3,470,842 | - | - | - |

| At 31 March 2012 | Carrying amount KD'000 | Contractual cash flows 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** | | | | | | | |
| Term loan | 614,313 | 614,313 | 22,391 | 168,337 | 52,518 | 157,299 | 213,768 |
| Trade payables | 785,899 | 785,899 | - | 785,899 | - | - | - |
| Other payables and accruals | 1,856,371 | 1,856,371 | - | 1,856,371 | - | - | - |
| Taxes payable | 365,384 | 365,384 | - | 289,720 | - | 75,664 | - |
| Amounts due to Ministry of Oil | 3,563,449 | 3,563,449 | - | 3,563,449 | - | - | - |

### 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.

| | 2013<br>Equivalent position long/(short)<br>KD'000 | 2012<br>Equivalent position long/(short)<br>KD'000 |
|---|---|---|
| EURO | 4,828 | 973 |
| USD | 8,990,488 | 9,328,369 |
| GBP | 428 | 455 |
| AUD | 3,805 | 5,112 |
| JPY | 94 | 194 |
| BHD | 46,163 | 48,569 |
| Others | 879 | (351) |

### Sensitivity analysis

A five percent strengthening of the KD against the following currencies at 31 March 2013 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 2012.

| Effect in thousands of Kuwaiti Dinars | Equity | Profit or (loss) |
|---|---|---|
| **31 March 2013** | | |
| EURO | 241 | 241 |
| USD | 449,524 | 203,473 |
| GBP | 21 | 21 |
| AUD | 190 | 190 |
| JPY | 5 | 5 |
| BHD | 2,308 | 2,308 |
| Others | 44 | 44 |
| | **452,333** | **206,282** |

| Effect in thousands of Kuwaiti Dinars | Equity | Profit or (loss) |
|---|---|---|
| **31 March 2012** | | |
| EURO | 49 | 49 |
| USD | 466,418 | 241,883 |
| GBP | 23 | 23 |
| AUD | 256 | 256 |
| JPY | 10 | 10 |
| BHD | 2,428 | 2,428 |
| Others | (18) | (18) |
| | **469,166** | **244,631** |

### Interest rate risk

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

| | 2013 KD'000 | 2012 KD'000 |
|---|---|---|
| **Variable rate instruments** | | |
| Financial assets | **6,455,341** | **5,256,049** |

### Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates would have increased or decreased equity by KD 64,553 thousand (2012: KD 52,560 thousand).

### Other market price risk

Equity price risk arises from available-for-sale 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 investments classified as available-for-sale, a three percent increase or decrease in stock prices at the reporting date would have increased or decreased equity by KD 53,372 thousand (2012: an increase or decrease of KD 49,359 thousand). The analysis is performed on the same basis for the year ended 31 March 2012.

### 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.

Neither the Corporation nor any of its subsidiaries are subject to externally imposed capital requirements.

## 33. Expenditure commitments

### a) Operating lease commitments

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

| | 2013 KD'000 | 2012 KD'000 |
|---|---|---|
| **Future minimum lease payments:** | | |
| Within 1 year | 46,047 | 48,350 |
| Between 1 and 5 years | 111,276 | 133,089 |
| After 5 years | 110,174 | 99,813 |
| Aggregate operating lease expenditure contracted for at the reporting date | 267,497 | 281,252 |

### b) Capital expenditure commitments

| | 2013 KD'000 | 2012 KD'000 |
|---|---|---|
| **Capital expenditure commitments** | | |
| Estimated capital expenditure contracted for at the reporting date | 3,006,445 | 3,078,911 |

## 34. Contingent assets / liabilities

### Contingent assets

**Legal case**

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 company submitted a report to His Excellency, the Attorney General on its suspicion of 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.

One of the accused parties absconded before submitting the notification to His Excellency the Attorney General. Another party admitted the facts before the Attorney General, and made payment of US$ 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 company and was invested until it amounted to US$ 13,157 thousand (KD 3,754 thousand) including interest as at 31 March 2013 (2012: US$ 13,075 thousand (KD 3,637 thousand)).

The case was deliberated before different Kuwaiti courts, culminating in the two cassation verdicts Nos. 137 and 138 of 1997.

Mandated by the former Minister of Oil, Sheikh Saud Al-Nasser Al-Sabah, the subsidiary 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 company 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 to suspend the notification submitted against the former Minister of Oil, due to the lack of evidence. On 26 December 2007, His Excellency the Minster 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 company submitted another grievance complaint. The judgment was challenged before the Court of Cassation. On 17 February 2009, the court ruled to dismiss the appeal.

In parallel steps, the subsidiary company 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 judgement against three of the defendants for an amount of US$ 136,000 thousand excluding the 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 a former employee. An amount of US$ 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$ 92,770 thousand (which has been subsequently distributed) plus an amount of US$ 6,200 thousand transferred by the Public Prosecution from the accused party and received by Kuwait Oil Tanker Company in Kuwait, which was invested in a deposit renewable with its interest thereon pending a decision on crime No. 275/93. The deposit of US$ 6,200 thousand along with accumulated interest reached US$ 13,157 thousand till 31 March 2013 (2012: US$ 13,075 thousand). Legal measures are being carried out to collect the remaining balance. However, the uncollected amounts of US$ 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 company according to the verdict from London, and inclusive of the interest, till August 2005, amounting to US$ 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$ 25,000 thousand, for which a civil case was filed where a final verdict was announced in the session dated 7 March 2011 by rejecting the appeal, plus an amount of US$ 3,150 thousand (Chesapeake – selling debris of Surf City Vessel) for which a case was filed where a final verdict was announced in the session dated 7 March 2011 by rejecting the appeal.

A committee was formed comprising the subsidiary company and the Corporation to distribute the amounts collected from the accused parties to the entitled parties, after deducting the expenses of the lawsuits since their beginning to date. Subsequently, the Audit Committee of the Corporation approved on 7 May 2006 the report submitted by the subsidiary 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 subsidiary company and 46% to the Corporation. The remaining distributable amount was US$ 61,606 thousand. The Corporation's share amounting to US$ 28,339 thousand was transferred on 24 May 2006.

The subsidiary company's share amounting to US$ 33,267 thousand (KD 9,714 thousand) and the lawsuit expenses of US$ 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 company'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 embezzled by the accused parties and others. Verdicts were passed in a number of these cases to temporarily suspend the civil case pending a decision in crime No. 275/93, while the other cases are still being deliberated before the courts and experts. In one of these cases, the attorney of the subsidiary company 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. 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 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 to pay KD 300 as an attorney fees.

An appeal was made at the Court of Cassation by the heirs of a former employee under case No. 2012/603 cassation V/2 to the verdict issued by Court of Appeals No. 2012/271 Commercial /4. At the session dated 28 May 2012, the court has sentenced to refuse a request to cease the enforcement of the verdict.

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 141 thousand (KD 61 thousand) as at 31 March 2013 (2012: Sterling Pounds 140 thousand (KD 62 thousand)), and will be distributed later, according to the above agreed distribution share.

Further, the subsidiary company's attorney in Kuwait filed a lawsuit No. 2025/2010 (Commercial/ Court of First Instance) before the Kuwaiti courts to claim implementing a foreign verdict pronounced by London court in favor of the subsidiary company on 15 December 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 No. 1 of Article No. (199) of Law of Civil and Commercial Procedure issued by Decree 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. Discrimination has been petitioned by the accused and appealed to stop the verdict issued by the Court of Appeal, however on 8 August 2011 the Court of Cassation ruled to refuse that request, with no decision taken about the verdict of court of cassation in the original legal case.

A hearing session was scheduled on 8 March 2012 as the first hearing for the appeal discrimination to the verdict No. 3273/2010 to commercial appeal / 5 and case under No. 133/2011 discrimination Commercial/4. On 12 April 2012, the court ruled to accept the two appeals in their form and regarding their merits the court referred the challenged verdict to court of cassation and obligated the first appellee (respondent) in both appeal cases to settle the expenses in addition to KD 20 as attorney fees. Secondly, regarding the merits of the two 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 two appeal cases to settle expenses for two degrees plus KD 20 for attorney fees.

Further, the subsidiary company's attorney filed a law suit No. 3560/2010 (Commercial/ Court of First Instance) before the Kuwait courts to claim implementing a foreign verdict pronounced by London court in favour of KOTC 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 those proceedings which became final sentence.

Also, the subsidiary company's attorney filed a lawsuit before Kuwaiti courts under No. 1527/2012 civil total / 12 against a former employee and others to claim the final compensation which includes the sentence in crime No. 275/1993, 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. On 11 October 2012, the Court sentenced to refer the case to the Department of Experts and the case is still deliberated before the Department of experts.

**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**

Pursuant to the acquisition by a subsidiary of an interest in a joint venture in Australia, encompassing production from the Harriet field and various exploration permits, the subsidiary has entered into three deeds of cross charges in favour of each of the other participants for the purpose of securing the subsidiary company's obligations under the joint venture agreement. The cross charges comprise a prior ranking charge over the subsidiary's interest in the joint venture to a limit of Australian $ 250 million (KD 71 million).

On 23 November 2006, a subsidiary company issued a Notice of Force Majeure ("HJV Force Majeure") to a gas buyer of the Harriet Joint Venture ("HJV"). Three of the four limbs of the HJV Force Majeure continue to be in force. Any claim in relation to any shortfall in gas supply under the relevant contract is subject to the HJV Force Majeure and the HJV sellers' limitation of the liabilities set out in the contract. In September 2011, the court heard the subsidiary and its co-venturers' application for declaratory judgement on the correct construction of the Gas Sales Agreement ("GSA"). The parties entered into discussions on the matters in dispute, and on 1 November 2012, the parties signed Settlement Principles. The court has been requested to defer indefinitely the finalisation of judgment. Discussion on the final documentation of settlement is in progress.

The Group had contingent liabilities of approximately US$ 40 million (KD 11.4 million) at 31 March 2013 (2012: US$ 42 million (KD 11.7 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.

## 35. 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. | 100% | Exploration for and production of crude oil and natural gas in the State of Kuwait. |
| Kuwait National Petroleum Company K.S.C. | 100% | Refining, LPG manufacturing, and local marketing of refined products. |
| Kuwait Oil Tanker Company S.A.K. | 100% | Operation of a fleet of crude oil tankers and liquefied petroleum gas and oil product carriers. |
| Petrochemical Industries Company K.S.C. | 100% | Production of petrochemical products and their distribution and marketing. |
| Kuwait Foreign Petroleum Exploration Company K.S.C. | 100% | Exploration for and development of oil and gas outside the State of Kuwait. |
| Kuwait Aviation Fuelling Company K.S.C. | 100% | Supply of aviation fuel. |
| Kuwait Gulf Oil Company K.S.C. (Closed) | 100% | Exploration for and production of crude oil and natural gas. |
| Oil Development Company K.S.C. (Closed) | 100% | Manage and supervise operation services contract with international oil companies. |
| Oil Sector Service Company K.S.C. (Closed) | 100% | Liaison, public services and oil sector supporting services. |

**Indirectly held**

| Name of company | Proportion held | Principal activities |
|---|---|---|
| Kuwait Aramotics Company K.S.C.C. (“KARO”) | 80% | Producing and selling perfume products and other derivatives. |

### 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 | Aruba | Refining, and marketing of refined products |
| KPC Energy Ventures, Inc. | 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. | Kuwait | 49% | Contract drilling |
| Equate Petrochemical Company K.S.C. | Kuwait | 42.5% | Petrochemicals |
| Gulf Petrochemical Industries Company B.S.C. | Bahrain | 33% | Petrochemicals |
| Kuwait Olefins Company K.S.C.C | Kuwait | 42.5% | Petrochemicals |
| Al-Oula Local Fuel Marketing Company K.S.C. | Kuwait | 24% | Fuel marketing |
| Al-Sour Fuel Marketing Company K.S.C. | Kuwait | 24% | Fuel marketing |
| Equate Marketing Company E.C. | Bahrain | 49.9% | Fuel marketing |

**d) Principal joint ventures**

| Name of company | Country of incorporation | Effective equity interest as at 31 March 2013 |
|---|---|---|
| MEGlobal B.V. and subsidiaries | Netherlands | 50% |
| MEGlobal Canada Inc. | Canada | 50% |
| OKQ8 AB | Sweden | 50% |
| Reffineria di Milazzo S.p.A. | Italy | 50% |

The share of the assets, liabilities, income and expenses of the jointly controlled entities for the two years presented are as follows:

| | 2013 KD'000 | 2012 KD'000 |
|---|---|---|
| Current assets | 257,958 | 251,737 |
| Non-current assets | 351,622 | 304,820 |
| Current liabilities | (237,258) | (236,744) |
| Non-current liabilities | (81,863) | (61,744) |
| **Net assets** | **290,459** | **258,069** |
| | | |
| Income | 1,087,209 | 1,016,156 |
| Expenses | (1,033,777) | (943,048) |
| **Profit** | **53,432** | **73,108** |

## 36. Oil and gas reserves related to a foreign subsidiary (unaudited)

| | Crude Oil (mmbbls) | Gas (mmboe) | Total (mmboe) |
|---|---|---|---|
| **Proved and probable reserves at beginning of year** | | | |
| Fields in production | 45.94 | 157.38 | 203.32 |
| Projects under development | 4.84 | 144.52 | 149.36 |
| | **50.78** | **301.90** | **352.68** |
| **Changes during the year** | | | |
| Discoveries | 10.49 | 0.86 | 11.35 |
| Revision of previous estimates | (5.18) | (7.04) | (12.22) |
| Purchase of reserves in place | 17.08 | 2.85 | 19.93 |
| Production | (6.18) | (21.56) | (27.74) |
| | **16.21** | **(24.89)** | **(8.68)** |
| **Proved and probable reserves at end of year** | | | |
| Fields in production | 46.24 | 132.49 | 178.73 |
| Projects under development | 20.75 | 144.52 | 165.27 |
| | **66.99** | **277.01** | **344.00** |

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.

## 37. 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; accordingly a third statement of financial position is not presented.

## 38. Cancellation of a Joint Venture Formation Agreement

On 28 November 2008, Petrochemical Industries Company K.S.C. ("PIC"), a 100 percent owned subsidiary, and The Dow Chemical Company ("Dow") signed a Joint Venture Formation Agreement ("JVFA") to form a 50:50 petrochemicals joint venture, to be known as K-Dow Petrochemicals ("K-Dow").

The JVFA and related documents set out the terms of the proposed joint venture between PIC and Dow ("the Transaction") and provided that closing of the Transaction was to occur on 2 January 2009. However, the obligations of the parties to the JVFA to proceed to closing were expressed in the JVFA to be conditional on and subject to the fulfilment or, as applicable, the non-occurrence or, if permitted, the waiver of a number of matters ("Conditions Precedent").

It was PIC's position that the conditions precedent were not satisfied and, under the JVFA, closing was prevented from taking place without liability on either PIC or Dow.

Dow did not accept this position and has commenced an arbitration, in accordance with the JVFA, in which it claimed that PIC is liable to indemnify Dow and/or to pay Dow damages, interest and costs.

The arbitration is now closed, and the Tribunal has issued the following awards:

**1. A Partial Award dated 21 May 2012. The main features of the Award were:**

a) The Tribunal determined that the Conditions Precedent were satisfied and that PIC breached the contract by refusing to Close;

b) Dow suffered no loss of bargain;

c) However, some of its claims for damages for consequential loss were successful and the Tribunal awarded Dow an amount of USD 2.05 billion under this head;

d) It also awarded Dow an amount of USD 110.1 million for wasted costs; and

e) Questions of interest and costs were reserved for further submission and Award, unless and to the extent to which agreed between the parties. PIC's management has estimated interest and costs at USD 338.95 million.

**2. A Final Award on interest and costs dated 28 February 2013. In this Award, the Tribunal ordered payment by PIC of ongoing interest on the sums awarded by the Partial Award as well as costs and expenses of the arbitration together with interest on those costs and expenses.**

Following the Partial Award, PIC has issued a challenge in the English High court to part of the "Partial Award" under the English arbitration Act on the grounds that the Tribunal totally failed to address a key issue in the arbitration. On 11 October 2012, the Court issued its judgment rejecting PIC's challenge. PIC applied to appeal this judgment on 19 October 2012, but permission was refused.

Dow has applied to costs in respect of the above application, and presented claims for such costs which were considered excessive by PIC who has attempted without success to reach a negotiated settlement with Dow at a reduced figure. Dow has applied to the Court for detailed assessment of its costs, whereby PIC has submitted in response and made an offer of settlement of Dow's costs.

During the year ended 31 March 2012, management of the Group recognised a provision for legal claim in the consolidated financial statements of USD 2.5 billion, equivalent to KD 695 million.

**Enforcement of the Awards**

On 25 October 2012, Dow applied for an Order permitting enforcement of the partial Award in the same manner as a judgment of the English Courts. This order was granted on 30 October 2012.

**Subsequent events**

Subsequent to the reporting date, on 6 May 2013, PIC and Dow have reached an out-of-court agreement on a full and final settlement of claims relating to the JVFA, whereby PIC has paid USD 2,194,743,163 (equivalent to KD 624,788,510 as at the payment date) to Dow. In accordance with the settlement agreement, upon receipt of the settlement payment by Dow on 7 May 2013, claims relating to the JVFA have been fully and finally settled. Further, both PIC and Dow have irrevocably released and forever discharged each other from any and all claims. Accordingly, the Group's management has reversed the excess in previously recognized provision for legal claim of USD 305,256,837 (equivalent to KD 84,910,242 as at 31 March 2012), which is no longer required.

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