

**A WORK THAT
TRANSCENDS
BORDERS**



مؤسسة البترول الكويتية
وشركاتها
Kuwait Petroleum Corporation
and subsidiaries

**Annual
Report
2020
2021**



A Work That Transcends Borders

Annual Report 2020-2021



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



**His Highness
The Crown Prince of Kuwait
Sheikh Mishaal Al-Ahmad Al-Jaber Al-Sabah**



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KPC Mission

"We optimize the value of Kuwait's hydrocarbon resources by operating commercially and globally in an integrated and sustainable manner, while providing opportunities for our people to grow and contributing to Kuwait's economic development."

KPC Vision

Our vision is to be a global, integrated oil & gas leader, through:

- Leveraging innovation to maximize profit.
- Excelling with capable and motivated people.
- Acting as a secure and reliable supplier.
- Delivering efficiently and effectively.
- Ensuring health, safety, and security.
- Respecting the environment.

KPC Values

- Partnership: Building and sustaining relationships that support growth and enhance operational excellence.
- Caring for People: Creating a culture where people develop and grow, and are positively motivated to contribute to the success of others.
- Commitment to HSSE: Respecting the environment, and ensuring safety security, and the promotion of a healthy workplace wherever KPC operates.
- Pride: Creating employee satisfaction on an individual level and promoting a sense of loyalty and belonging to KPC.
- Integrity: Acting in a trustworthy manner with the highest standards of ethics, respect, and honesty.
- Innovation: Developing and embracing new ideas, methods, and approaches to solving challenges that create value.
- Excellence: Encouraging high performance, continuous improvement, and a customer focus.
- One team: Caring for the interests of KPC and ensuring alignment to achieve corporate and State goals.



الابتكار
INNOVATION



التميز
EXCELLENCE



الاهتمام بالعنصر البشري
CARING FOR PEOPLE



الإعتزاز
PRIDE



الفريق الواحد
ONE TEAM



الشراكة
PARTNERSHIP



الإستقامة
INTEGRITY



الالتزام بال صحة والسلامة
والأمن والبيئة
COMMITMENT TO HSSE

KPC Board of Directors



Dr. Mohammed Abdullateef Al-Fares
Deputy Prime Minister & Minister of Oil
Minister of Electricity, Water & Renewable Energy



Mr. Hashem Sayed Hashem
Chief Executive Officer
Kuwait Petroleum Corporation



Mr. Ali Abdullah Al-Thuwaimer
Board Member



Mr. Abdulaziz Al-Mulla
Board Member



Mr. Abdulaziz Al-Jaber
Board Member



Mr. Sami Al-Rushaid
Board Member



Mr. Manaf Abdulaziz Al-Hajri
Board Member



Mr. Jamal Al-Nouri
Board Member



Dr. Fadhel Safar Ali Safar
Board Member

CEOs and Managing Directors of KPC and Subsidiaries



Mr. Hashem Sayed Hashem
Kuwait Petroleum Corporation



Mr. Hatem Ibrahim Al-Awadi
Kuwait Integrated Petroleum Industries
Company



Mr. Abdunasser Yousef Al Fulajj
Kuwait Oil Tanker Company



Mr. Mutlaq Rashid Al-Azmi
Petrochemical Industries
Company



Mr. Waleed Khaled Al-Bader
Kuwait National Petroleum
Company



Mr. Emad Sultan
Kuwait Oil Company



Mr. Abdullah Al-Sumaiti
Kuwait Gulf Oil Company



Shaikh Nawaf Saud Nasir Al-Sabah
Kuwait Petroleum International
Kuwait Foreign Petroleum Exploration
Company



KPC Chairman's Statement

"KPC utilizes its full capabilities and efforts to secure Kuwait's oil future, particularly in light of the current exceptional circumstances the whole world is going through."

Despite the difficulties and negative repercussions facing the global economy as a result of the outbreak of the Corona Virus pandemic, the oil sector dedicated its focus and efforts on delivering its main accomplishments and objectives towards securing Kuwait's oil's future over the upcoming years for our current and future generation. Given the fact that the current crisis has affected economies of all countries,

including the State of Kuwait, and the oil industry, which is the most important pillar of the Kuwaiti economy.

Despite the successive pressures facing the oil sector and its employees because of the global events, the sector's achievements and contributions have continued. Hence, it is my pleasure to present the KPC Annual Report for the Financial Year 2020-2021 that includes all the efforts and significant achievements that have been accomplished during this tough time.

In the oil sector, we encounter an ever-changing environment with great challenges that require us to always adapt to the local and global changes and challenges, in order to be able to achieve our aspirations towards a global leading position. Hence, Kuwait Petroleum Corporation (KPC) had to follow a scientific methodology in planning the way forward for the Kuwaiti oil industry, beginning by setting its long-term strategic directions and then updating them in line with internal and external changes and developments.

We are proud of all the achievements included in the annual report of KPC and its subsidiaries, from exploration, production and export operations, to refining and petrochemical operations to increase revenues for the State of Kuwait, including strategic and vital projects such as the two environmental fuel projects and Al-Zour Refinery. In addition, to providing job opportunities for the Kuwaiti youth in alignment with the developed ambitious plans set, as well as adopting the latest training programs to qualify newly-hired employees. In conjunction with the development of national cadres working for KPC, and proceeding from our belief that the real wealth of the country is the human capital, we were very determined to implement the KPC Strategic Directions representing the roadmap for the implementation of mega projects within Kuwait and abroad in various aspects to improve the income of the Kuwaiti economy and

continue to be at the forefront to maintain the oil sector as an influential driver of the national and global economy.

We plan on stepping up our efforts and committing to integration and our one team spirit to improve performance and to establish a solid base for the sustainability of this sector, thereby achieving the highest benefits. Therefore, I extend all thanks and appreciation to all leaders, employees, unions, and contractors of the sector for their great efforts to maintain the continuity of the oil sector operations, by following the precautionary and protective measures announced by the health authorities in the country whenever we conduct our duties.

In conclusion, on my own behalf and on behalf of all members of the Board of Directors and executive management of KPC and subsidiaries, I would like to extend my heartfelt thanks to His Highness the Emir of the Country, Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, and to his Crown Prince Sheikh Mishaal Al-Ahmad Al-Jaber Al-Sabah, may Allah preserve them both, for their continuous support for the advancement and growth of the oil sector. I also extend my sincere thanks and appreciation to the executive management of KPC and subsidiaries in recognition of their tireless efforts and constant pursuit to achieve strategic objectives, in combination with overcoming the significant challenges we face and working firmly to develop and enhance sustainable development.

I also extend my thanks and gratitude to the work team and the people working in the oil sector for their extraordinary dedication and sincerity in performing their duties despite the most difficult circumstances. I would also like to thank our partners for their efforts to enhance the work environment. Without all these significant contributions, we would not have been able to go through a year full of difficulties and challenges with such stability and steadfastness, hoping to continue working during the next phase with more determination and proficiency. May Allah guide us all to that which is good and successful.

Dr. Mohammad Abdullatif Al-Fares
Minister of Oil and Minister of Higher Education
KPC Chairman



KPC CEO's Statement

"KPC faced the exceptional challenges of 2020/2021 with high operational flexibility and concrete achievements"

The successes delivered by KPC, and its subsidiaries are continuous due to the framework of the ambitious program being implemented by KPC, which aims to enhance the sources of the oil's wealth and improve the efficiency of their use in a way that achieves the vital objectives set for this framework. KPC strives diligently to deliver the optimal value for Kuwait's hydrocarbon resources by managing its operations around the world on a commercial basis, in an integrated and sustainable manner. Furthermore, KPC is keen to meet all the current

and future energy needs of the State of Kuwait by supplying an economically and environmentally optimal combination of different types of fuel, while striving to provide strategic alternatives. KPC adopts the international highest standards and best practices to conduct qualitative transformation and operational excellence across all activities and operations. It is also concerned with the continuous development of all areas of this vital industry, especially since the oil industry is the main supporter of the local economy.

This has always been a priority concern for the wise leadership, triggering a careful and continuous follow-up throughout the year of the workflow of the existing oil projects, including KPIs and progress rates, with the aim of providing support to overcome all challenges facing the oil sector to achieve tangible positive results. Despite lower prices in the oil markets due to the outbreak of the Corona Virus pandemic, the oil sector faced all these challenges firmly by developing well-thought-out plans and new programs in line with the current circumstances.

The financial year 2020/2021 was an unprecedented turning point posing exceptional challenges that required a quick and effective response to deal with the nature of these circumstances. Since the outbreak of the pandemic to the present time, KPC focused on providing support and assistance to the Kuwaiti institutions, including the Ministry of Health (MOH) which was the first concerned authority in the efforts exerted to combat this global pandemic. Therefore, KPC established quarantine stations, camps to host the infected cases, and field hospitals, and allocated part of the facilities affiliated to KPC and subsidiaries for supporting MOH.

In light of local, regional and international circumstances characterized by uncertainty, KPC and subsidiaries concluded the financial year 2020/2021 by bringing about outstanding achievements in various oil

sectors, thanks to the efforts of the oil sector workers across various subsectors, from production and exploration to exportation through refining and petrochemical operations along with striving to achieve leadership in HSSE and to delivering remarkable contributions in the field of renewable energy.

Today, we put forward this annual report for the financial year 2020/2021, taking pride in the outstanding business results, foremost of which is the operation of the Heavy Oil Production Project and the successful export of 3 shipments thereof. The production and development of the Divided Zone were resumed after a 5-year disruption. Al-Ahmadi Refinery was commissioned under the Environmental Fuel Project and the first shipment of high-quality petroleum coke was exported. In addition, two new tankers were received as part of the phase IV of the KOTC Fleet Modernization Plan, along with achieving the first oil production from the Geisum Concession. The sector also exerted tireless efforts to advance the workflow of the Al-Zour Refinery and the Permanent Facilities for Importing LNG. The sector made efforts to minimize expenses and maximize revenues to adapt to economic conditions arising because of the Corona pandemic and its impact on the global economy and oil markets.

In addition to the attention devoted by KPC to investing in the development of oil and gas resources, it has paid similar attention to investing in the human capital as the main pillar in making and sustaining the achievements during this period. KPC and subsidiaries have launched several ambitious initiatives and programs to develop the skills of young cadres and prepare them in scientific and professional aspects to assume leadership responsibilities in line with the current conditions witnessed by the sector and the planned growth in the future. Furthermore, they implemented a wider range of large petroleum projects required for the preparation of young cadres capable of efficiently managing and operating these projects.

As we are facing new challenges and implementing huge projects aimed at advancing the oil industry, it was necessary for us to benefit from our previous experiences and expertise and to adopt the most advanced technologies in all our activities and operational processes, by applying higher standards with the aim of consolidating our position as an industry leader. We hope that our next steps of success will be based on firm rules and accelerated efforts for the sake of future generations and to achieve the public interest and benefit for the State of Kuwait as well as the oil industry.

May Allah guide us all to that which is beneficial to our beloved country, Kuwait.

Hashem Sayed Hashem
Deputy Chairman
CEO, Kuwait Petroleum Corporation

The KPC Financial Performance for the Financial Year 2020/2021

Total Revenue for the FY
KWD 16.9
Billion

Total Expenses for the FY
KWD 16.8
Billion

Total Capital Expenditure for the FY
KWD 2.2
Billion

Net Profits for the FY
KWD 94.5
million

The Circumstances and Developments of Global Markets during the Financial Year 2020/2021

The repercussions of the Corona pandemic have negatively affected global economies, especially by lockdown measures and travel restrictions, but there are signs of recovery, as efforts of vaccination campaigns and the gradual removal of lockdown measures are accelerating. Furthermore, the recession of economic growth by 3.5% in 2020 has forced most global economies to provide stimulus packages, financial aids, and interest rate reduction by central banks in an effort to address the negative effects of the Corona pandemic, in addition to promoting the global economy during the next two years, as it is expected that 2021 will record economic growth of 5.5%.

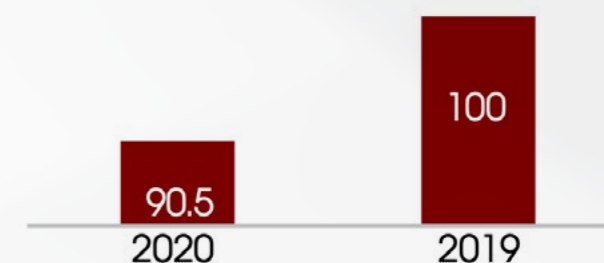
The global economic recession in 2020 due to the Corona pandemic led to an unprecedented decrease in global demand for oil, and accordingly all entities concerned with energy affairs such as the Organization of Petroleum Exporting Countries (OPEC), the US Energy Information Administration (EIA), the International Energy Agency (IEA), and the global consulting companies updated their forecasts for the decline in oil demand during 2020 by 9.5 MBPD compared to 2019, bringing the demand rate to 90.5 MBPD as a result of the economic reduction.

The OPEC+ continues its efforts to monitor developments in the global oil markets and to discuss the best pathways to rebalance the oil markets through its monthly meetings. During its meeting held in April 2020, it was agreed upon that the largest oil production will decrease in the history of the oil industry by 9.7 MBPD. The State of Kuwait effectively participated in all these meetings through its membership in the Ministerial and Technical Production Control Committee and through monthly meetings, the recommendations of which led to the issuance of decisions related to the historic agreement which undoubtedly contributed to the improvement of oil market conditions during the rest of 2020 and the beginning of 2021.

9.5%

The percentage of decrease in global oil demand compared to 2019

Crude Oil Demand (million barrels of oil/day)



“Global supply and demand for crude oil, refined products and petrochemicals were affected by the Corona pandemic and the precautionary measures taken to control the pandemic”

Gasoline markets witnessed a sharp decline during 2020, as global vehicle sales decreased by 15 million vehicles, equivalent to 18% compared to 2018.

Global demand for aviation fuel decreased by 40% to reach an average of 4.75 million barrels per day in 2020 due to closure of airports and stoppage of passenger flights traffic to limit the spread of COVID-19. Furthermore, decrease in demand forced the refineries to reduce their production, which led to a 35% decrease in aviation fuel production, in addition to the low prices since the beginning of the pandemic.

It is expected that the global surplus fuel oil will increase by 30% during the current period as the spread of the (new and mutated) Corona virus prevented the return to normal conditions. In addition, the new sulfur specifications of International Maritime Organization (IMO) created a surplus of high sulfur fuel oil in the fuel market. At the same time, availability of quantities of fuel oil conforming to the specifications led to an increase in stock of gas oil, which was used as a substitute for fuel oil, as it is low in sulfur and conforms to the specifications. Thus, the demand for gas oil decreased by 9% in 2020 to reach an average of 26.2 million barrels. This led to a decrease in prices. Rates of use of ships' exhaust purifiers will be lower than previously expected as result of the current conditions. Most of the refinery projects to produce fuel oil in accordance with new sulfur specifications of International Maritime Organization (IMO) are temporarily delayed or postponed due to the pandemic.

The impact of the pandemic on the naphtha product is less severe compared to other products, whereas the demand for naphtha decreased by 0.25% to reach 282.77 million metric tons during 2020, as naphtha product is used as feedstock for production of polypropylene and polyethylene used in manufacture of personal and medical protection products, including respirators, personal protective gear, and single-use plastic injection needles, which prevented a sharp decline in global demand for naphtha.

It is expected that global deficit during 2021 in supply of petroleum coke will be increased by 20%, as demand has rapidly increased in such manner that exceeds supply, as refiners have largely decreased production due to the decrease in use of the product in the aluminum sector due to the pandemic.

Global sulfur market is witnessing a decrease in surplus during fiscal year 2020/2021 despite increase in sulfur production, due to increase in phosphate capacity in Morocco, Saudi Arabia, Brazil and United States of America, and the demand for sulfur in all its forms is not expected to recover in industrial and chemical sectors to a pre-coronavirus pandemic level until early 2022.

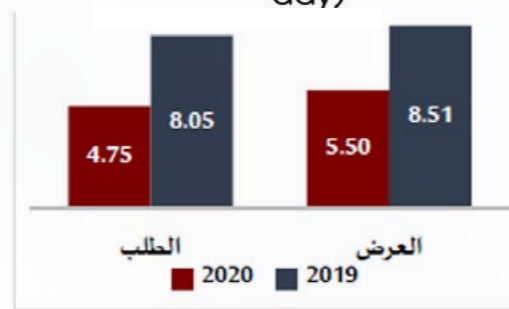
The largest deficit in global supplies of LPG was witnessed by the Asian continent, which has nearly half of global demand (especially from China, India, Japan, Indonesia, and South Korea). In contrast, the main LPG exporting regions were United States of America and Middle East (where they hold almost half of the world's production).

Year 2020 was characterized by the increase in supply over demand for the liquefied natural gas product due to spread of the Corona virus. However, in the fourth quarter, demand increased by 11% compared to the third quarter because of the winter season and the severe cold wave, which led to increase in demand by 0.9% compared to fourth quarter of the previous year. There is still no indication of accelerating final investment decisions for many future projects.

Global supply and demand for gas oil (million barrels / per day)



Global supply and demand for aviation fuel (million barrels / per day)



Global supply and demand for petroleum coke (million metric tons)



Global supply and demand for sulfur (million metric tons) (مليون طن متري)



Unprecedented drop in global refinery operating rates to below 70%.

In general, global refinery operating rates have been decreased below 70% during 2020 due to drop in demand for oil derivatives during repercussions of Corona crisis. However, it is expected that such rates will be gradually recover and increase in the upcoming years.

Overview of Global Petrochemical Markets

As a result of the continuing repercussions and developments of (new and mutated) Corona pandemic and tightening of procedures for implementing partial and total closure policies, which included many ports, land transport sectors and railways related to supply chain operations and logistical support for petrochemical products. This has led to the decrease in demand in all competitive global petrochemical markets and increase in supply due to inability to reach channels of selling applications of these petrochemical products. In addition, many producers and end users declaring a force majeure event for their factories due to their inability to secure access of labor to workplaces while reducing production rates, and inability to secure necessary bank credits to purchase products in light of closure policies that also included many vital banking sectors that greatly affected movement of remittances related to implementation of contract clauses related to cash flows and financial payments in exchange for purchases and sales in global markets. This resulted in reflection of events on various petrochemical prices, as prices of the polypropylene product decreased during first quarter of fiscal year 2020/2021 from selling price of USD 900 per ton to below USD 750 per ton. However, prices began to recover and gradually rise in the second quarter to the previous levels, as prices rose during third and fourth quarters of the fiscal year to above USD 1900 per ton, due to increase in global demand for polymer applications in various consumer manufacturing industries and simultaneous declaration of force majeure in American and European markets due to bad weather conditions. In addition, prices were affected by the rise in the value of container shipping freights in Asian markets, which contributed to unprecedented rise in polymer selling prices.

It was the same status for petrochemical aromatics products, where price of Paraxylene continued to decline during the second and third quarter of fiscal year 2020/2021 to reach USD 320 - 500 per ton as the lowest trading price in aromatic petrochemical markets, with deterioration of profit margins to reach rates below USD 130 per ton due to high price of feedstock, which coincided with closure policies in ports of discharge in the United States, Europe, Southeast Asia and Indian sub-continent (India and Pakistan) with waves of mutation of Corona virus, especially effects of abundance of supply in Chinese markets specifically due to accumulation of stocks of Paraxylene and entry of the new production capacities in production. However, prices have been improved during the last quarter of the fiscal year to be USD 600 dollars per ton, due to easing of restrictions in markets of Indian subcontinent, Europe, and America.

Supply and demand for petrochemical products, especially the Asian, Indian subcontinent and European markets, is still dependent on policies of easing partial and total closure and preventive health measures followed to limit the spread of the Corona pandemic, as these markets are considered the main driver in indicators and economics of petrochemical industry and its derivatives and various applications, taking into account that all prices of petrochemical products and their economic indicators are primarily subject to change in global oil markets, which is reflected on prices of paraxylene and naphtha products, as well as on prices of propylene and polymers, which reached their lowest level during the first and second quarter with significant improvement during the third and fourth quarter of fiscal year 2020/2021.



**OPERATIONAL
PERFORMANCE**



Exploration and Production within the State of Kuwait

“KPC uses the latest technologies in the production and development processes to achieve operational excellence in accordance with international standards.”

Crude Oil

Considering directives issued by the State of Kuwait and the Kingdom of Saudi Arabia, based on the agreement contained in the memorandum of understanding concluded between them on December 24, 2019, production was resumed at Khafji joint operations on February 23, 2020, and production at joint Wafra operations was resumed on July 1, 2020. This achievement was resulted from great efforts made by official authorities, especially Kuwaiti Ministry of Foreign Affairs and Ministry of Oil, which resulted in preparation and conclusion of recent agreements between both countries, as well as efforts made by loyal national cadres on Kuwaiti and Saudi sides in the joint operations areas to maintain safety of assets, facilities and constructions and their readiness for work, and accompanying intensive preparations for the return of production in accordance with agreed plans and procedures.

On the other hand, efforts are continuing to increase and enhance production capacity of crude oil by overcoming obstacles and implementing several capital projects to reach the target production. The heavy oil project was launched, which is a historic achievement for the State of Kuwait, in general, and for Kuwait Oil Company in particular, in terms of increasing production capacity and entry in field of heavy oil. Production of the heavy oil project reached 51 thousand barrels per day by drilling 930 wells, with total production of more than 7 million barrels since commencement of production operations in February 2020. The first shipment of heavy oil, in history of Kuwait, was exported in May 2020. This contributes to diversifying types of exported crude oil. Today, State of Kuwait has ability to export three types of oils, namely Kuwaiti crude oil, Kuwaiti high-quality light oil, and Kuwaiti heavy oil.

One of the most prominent endeavors to raise level of production was applying micro-seismic technology in two wells located in Bahra field in northern Kuwait in December 2020, for the first time in its history. The preliminary results showed extent of value and effectiveness of this application in improving and developing fracking process in such manner that helps to raise level of production. This technology is considered one of successful alternative solutions to address challenge of improving production in Al-Mawdood oil layer. Therefore, it is expected to gener-

alize this experience through the use of the application on other reservoirs with similar rocky characteristics in Sabriya field.

In this context, the first successful operation of “Zaytec” system for recovering and re-installing submersible pumps without need for drilling rigs in south and east of Kuwait was carried out in December 2020, whereas submersible pump was recovered and reinstalled in the 361 Maqwa well through “Zaytec” system without using drilling tower. Accordingly, this successful experience has proven possibility of applying this technology on a larger scale in all oil fields, because this achievement has significant positive impact on progress of operations, especially since a large proportion of wells depend on submersible pumps in production of oil. Further, this technology saves time, whereas wells are returned to production within a week at the latest instead of months if drilling rigs are used, which saves costs related to use of well rehabilitation towers.

All works on the associated water collection project in East Kuwait region were completed in January 2021, whereas tanks were delivered from various collection centers to the project site, thanks to tremendous efforts of several work teams, whereas Kuwaiti engineers are supervising the project in terms of design, construction, and transportation. The project is important because it increases the absorptive capacity to dispose of surplus water and supply injection wells with such water through pipelines connected to production facilities, which resulted in an increase in oil production in East Kuwait region.

Efforts made to maximize strategic value of oil production in the divided region include completion of selecting seismic survey (expert) designer for new 3D seismic survey project for the entire Khafji Joint Operations.

Production of Free (Non-Associated) and Associated Gas

KPC’s overall 2040 Strategic Directions aim at increasing the production of free (non-associated) gas in the State of Kuwait (including the Divided Zone) to the equivalent of 1,400 MMCFD in 2025, to meet local needs of gaseous fuels for production of environmentally friendly energy, in addition to providing appropriate feedstock for current and future petrochemical industries. Following the efforts made to explore and develop free natural gas in the State of Kuwait, free natural gas was discovered in Jurassic reservoirs in 2006, where free natural gas was discovered in the Umm Naqa, Al-Raheya, Mutriba and other fields throughout the State of Kuwait.

Due to this, the rate of free (non-associated) gas production from KOC operations amounted to approximately 541 MMSCFD (on average) during the financial year 2020-2021, an increase of 39 MMSCFD compared to the previous financial year. This is due to several factors, most notably the improvement of the company's enhanced facilities maintenance, which led to an in-



crease in the periods available for production and operation of facilities, thereby increasing their production capacity, in addition to an increase in the number of well maintenance operations, which increased their production rates.

As for the optimal utilization of the inherent value of gas in the Divided Zone, several projects and studies are being completed and implemented, such as the Hout Associated Gas Project (Ratawi limestone reservoirs in Khafji), which is fully completed. As for the new Gas Pipeline Construction Project from KJO region to the KNPC Mina Al-Ahmadi Refinery, its progress rate is 98%.

Construction of gas and natural gas liquid (NGL) export facilities of Kuwait Gulf Oil Company through Al Khafji Joint Operations has also been completed. Further, it was agreed with the partner to operate and maintain these facilities, which include many facilities and equipment, including gas compressors, gas condensate pumps, coolers, and long 4 km road transport line.

Regarding the Al-Durra field development project, which aims to produce one billion cubic feet per day of gas, so that State of Kuwait's share of it will reach 500 million cubic feet per day, Board of Directors of KPC has approved option of establishing gas separation facilities at sea, specifically "offshore division". The matter was referred to the Kuwaiti Ministry of Foreign Affairs to coordinate with Saudi Arabia to reach an agreement on the optimal option (maritime separation) in preparation for considering preliminary engineering designs (Pre-FEED) for the project.

Development of Oil Reserves to Ensure Sustainability of Production

In line with KPC's general strategic directions, which require replacing quantities of hydrocarbon produced by adding quantities of proven reserves of oil and gas annually by improving methods of extraction from currently known hydrocarbon reservoirs, and continuing intensive exploration operations in onshore and offshore areas to reach future goals of production rates, several economic volumes have been discovered in two new oil fields, in addition to discovery of extension of northern part of Great Burgan field. The first discovery is in middle Marat layer in (Houma) field in northwestern part, and second discovery is (Al-Qashaaniya) field in northern Kuwait with a production capacity equivalent to 1,819 barrels per day of light oil and associated gas, in addition to discovery of conventional oil north of large Burgan field in Wara and Mawdud reservoirs.

This achievement is part of a series of achievements and efforts made to achieve strategic goal 2040 for production capabilities.

In the same context, several exploratory drilling operations were completed during fiscal year 2020/2021, which will contribute to achieving strategic goals in terms of adding reserves and production, including drilling Jurassic exploratory well (KB-15) in Najma layer in Kebd field and extracting oil with quality of about 46 Specific Density and Jurassic Exploration Well (KA-07) Marat Bottom Layer in Kahlulah Field and proving presence of oil with quality of 33 Specific Density.

Moreover, a plan for a three-dimensional seismic survey of subsurface layers was implemented in the development area for light and heavy oil reservoirs of joint operations in Wafra, in order to accurately understand characteristics of the reservoirs that help improve production in the region, whereas technical workshops were held periodically in presence of teams from both Kuwait and Saudi Arabia sides to discuss and harmonize results of the three-dimensional seismic survey, as a result of which total increase of 101% of the area of development area at light and heavy oil reservoirs, as new boundaries were drawn for three reservoirs in Al-Wafra. This increase around the development area will add great quantities of hydrocarbon reserves.

The underground monitoring plan is also currently being implemented in coordination with joint operations in Wafra as part of achieving primary objective of gaining a comprehensive understanding of the reservoir standards that helps the asset teams to improve and enhance production by adjusting production and injection strategies. Monitoring campaign also includes monitoring changes within the well to ensure safety of wells for purpose of safe production in such manner that maximize oil extraction from the available reserves. A long-term plan is underway to monitor pressure of Ratawi reservoir (water injection and reservoir management) in Wafra joint operations.



Exploration and Production outside the State of Kuwait

”The offshore asset portfolio includes drilling and exploration concessions in 45 countries spread over five continents across the world.”

In light of KPC’s efforts to enhance the global presence of the State of Kuwait in the field of oil and gas production and in line with KPC’s overall 2040 Strategic Directions with regard to exploration and production outside the State of Kuwait, Kuwait Foreign Petroleum Exploration Company (KUFPEC) has endeavored to develop and improve the current portfolio of assets in order to achieve operational excellence.

The KUFPEC average production rate amounted to about 103 MBOE/D during 2020. KUFPEC added new oil reserves estimated at 5.7 MMBOE through the development activities completed during this year. Thus, by the end of 2020, the total proven reserves reached approximately 420 MMBOE.

It is worthy to be mentioned noting that the development program for the second, third and fourth phases of Kaybob condensate-rich shale project in Canada has been completed, as 29 wells were drilled, and 34 wells were connected to production lines at end of 2020. The production rate from Kaybob project reached its peak in the fourth quarter of 2020 when it reached 19,000 MBOE/D.

As for Wheatstone project in Australia, the net production was reached about 45,000 BOE/D during 2020, through improving the facilities where the old and expensive equipment that requires frequent maintenance was upgraded and replaced with high reliability ones. This led to an increase in production and efficiency of the project facilities; whereas nominal capacity of the project at stage of the final investment decision was about 8.9 million metric tons per year, but with using effective methods of project management and best practices, production capacity was increased to 11.6 million metric tons per year. Further, efficiency of the LNG plant was improved by installing highly efficient gas turbines and using cooling during extremely hot days to reduce impact of ambient temperature on plant performance, which contributed to reducing unplanned production stops. These improvements led to increased revenues and thus improved project economics and net present value (NPV).

In Malaysia, works of drilling the second appraisal well (Lang Lebah-2), with depth of 4,320 meters, have been completed. This resulted in positive results that enhanced quantities of gas

explored in the (SK-410B) project in Malaysia, which are initially estimated at multi-trillion cubic feet of gas. It has been found that density of gas-producing formations are more than 600 meters. Therefore, we are currently discussing with partners options for developing the field, as Kuwait Foreign Petroleum Exploration Company (KUFPEC) owns 42.5% of the project.

On the other hand, the geological and geophysical studies of Anampas project in Indonesia have been completed, as KUFPEC plays role of operator in this project, with efforts of the company's specialists and without assigning a consultant, which contributed to saving \$500 thousand.

As part of efforts exerted to in investment opportunities of economic feasibility, an exploration and production agreement was signed with Egyptian Natural Gas Holding Company in offshore Ras Kniss sector located in Herodotus Basin in the Mediterranean. The share of KUFPEC in this agreement is 25%, in partnership with Total (the operator) 35%, Shell 30%, and Egyptian Tharwa National Petroleum Company 10%.

Kuwait Foreign Petroleum Exploration Company (KUFPEC) also signed an exploration license in Winston Lead sector - PL1091) with Norwegian government in March 2021. This sector is in the Greater Sleipner region, which will provide opportunities to discover new resources and link them to the company's existing assets in the region. This sector will also contribute to maintaining good relations with government authorities through active participation in exploration efforts in Norway.

Exiting from inoperable assets

Considering the difficult economic conditions experienced by oil industry and decline in oil prices, KUFPEC has exited from the Sidi Al-Kilani project in Tunisia, with value of USD 500,000, as the company is awaiting final official approvals from Tunisian government.

Further, Kuwait Foreign Petroleum Exploration Company (KUFPEC) has not renewed the exploration licenses related to Harbor project in Pakistan, block (26-52) in China, block (PL-850) in Norway, and (WA-483-P) and (WA-191-P) projects in Australia.



Refining and Manufacturing within the State of Kuwait

”Providing high-quality petroleum products to meet the international market needs and requirements”

The updated overall Strategic Directions of KPC and its affiliations till 2040 call for expanding refining capacity within State of Kuwait at the highest manufacturing level, by reaching (a maximum of) 1.6 MBPD in 2025, whereas KPC hope to achieve this objective through fully operating the Environmental Fuel Project (developing existing refineries) and the Al-Zour Refinery Project, which also ensure revenue generation for the State of Kuwait by producing petroleum products with international high-quality specifications.

The Environmental Fuel Project aims to develop the Mina Abdullah Refinery and Mina Al-Ahmadi Refinery into an integrated refining complex, with a refining capacity of 800 KBPD of Kuwaiti crude oil, after the closure of the Shuaiba Refinery, while increasing the manufacturing capacity of the two refineries to meet the challenges and future requirements of the global market of oil products with high-quality specifications. This project is considered unique at the global level, as no oil refining company has ever been able to develop its existing refineries of this size, while at the same time continuing production operations and fulfilling its obligations towards its customers inside and outside the country. The project will support Kuwait's presence as an influential and competitive country capable of meeting requirements and strict requirements imposed by the global market to reduce sulfur and rest of the impurities and to produce environmentally friendly petroleum products.

All project works have been completed at Mina Al-Ahmadi Refinery (second package), including initial handover of all project facilities in August 2020. Then, works of operating the units affiliated with this package will be commenced, while work continues at an accelerated pace to complete the remaining units of the project in Mina Abdullah Refinery (Package one). It is worthy to be noted that all project works in Mina Al-Ahmadi Refinery have been completed, after successful operation of the last two production units (coal production unit and the naphtha treatment unit) within the project during the last fiscal year 2019/2020. Accordingly, the total completion rate of the project reached 99.38% until March 2021. Therefore, it is expected to complete operation of all the project units in July 2021.

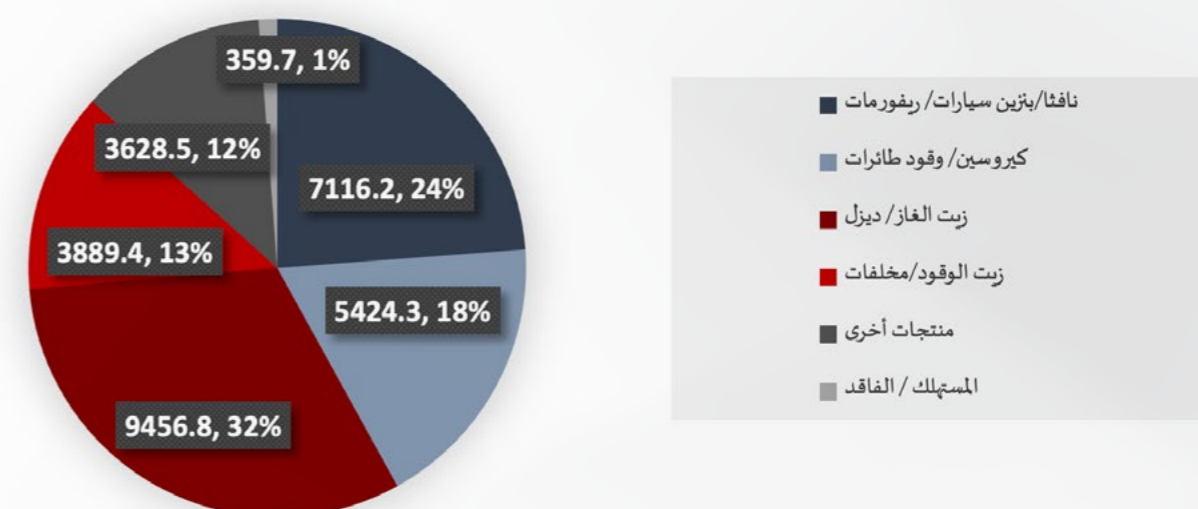
It is worthy to be noted that the first shipment (15,000 metric tons) of high-quality coal, produced by the coaling unit at Mina Al-Ahmadi Refinery, was exported on May 21, 2020, through the export port in Shuaiba, which is the first shipment exported from the Environmental Fuel Project.

As for Al-Zour Refinery project, it is expected to operate gradually starting from February 2020, with a refining capacity of 615 KBPD (assuming refining Kuwaiti crude oil) to produce high-quality refined oil derivatives with low sulfur content, which will contribute to meeting the future needs of fuel for power plants, and to keep pace with future international specifications for petroleum products, in addition to providing a facility for refining Kuwaiti heavy oil. The project was 98.3% completed by the end of March 2021, with completing mechanical works of all main refining units. Process of full operation of the central control building has been commenced within phases of operating Al-Zour Refinery. It is also worthy to be noted that the main gas line feeding the refinery has been commissioned.

The temporary alternative lines project has been initially handed over to supply Al-Zour Refinery with oil and gas fuel from Al-Ahmadi Refinery. Further, crude oil tanks have been initially handed over and the first batch of crude oil has arrived from Al-Ahmadi Refinery and has been filled in the tanks designated for it in the refinery.

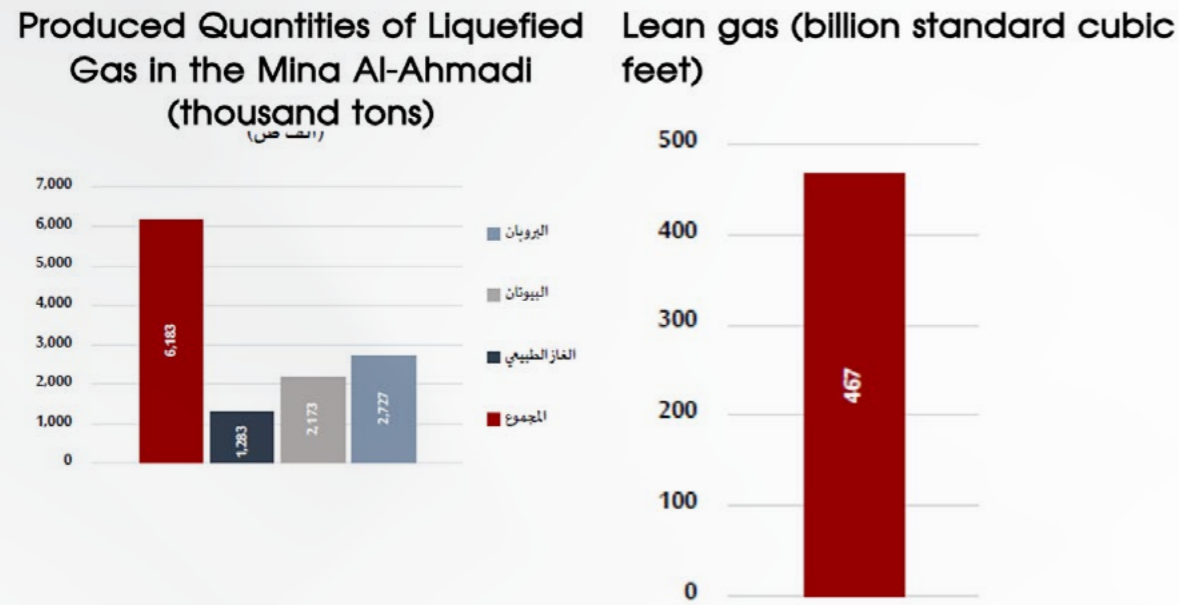
Total quantities of petroleum products produced during fiscal year 2020/2021 amounted to 29,874 thousand metric tons. The following graph shows details of the same:

Quantities Produced in KNPC Refineries during the FY 2020-2021 (thousand metric tons)



*Includes refinery liquefied petroleum gases, sulfur, petroleum coke, bitumen, and propylene gas.

As for the production of liquified gas, KNPC owns a gas liquefaction plant at Mina Al-Ahmadi Refinery, which currently has 4 production lines with a capacity of 2.458 billion cubic feet of gas per day. Natural gas delivers several economic and environmental benefits, the most important of which is minimizing gas emissions, especially sulfur oxides, Nitrogen Oxides, and carbon dioxide. Other fuels such as crude oil, gas oil and fuel oil are also provided. Gas is used in electric power plants and other industries such as petrochemicals, as well as to produce liquefied gas for domestic uses. Below is a breakdown of the produced quantities of liquefied gas, including lean gas, in the Mina Al-Ahmadi Refinery during Fiscal Year 2020/2021:



In the field of environmental preservation, works of constructing and operating a new acid gas removal plant (AGRP) project have been completed in June 2020. The project aims to be able to treat quantities of acid gases expected to be produced from KOC and KGO. The project comes in line with the strategic plans to reduce gas emissions (Gas Flaring) to less than 1%, and thus reduce the percentage of pollution with the aim of preserving the environment.

In the same context, the project of constructing and operating facilities of treating liquid sulfur, produced by KOC at Mina Al-Ahmadi Refinery, was completed in April 2021.

Further, the project of constructing and operating expansion and development of Al-Ahmadi Refinery has been completed. Some works are currently being executed based on the observations received from General Fire Department for the project facilities. This project is in line with the recommendations of the study regarding future expectations for strategic needs for products in the local market until 2030, whereas the needs of the local market for products will be met until 2030 in several stages, of which this project is the first stage. The project includes construction of oil derivatives tanks, loading arms and support services facilities.

Construction of fifth unit for production of liquefied petroleum gas at Mina Al-Ahmadi refinery is also underway. The mechanical works have been lately completed and the initial operation of the project facilities has been commenced, whereas actual progress is 96.03%. The project is expected to be completed in September 2021. The project aims to construct fifth unit for production of liquefied petroleum gas, considering expectations of an increase in gas and condensate

production resulting from plans to develop new gas explorations in future oil and gas fields. The project's scope of work includes detailed engineering designs, as well as procurement, supply, and installation of equipment for construction of fifth unit with capacity of 805 million standard cubic feet per day of gas and 106,000 barrels per day of condensate, in addition to construction of a new combined fuel gas treatment unit for each of the fourth and fifth gas liquefaction units.

Integration of Refining Operations and Petrochemical Industry

In line with the KPC directions to achieve integration between the refining and petrochemical operations within the State of Kuwait, KIPIC completed front end engineering design (FEED) for the petrochemical complex project (Aromatics II and Olefins III) integrated with Al-Zour Refinery, and selected the best technology licensors in the refining and petrochemical industry, so that the complex will be designed on a global level and integrated with the Refinery, with close follow-up of all technical matters by the project consultant and team at Kuwait Integrated Petroleum Industries Company. The approval of the Central Agency for Public Tenders was also obtained for the lists of contractors for the engineering, procurement, construction, and operation phase of the petrochemical complex project.

It is worth noting that the study work on the initiative to design green buildings for the petrochemical project complex has been completed by an international consultant, so that the project will follow the requirements of sustainable and environmentally friendly green buildings. Further, (10) employees of the Kuwaiti national cadres in the company have been trained.





Refining and Manufacturing outside the State of Kuwait

Crude Oil Refining

173 thousand barrels of Kuwaiti oil were being refined per day in the Vietnam Refinery during the financial year 2020-2021, in line with the overall Strategic Directions to dispose of 425 thousand barrels of Kuwaiti oils per day by 2025 through external refineries affiliated with Kuwait Petroleum International Company.

Kuwait Petroleum International Company is currently implementing the Duqm Refinery project in Sultanate of Oman, which represents a strategic partnership between the Omani company (OQ Company) and Kuwait Petroleum International Company in equal shares. The refining capacity of the Refinery is about 230 thousand barrels per day, with 145,000 barrels of Kuwaiti crude oil are being refined therein. It is expected to start producing liquefied petroleum gas, naphtha, jet fuel, diesel and coal with commencement of operations of the refinery in the second half of 2023, whereas the progress reached 80.65% by end of March 2021. Further, works of constructing all heavy equipment for the main refining units of the Duqm Refinery project (which are the towers of the crude oil distillation unit and the vacuum distillation unit, hydrocracking reactors, cylinders of the delayed coking unit and reactor of the diesel hydro processing unit), have been completed according to the time table, despite the obstacles and restrictions that were faced, resulting from the global Corona pandemic during the period of manufacturing some heavy equipment and shipping them to the Refinery site.

As for the petrochemical complex project in Sultanate of Oman, which aims to produce polypropylene, polyethylene and ethylene glycol, preliminary engineering studies for the project have been started. According to the resolution of the partnership company's board of directors, the work has been suspended until the vision becomes clear on the global petrochemical markets in regards to the impact of the Corona pandemic.

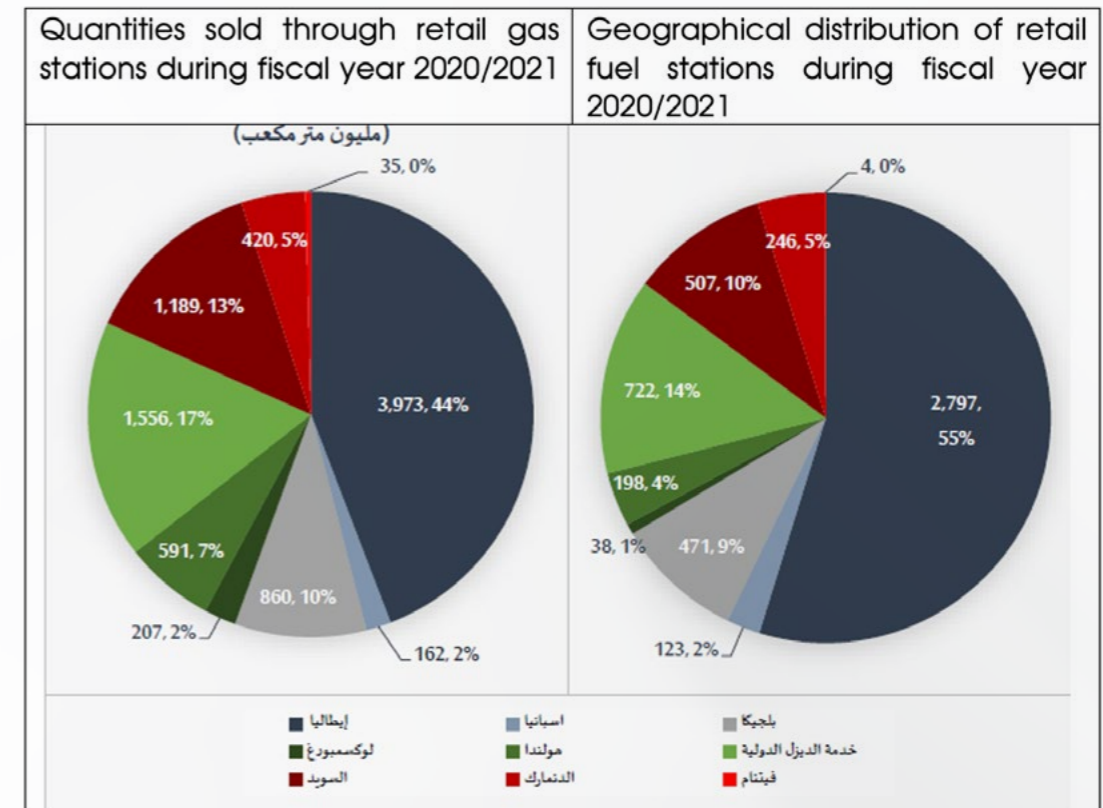
Retail Operations

“Significant presence of marketing and retail operations and market share in Europe has been enhanced”

To maintain and expand the competitive position in the European retail market by promising markets with high growth, despite impacts of Corona pandemic. KPI has managed to sell 8.993 million cubic meters of petroleum products in Europe through the KPI-owned marketing operations, as the company owns 5,106 retail gas stations mostly located in Italy, Belgium, Sweden, and Denmark. In addition, 29 new retail gas stations were opened during the financial year 2020-2021. Distribution of such stations are as follows: (12) stations in Spain, (10) stations in Italy, (3) stations in Netherland, (2) stations in Denmark, (1) station in Sweden, (1) International

Diesel service station.

As for the global fuel cards activity, KPI has signed a sales contract with PRIMAFRIO, which is the largest commercial land transport company in Spain, as it owns a fleet of 2,200 trucks. It is worth mentioning that a new station for the company was opened in French city of "Tours" which means that the company cards are started to be used in Republic of France.



KPI's operations were also expanded through an agreement with MOL to operate the card system in 7 countries located in Eastern Europe. Further, an agreement was signed with Italian Company (Jakala), which reflects an increase in value of KPI's sales by 5 million liters per annum. In addition, a contract was signed with large Dutch company (Asito) in cooperation with (Radiuz) and (Finch). It is expected that the company will sell about 1,200 cubic meters of fuel.

As for lubricants, an exclusive partnership contract was signed with (Innio Jebacher) Gas Engine International Company. Further, an agreement was also signed with the American company (Taylor Lubricants), which is one of the major distributors of lubricants in south of United States of America, to promote marketing of lubricants products in American markets.

Despite decrease of global orders for aviation fuel by 40% in 2020 as a result of the suspension of air traffic and travel restrictions, the KPC's endeavors represented by Kuwait Petroleum Company to supply aircraft with fuel, in order to implement the strategic directions to dispose of Kuwaiti petroleum products outside State of Kuwait, were clear, whereas the fuel supply contract with Air France was renewed for Charles de Gaulle Airport and Orly Airport in Paris. Further, process of marketing aviation fuel was started at Germany's new airport, (Willy Brandt Int. Airport). Also, technical services agreement was approved with Emarat Company, which is located at Dubai Airport and Al Maktoum Airport.



Petrochemicals

Despite the instability of the petrochemical industry markets and fluctuations they faced due to outbreak of the Corona pandemic, Petrochemical Industries Company continued its operations in field of petrochemicals and subsequent manufacturing industries and manufacture of specialized chemical products locally and globally during fiscal year 2020/2021 with the highest level of efficiency, ensuring decrease of the expected losses because of the pandemic.

When facing these challenges and reducing effects of the global crisis, a number of measures have been taken, the most important of which is to maintain continuity of implementation of futures and spot contracts for all products until end of the fiscal year in accordance with the annual sales plan, while maintaining the safe operation of the aromatics complex to avoid production stoppage due to non-disposal of quantities, as well as for the polypropylene plant in State of Kuwait and Republic of Vietnam, in addition to the urea and ammonia plants of Gulf Petrochemical Company in Kingdom of Bahrain.

Shipment of aromatic products (Paraxylene) has also been maintained in accordance with the concluded shipping contracts (COA, CVCC), while avoiding entering the shipping markets and chartering vessels due to the high freight value, risks, insurance and Bunker Prices at a value higher than the concluded charter contract, despite the fact that cancellation of some shipments destined to Indian and European markets due to the closure policies, as the shipping markets are still exposed to crisis of limited chemical tankers destined to Asian markets. Further, freight rates for tankers are increased from an average of \$ 45 per ton to above \$ 60 per ton and to above \$ 80 for European markets, and to above 90 dollars for American markets. Also, for shipment of polymer contracts, some Indian contracts have been transferred to Turkish and European markets.

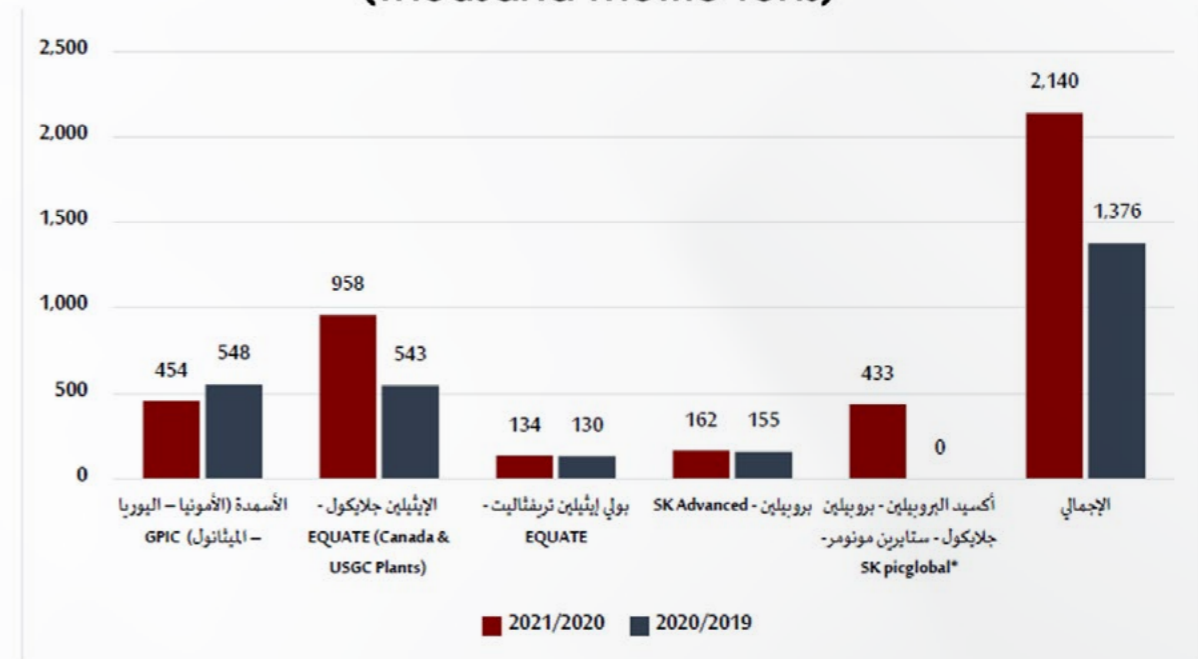
"KPC is reconsidering the planned growth plans in order to ensure achieving the highest returns in light of the current changes."

Local Operations

Share of Kuwait Petroleum Corporation in the total quantities of petrochemical products for local operations during fiscal year 2020-2021 amounted to 2,227 thousand metric tons.

Quantities produced from petrochemical products for local operations (thousand metric tons)

Quantities of petrochemical products for global operations
(Thousand metric tons)



The quantities of petrochemical products during the previous two fiscal years are similar, but there is a noticeable decrease in polypropylene production during the fiscal year 2020-2021, as a result of decrease in the available quantities of feedstock, in addition to malfunction and stoppage of the rotary shaft in the polypropylene plant in March 2021.

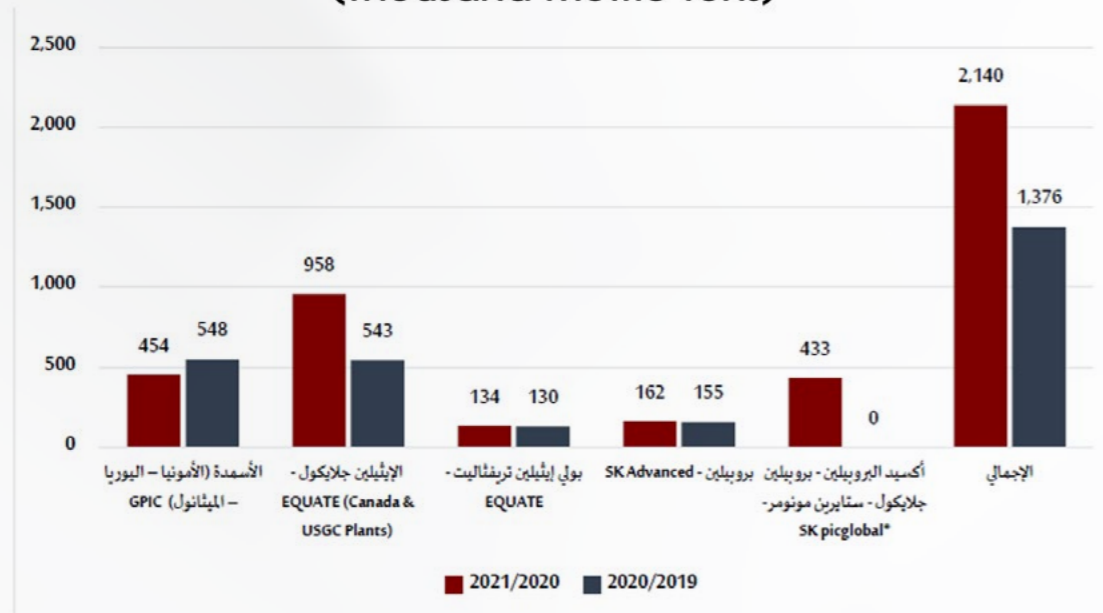
It is worthy to note that the Petrochemical Industries Company has succeeded in significantly reducing the operating expenses of the polypropylene plant compared to the operating expenses of the past three years, by implementing many initiatives, perhaps the most prominent of which is a study to reduce laboratory samples in such manner that does not affect performance of the plant, which led to reduction in operating costs of the laboratory. Further, initiatives have been launched to improve energy consumption in polypropylene plants, in addition to continuing work to consider improving performance of the catalyst to reduce the quantities used in the plant. Also, all efforts are being made to reduce the quantities of the product that does not conform to specifications.

Global Operations

The strategic directions of KPC call for expansion in the petrochemical sector outside State of Kuwait by building, expanding, purchasing assets or through mergers with global participation to maintain a leading position in the olefins and aromatics industry, in addition to expanding in the subsequent manufacturing industries through partnerships and alliances associated with the main intermediate products.

The share of KPC in the total quantities of petrochemical products for international operations during fiscal year 2020-2021 amounted to 2,140 thousand metric tons. The downstream industries associated with the main intermediate products represents 9.33% of the total quantities of the products, with an amount equivalent to 199.7 thousand metric tons.

Quantities of petrochemical products for global operations (Thousand metric tons)



* SK pic global Company was established in February 2020.

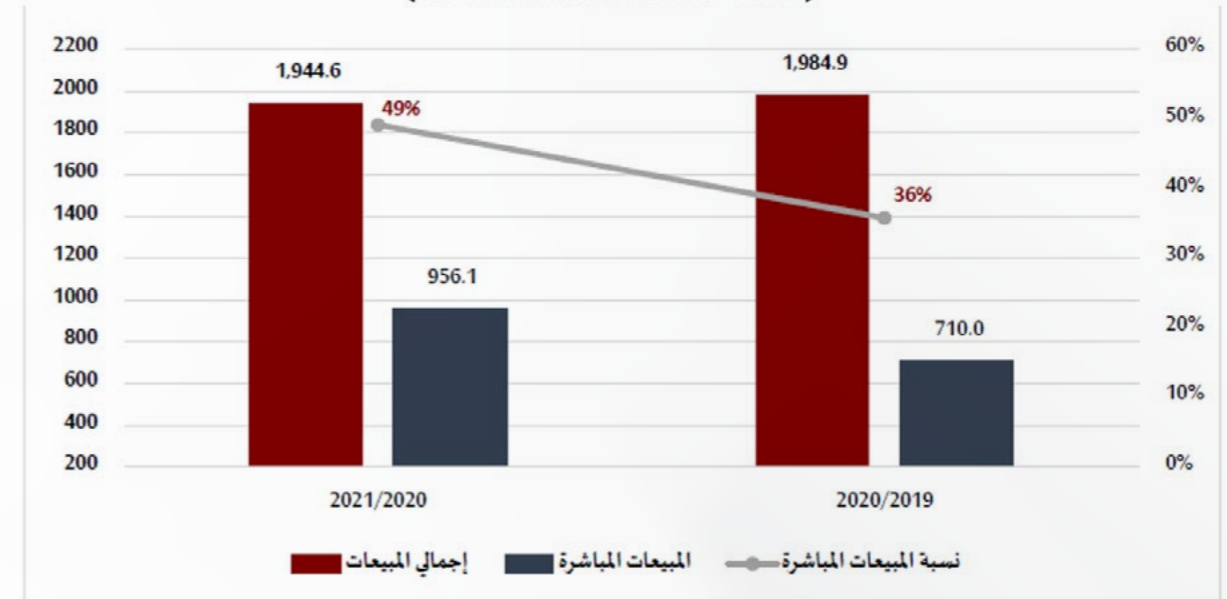
Among the most prominent petrochemical projects is Canadian Kuwait Petrochemical Company (CKPC) plant, which aims to build a polypropylene plant with a production capacity of 550,000 tons per year in province of Alberta, Canada. Petrochemical Industries Company owns 50% with the Canadian partner (Pembina). The program was suspended in March 2021, whereas the economic data of the project will be re-examined, when global markets are stable, after being affected by repercussions of the Corona pandemic, to ensure the economic feasibility of the project and achieve the highest returns for KPC.

Expanding Petrochemical Products Marketing Operations

The KPC's strategic directions also call for developing skills of marketing and analysis of marketing data for the major and downstream petrochemical industry. An integrated marketing plan has

been prepared to expand marketing of petrochemical products globally. 50% of the objectives of this plan have been implemented by end of Fiscal year 2020/2021.

Quantities of petrochemical products sold through Petrochemical Industries Company (Thousand metric tons)



Breakdown of quantities of petrochemical products sold through Petrochemical Industries Company during fiscal year 2020/2021 (Thousand metric tons)



It is worth mentioning that Kuwait Vietnam Petrochemical Company (KVPC) was established on December 22, 2017, to market petrochemical products in Vietnam and Southeast Asia, whereas the company is currently marketing the polypropylene product for Vietnamese and international market.



Global Marketing

”Seizing some unique opportunities to enter new markets, in addition to maintaining a competitive position in the global oil markets.”

Corresponding to the KPC overall 2040 Strategic Directions in the field of global marketing, the KPC Global Marketing Sector seeks to maximize the value of Kuwaiti hydrocarbons by marketing them in safe, diversified, and long-term outlets. These endeavors were supported by the achievements accomplished during the financial year 2020-2021 as follows:

Kuwaiti Oils

Despite the drop in demand for crude oil at the beginning of the Corona pandemic, KPC was able to carry out marketing of Kuwaiti Heavy Oil (KSRC), the first shipment of which was exported in May 2020, in addition to marketing Khafji oil, whereas it resumed its export in April 2020 after period of interruption of oil production in the divided zone, taking into account the full commitment to implement the policy of reducing production and abiding by the share of State of Kuwait under the OPEC + agreement, as State of Kuwait reduced its production by 640,000 barrels per day during May, June and July 2020. Further, KPC entered new markets for the first time through marketing Kuwaiti light crude oil in Islamic Republic of Pakistan, and expanded marketing of Kuwaiti heavy crude oil for the first time since commencement of production, in order to refine it in Indian refineries.

Percentages of Kuwaiti oil sold globally during fiscal year 2020/2021



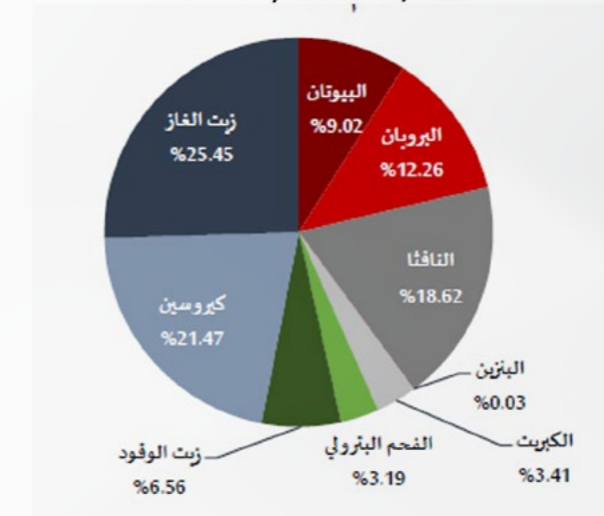
A memorandum of cooperation was also signed with Japanese government represented by The Agency for Natural Resources and Energy (“of Japan” ANRE), which aims to store Kuwaiti crude oil in reservoirs of Kiri Port in Kagoshima Prefecture, southern Japan, for strategic and commercial purposes, with a quantity of 3.30 million barrels.

Gas and Petroleum Products

Customer contracts in traditional markets were maintained and long-term LPG contracts were renewed during 2021, despite reduction in Kuwait’s production of LPG (as a result of the reduction in oil production according to the OPEC + agreement and the consequent reduction in associated gas production), in addition to the limited increase in global demand for LPG during fiscal year 2020/2021.

Despite drop in demand for aviation fuel product globally and damage to international airlines, most of the aviation fuel contracts were renewed with KPC’s customers in the global markets. Further, diesel contracts were renewed for 2021 with change of the diesel product to low sulfur diesel (Gasoil 10 ppm) in consideration of competitive prices despite decrease in demand due to the Corona pandemic and the economic decline in the markets, coinciding with operation of units producing diesel with low sulfur content in Kuwait National Petroleum Company.

Percentages of Kuwaiti petroleum products sold globally during fiscal year 2020/2021





Maritime Transport

“Having a high-level marine fleet of various sizes complying with the specifications of international ports to meet the KPC clients' needs of maritime transport “

KPC has a clear imprint in the maritime transport industry due to efficiency and competitive ability of its Kuwaiti fleet at global level and its endeavors to provide the best services related to maritime transport to KPC's clients and tankers that visit the oil ports of State of Kuwait, whereas the fleet was able to sail more than 2,053,021 million nautical miles during fiscal year 2020/2021, heading to 671 ports around the world with high efficiency, without causing any marine pollution accidents from the company's tankers. KOTC seeks to achieve the KPC overall 2040 Strategic Directions in the field of maritime transport, by maintaining the size and quality of the marine fleet necessary to meet the needs of long-term strategic cover and marketing needs in line with the targeted production rates within the State of Kuwait and in accordance with the best economic techniques. In this pursuit, the company achieved the following during the financial year 2020-2021:

Fleet Operations Activity

KOTC currently owns a fleet comprising thirty-one tankers, i.e., ten giant crude oil tankers, sixteen petroleum product tankers of various sizes, and five giant liquefied gas tankers.

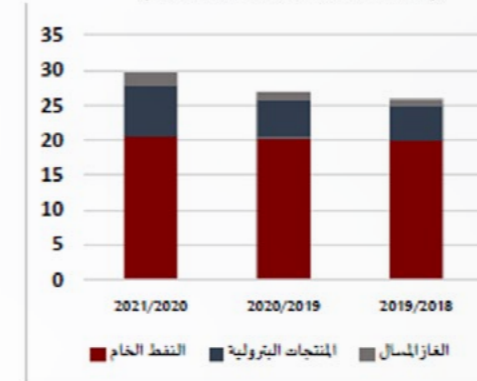
During this fiscal year 2020/2021, the fleet was joined by two new petroleum product tankers, "Shgardia" and "Safsafa", with capacity of 48 thousand metric tons for the tanker.

Thus, the fleet total tonnage amounted to about 4.434 million metric tons. KOTC charters its entire fleet to KPC on an annual basis.

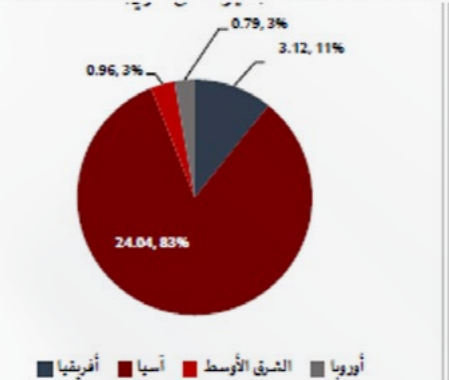
The KOTC fleet transported 29.71 million metric tons of crude oil, petroleum products and liquefied gas during this financial year, an increase of 9.56% over the last year, and the quantities transported from Kuwait amounted to 23.63 million metric tons. As concerns the operating rate of tankers, it amounted to 97.99% this year, signifying increase of 2.87% compared to last fiscal year.

Proceeding from the KOTC's keenness to apply international requirements and standards, Ballast water treatment systems were also installed on 12 of the KOTC tankers, in line with the IMO environment preservation requirements which obliges all tankers to install ballast water treatment equipment to reduce the migration of marine life from one place to another which causes

Shipments Transported to Different Ports of the World (Million metric tons)



Tonnages by Geographical Distribution (million metric tons)



damage to regional waters of different countries.

The amount of water resulting from washing of tanks and their discharge into the sea has also been successfully reduced by a percentage less than allowed under The International Convention for the Prevention of Pollution from Ships (MARPOL).

Installation of a new type of fuel nozzles on tankers is being studied to reduce the amount of drip, so that there are nine ships equipped with a new type of fuel nozzles from (Wartsila) Company that are installed to reduce the number of droplets that cause excessive fuel consumption and contribute to reducing black smoke by an expected rate that may reach 1 to 2%.

On the other hand, COVID-19 protocols have been established with PCASP companies to ensure that the new crew does not pose a threat to the ship's existing crew as well as follow-up and coordination necessary to secure fleet security protection in an environment where joining/ departure is considered challenge in these difficult times during Corona pandemic.

Marine Agency Branch

Marine Agency branch received all tankers visiting the oil ports of the State of Kuwait, with various types of maintenance and repair services, providing tankers with supplies and spare parts, transporting inspectors and sailors, pilotage boat services, and administrative services for approximately (1,191) oil tankers, including (219) Kuwaiti tankers and (972) non-Kuwaiti tankers during fiscal year 2020/2021.



Local Market Supply

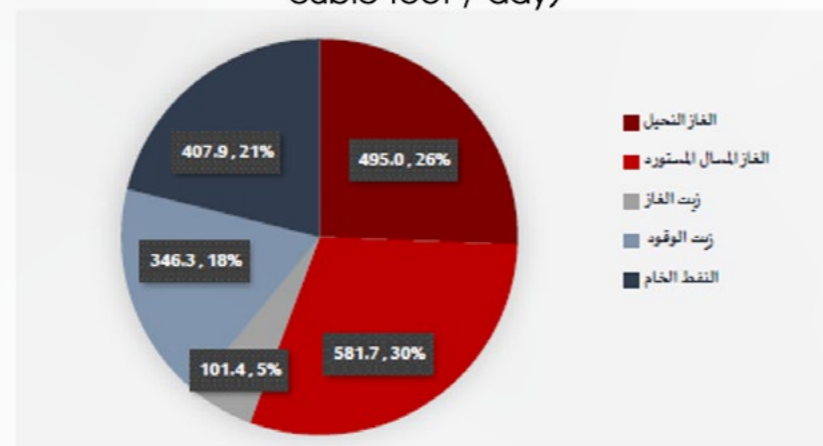
“KPC is trying to achieve self-sufficiency in terms of petroleum products to meet the needs of local market”

In line with the KPC overall 2040 Strategic Directions to fulfil the current and future energy needs of the State of Kuwait by supplying a mixture of different types of economically and environmentally optimal fuels while providing their strategic alternative and making use of alternative, renewable and other energy sources where they achieve an added value to the KPC activities and operations, below are the most important achievements in the field of energy supply:

Fuel Supplies to Ministry of Electricity and Water

KPC is the only entity in the country responsible for providing the necessary fuel to meet the needs of the MEW stations to generate electric power. The following data shows the quantities of fuel and gas supplied to MEW during the fiscal year 2020-2021:

Average Quantities of Gas Supplied to the MEW Stations (million cubic feet / day)



After the decrease of global demand due to the Corona pandemic, local refinery tanks began to fill up due to lack of demand, and many marine tankers were exploited as floating tanks in hope of returning global demand for products after easing the economic closure and recovering demand for oil and products, as import of fuel oil from the global market was reduced and demands

for electric power plants were covered using locally produced fuel oil and crude oil, according to the national interest and in line with economic, operational and strategic considerations, enhancing dependence on local production, and not exposing needs of strategic power plants to the transformations and fluctuations of the global market in this exceptional circumstance.

It also negotiated with liquefied natural gas providers (long-term and the spot market contracts) to reach the optimal quantities of imported liquefied natural gas to cover local needs at the lowest possible cost, as result of decline in crude oil production in conjunction with the OPEC + agreement and the subsequent decrease in associated gas production.

KPC, represented by KIPIC, is currently constructing the project of LNG import permanent facilities in the Al-Zour region with a capacity of 3 billion Btu per day of imported LNG. The project of constructing LNG import facilities is about 98.97% completed by end of March 2021, as all welding works in all LNG tanks have been completed, and all marine water intake pipe works have been completed. Further, the management and control buildings have been successfully commissioned and handed over for the operations group. Also, air pressure testing has been completed for all tanks, and pre-operating (Pre-commissioning) works have been completed for all upstream tanks. It is expected to commence operation in July 2021.

Liquefied Gas Cylinders Filling Operations

The production of the two liquefied gas plants (Shuaiba and Umm Al-Aish) amounted to approximately 16.78 million cylinders of different sizes for the financial year 2020-2021, a decrease of 2.78% compared to last year. Such decrease is due to Kuwait Oil Company’s periodic maintenance work on the main gas line (12”) feeding the LNG filling branch (Umm Al-Aish) during March 2020, which resulted in coordination with the LNG Filling Branch (Shuaiba) by transferring distribution of gas cylinders of gas branches affiliated with cooperative societies to the LNG Filling Branch (Shuaiba). Further, there is noticeable decrease for this financial year in ratio of distribution of 12-kg gas cylinders (used in homes) by 4.39% compared to last year, with a total distribution amounting to 15,784 million cylinders. The reason for increase of rate of gas cylinders distribution last year is the increase in demand as a result of the citizens’ panic at beginning of the Corona pandemic in February and March 2020, before commencement of closure.

Liquefied Gas Cylinders Filling Operations (Million cylinders)



New Fuel Stations

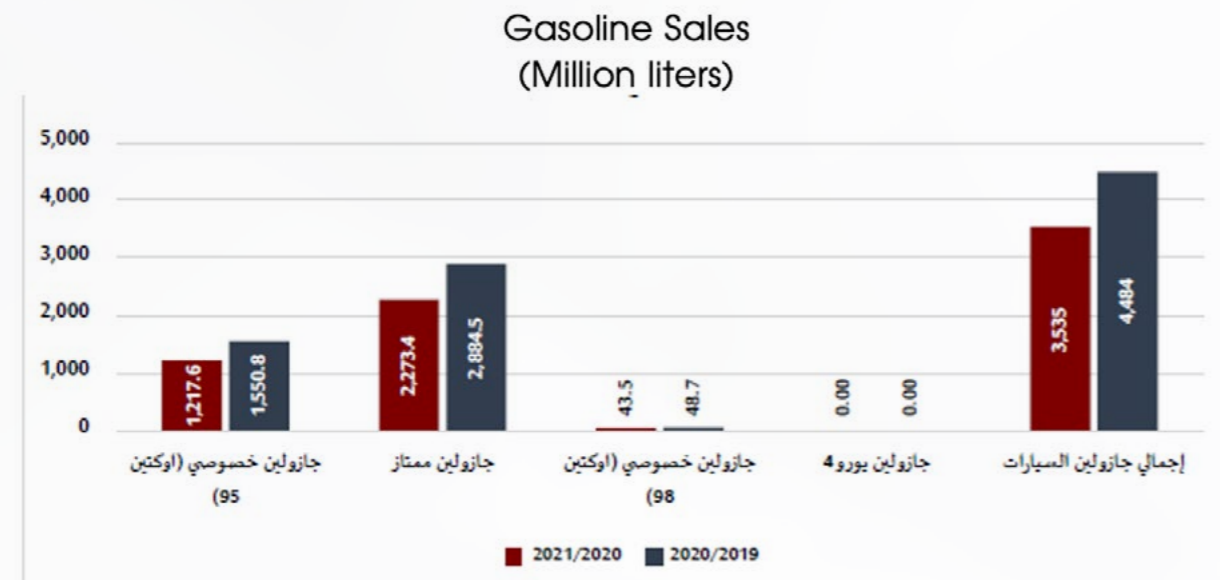
In order to meet the future needs of the local market, KPC seeks to provide a sufficient number of these stations as a result of the urban expansion witnessed by the country, whereas KPC represented by Kuwait National Petroleum Company (KNPC) carries out a comprehensive plan to construct 100 new technologically advanced fuel stations in a manner that reflects a distinct and advanced appearance, taking into account the provision of auxiliary services (a mini super-market, car service, etc.) while applying the concept of renewable and alternative energy and using environmentally friendly technology. These stations will be built in five phases over the coming years.

16 new fuel stations, out of 18 stations of the first package of KPC’s strategic plan to construct 100 new stations in different areas. Further, one new temporary fuel station was opened in Marine Sabah Al Ahmad City, to meet needs of the people of this area. This station is the third of its kind that was opened by KPC during fiscal year 2020-2021, as it had previously opened two other temporary stations in West Abdullah Al-Mubarak area and the southern island of Jaber Al-Ahmad Bridge. With opening of these stations, total number of the KPC’s fuel stations is 62, of which 59 are permanent and 3 are temporary.

A feasibility study and FEED for the construction of 15 new fuel stations have also been finalized, and licenses are being obtained, followed by the required approvals, from government agencies. In addition, licenses were obtained from government agencies for (6) new fuel stations. In line with the directives requires rationing of capital expenditures during the past year, this group was divided into two phases (first phase: includes construction of (3) new fuel filling stations, while the second phase includes construction of (12) new fuel stations.

A feasibility study and FEED contract was also signed for the third phase, which includes the construction of 25 new fuel stations, in July 2020.

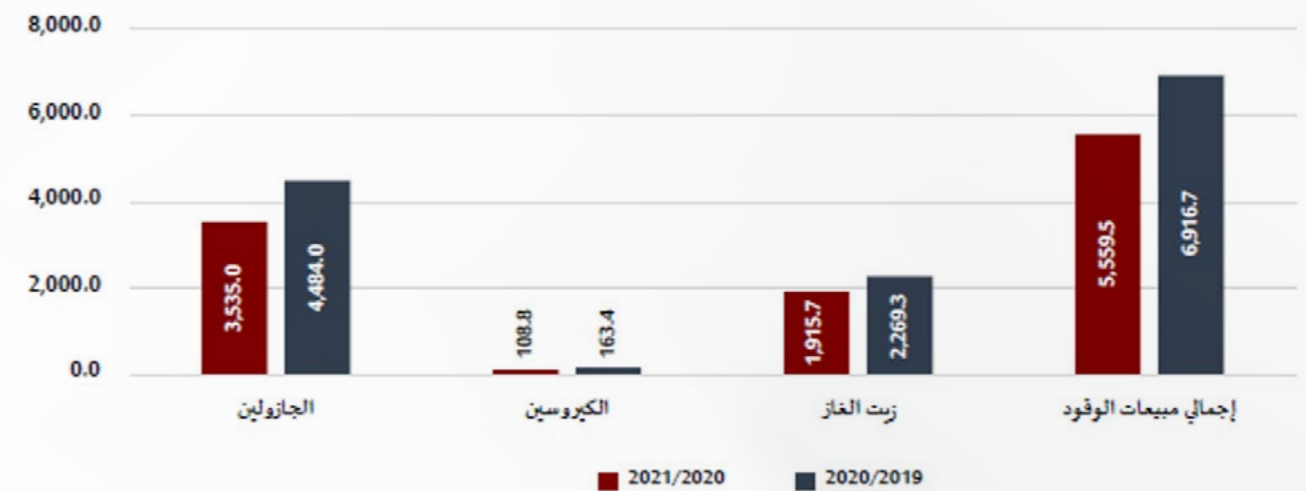
The following data shows the breakdown of the local marketing sales of gasoline during the financial year 2020-2021 compared to the planned and actual sales during the financial year 2019-2020:



The cause of the decrease in gasoline sales in local market, compared to the previous financial year 2019-2020, is the precautionary measures taken by the state to limit the spread of the emerging Corona virus starting from March 2020, such as curfews and suspension of air traffic.

The following data shows the breakdown of local marketing sales during the financial year 2020-2021 compared to the planned and actual sales during the previous financial year:

Fuel Sales for Local Marketing (Million liters)





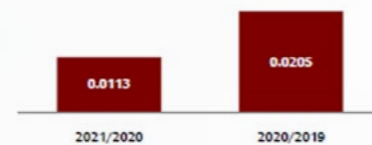
Health, Safety, Security and Environment

”KPC and its subsidiaries reached the highest ranks in meeting international standards in the field of security, health, safety and environment”

In addition, KPC and its subsidiaries carry out their operations in accordance with the HSE international best practices to ensure the safety and health of employees, contractors, suppliers, customers and the community and to ensure the protection of the environment wherever they operate, with the aim of reducing the environmental cost of its operations and preserving the country’s natural resources for future generations. In this pursuit, they sought to reduce the lost time injury frequency rate (LTIFR), reaching 0.0113 accidents per 200,000 working hours till the end of this year, while the total quantities of oil spills amounted to 550 barrels, a decrease equals 14.5% compared to the previous year.

KPC has achieved advanced ranks globally in the indicator of reducing rate of gas flaring, as the rate of gas flaring decreased during the past 15 years from 17% to 0.73%. This percentage has been achieved because of reaching the highest level of readiness for the facilities of West Kuwait, including Gas Booster Station No. (171), whereas the rate of gas flaring in West Kuwait decreased significantly from 6.7% in April 2020 to 1.66% in December 2020, which is the lowest rate achieved since September 2016, mainly due to commissioning of the new Acid Gas Removal Plant (AGRP) of KNPC.

Lost Time Injury Frequency Rate (LTIFR)
Accidents per 200,000 working hours



Spilled Oil Quantities
(Barrel)



Gas flaring rate



Health

In November 2020, Ahmadi Hospital launched a visual consultation service that allows patient to communicate with treating doctor without need to come to clinic, to protect patients and maintain their safety in light of Corona pandemic.

Al-Ahmadi Hospital has also officially started offering a new service in the digestive system unit, which is endoscopic ultrasound that speeds up diagnosis of patients suffering from tumors of digestive system and pancreas and gives them time to combat their disease, as endoscopic ultrasound technology is a relatively new method in field of digestive system to help in accelerating diagnosis of disease and its stage, and thus determining treatment, whether it is surgical, chemical, radiological, or just periodic follow-up, and setting the appropriate plan for the same.

KPC and its subsidiaries conducted a national campaign for winter diseases. Further, seasonal influenza vaccination was provided to employees in the KPC’s clinic (the main office) and in Kuwait Foreign Petroleum Exploration Company.

Security and Firefighting

To enhance capacity of refining and manufacturing sector inside Kuwait in field of security and firefighting, Kuwait National Petroleum Company received (16) trucks of the latest firefighting vehicles, which is the first batch of (23) new firefighting vehicles. This batch includes eight firefighting vehicles, and four vehicles carry foam tanks, two vehicles carry water tanks, and two vehicles for stationing and supporting firefighters during accidents. These vehicles are considered in compliance with standards of American National Fire Protection Association (NFPA) and are equipped to deal with large industrial facilities. Further, they were specifically designed to meet requirements and needs of the sector, and workspaces between Refineries, noting that there are (7) other trucks in the final stages of quality control, and they are expected to be received in May 2021.

Work has also been commenced in the second center of firefighting support in its temporary location in the environmental fuel project area in Mina Al-Ahmadi Refinery. Operation of this center aims to meet needs of the Refinery after expansion of the environmental fuel project, and to meet needs of the fifth gas pipeline project, the refinery administration building and the outdoor parking area, in addition to some adjacent buildings. The center contains offices of fire officers, a meeting room, and two restrooms for firefighters, ensuring social distancing, and adhering to health and safety requirements. Security and Fire Department also received the buildings and facilities of the Main Support and Emergency Operations Center (MSEOC) in October 2020. It also received security operations in the main center. Further, a response plan was developed, whereas an emergency control room was established to deal with emergency cases in the center.

In addition, a virtual emergency operations center was inaugurated in Al-Zour region. Further, new work teams for security operations were formed in order to ensure smoothness of daily operations, and pre-operating tests at Al-Zour Refinery. Further, the Refinery was commissioned, whereas the modus operandi of the integrated management system for the fire brigade was issued, in addition to manual for the emergency center. Also, 4 firefighting vehicles were received.

Environment

Proceeding from the KPC's keenness to rationalize energy consumption in all its operations, a working group was formed to implement the energy management system in KPC and its subsidiaries, which aims to identify opportunities to increase energy efficiency and reduce greenhouse gas emissions. The system also includes a systematic process to continuously improve energy performance and to achieve maximum energy savings, including such opportunities that do not necessarily require capital investments. The team has prepared an internal work plan to implement the system, stating that it will be applied within a period of three years starting from fiscal year 2020-2021. It is worth noting that 21.5% of the work plan has been implemented, as the energy management system has been applied for KPC and its subsidiaries until third quarter of fiscal year 2020-2021.

To compliment the efforts made to preserve and protect the environment, maritime transport sector has done the following:

- KPC's fleet is in full compliance, through its operations, with requirements of International Safety Management Code (ISM) and international standards for quality (ISO 9001:2015) and Environmental Management (ISO 14001:2005). (ISO 45001:2018) (ISO 50001:2011), which covers (31) tankers.

- The giant tankers visiting European ports also comply with requirements of (Green Award Foundation), as these tankers are periodically subject to annual audits for obtaining the global (GREEN AWARD) certificate.

- In addition, the undercarriage paint of all ships is free of anti-plankton (TBT) compound, as TBT is a prohibited substance because it is toxic to marine life. Paint is renewed for each dry dock.

International Awards in HSSE Area

On the other hand, KPC and its subsidiaries won a number of international awards in field of health and safety in fiscal year 2020/2021, perhaps the most prominent thereof is that Kuwait Oil Tanker Company received an award for (environmental protection in maritime transport) for the sixth year in a row in November 2020 for Middle East and Indian Subcontinent presented by Organization of Marine Standards, during a ceremony held in Dubai.

KNPC also achieved a remarkable achievement by obtaining prestigious international awards in the field of occupational health and safety, among hundreds of competing companies, whereas five of the company's sites were awarded International Safety Awards - Merit for 2020 (i.e. Mina Al-Ahmadi Refinery, Mina Abdullah Refinery and Department of Local Marketing and Projects), while the main building received International Safety Award - Excellence for 2020. Further, Kuwait Aircraft Refueling Company (subsidiary of Kuwait National Petroleum Company) received the same International Merit Award presented by British Safety Council for its commitment to health and safety during 2020. This award is considered one of the most important awards ac-

credited at international level in such vital and important field, which is occupational health and safety. The award committee commended the company's efforts and commitment to international standards and requirements in such field, and its keenness to apply health and safety rules in its various projects and operations.

In addition to the above, Kuwait National Petroleum Company, represented by its various sites (Al-Ahmadi Refinery, Department of Local Marketing and Projects and main building), received RoSPA Gold Award for 2020 for its efforts in enhancing safety standards in its various facilities and operations. Mina Abdullah Refinery also received RoSPA Award for Excellence for 2020. Further, Kuwait Aviation Fueling Company received RoSPA Gold Award for Health and Safety Performance for 2020, and Gold Award for Fleet Safety for 2020.

Preparations to Combat the Corona Pandemic

"KPC and its subsidiaries have proven their readiness to deal with the Corona pandemic and have provided all support and assistance to the concerned authorities in the country."

A joint committee was formed by KPC and its subsidiaries, on February 29, 2020, to follow up on the developments of the Corona pandemic and to provide solutions to prevent the spread of COVID-19. The committee's works include the following:

- Following up on government decisions and accounts of Government Communications Center and Media Center of Ministry of Health to be updated with the latest developments declared by official authorities in this regard.
- Providing preventive supplies such as masks, gloves, sterilizers, and others.
- An integrated media plan was prepared, which included posters, publications, videos / documentaries to raise awareness of COVID-19, which was circulated to KPC and its companies on a weekly basis.
- Preparing and applying general guidelines to prevent spread of COVID-19 and circulating them to KPC, its subsidiaries, and Ministry of Oil.
- Facilitate issuance of curfew permits for oil sector in coordination with Ministry of Interior to ensure work continuity.
- Facilitating evacuation of oil sector workers from isolated areas, in coordination with Ministry of Health and Ministry of Interior.

KPI also cooperated with (Ashridge Executive Education School) to use the digital platform of employee development program, a developed training plan, to grow graduates newly appointed in the company through Future Professionals LEAD Program.

Kuwait Oil Tanker Company is proud that, over the past years, it has implemented a scholarship system for Kuwaiti high school graduates to study engineering and marine navigation in the best marine colleges in the world to obtain certificates for a period not exceeding four years, in order to be able to obtain an International Maritime License that qualifies them to work in maritime field on the company's tankers, whereas (5) students were graduated during fiscal year 2020/2021.

Petrochemical Industries Company also implemented the competency development program through field training (OJCD), which is considered an achievement for the company because they are considered the first to develop and adopt a program for developing competencies through field training.

In line with the status of the oil sector according to the data of the Corona pandemic, KPC has prioritized implementation of training programs for fiscal year 2020/2021 through a modern plan that meets training needs in line with the required competencies, whereas the training programs were implemented by using blended learning methods, which are based on designing and providing effective and high-quality educational solutions using the latest educational means available in local and global market. All private internal training programs in general, professional, and technical skills have been held entirely through remote learning programs (electronic programs) or through virtual learning.

KPC has also developed a new automated system to implement development plans for leaders (Leadership System) in cooperation with Kuwait National Petroleum Company to be an alternative to the previous system (SAB).

It is also worth noting that (18) employees from the oil sector have been accepted into scholarships and the study leave system for fiscal year 2020/2021.

As for the provision of the training opportunities for contractor's Kuwaiti employees, KPC sought to provide (8000) registration licenses to train Kuwaiti workers of the contractor within the unified training system in oil sector in anticipation of the expected future increase of numbers of these workers in private sector according to training needs required for each job separately, in order to give them the opportunity, like their colleagues working for KPC and its subsidiaries, to develop their capabilities and create ideal practical environment to perform their work optimally.





Research and Development

”Adopting the latest technology in order to raise efficiency of operational processes”

KPC seeks to apply the latest technology applications to raise efficiency of its operations and increase its productivity. The most important technologies are such technologies that contribute to improving production capacity and increasing oil reserves, in addition to reducing cost of producing a barrel of oil, as well as enhancing its ability to address future challenges that may face production operations.

Exploration and production sector, represented by Kuwait Oil Company, successfully launched two new technologies to benefit from electric submersible pumps and enhance oil production in January 2021. Such technology was adopted for the first time in Middle East region. This technology is concerned with application of the first product of double injector. This technology has been successfully applied in two wells in Sabriya field with the aim of increasing oil production and improving cost.

Kuwait Oil Company received Outstanding Achievement Award in Geographical Information Systems (SAG Awards) for 2020 in recognition of the integrated spatial mapping and applications system. The award was announced as part of events of annual GIS Users Conference. Kuwait Oil Company was chosen from among 300,000 entities, based on set of technical criteria that include modernity of techniques and computer tools used in the system, in addition to accuracy and quality of implementation, degree of efficiency and effectiveness, and extent of meeting the operational requirements of the institution.

The project ”Wind Resources Assessment and Feasibility Study for Wind Energy Generation in Oil Field in North Kuwait” was completed, which aims to support the sector in planning implementation of experimental operational wind turbines in Ratqa field, which will lead to reducing the dependence on fossil fuels and improving quality of the environment by reducing emissions of gases and pollutants and turning to renewable energy technology.

Aspects of integration and cooperation between the Research and Technology Department and Maintenance Department at Mina Al-Ahmadi Refinery include application of an initial (experimental) technology to conduct inspection and examination for equipment remotely using technology provided by (ABB) Company, through direct contact of workers of Mina Al-Ahmadi Refinery with experts abroad from Kuwait virtually, who were able to perform remote examination services, due to current restrictions imposed on travel as result of repercussions of COVID-19,

which led to a reduction in maintenance costs during the unit’s shutdown.

KNPC also launched a patent registration program for KNPC’s employees, in line with the KPC’s strategy and values to encourage innovation, as implementation and support for intellectual property strategy, whereas foundations related to patent registration program were developed. This initiative received all encouragement and support from the senior management of the oil sector.

KPC held a symposium on strengthening water management in the oil sector with the Kuwait Institute for Scientific Research (KISR) in February 2021. Further, KPC also participated in preparing white paper (Kuwait Hydrogen Strategy) within Kuwait Hydrogen Committee headed by Kuwait Foundation for Advancement of Sciences, which was issued in February 2021.

A memorandum of understanding was also signed between KPC and Sheikh Sabah Al-Ahmad Center for Giftedness and Creativity in December 2020. This step is considered an extension for the objectives achieved by the partnership between the Center and KPC, which is based on expanding scope of investment in research and development to create solutions in fields of energy and environment, in addition to working closely for scientific and technological cooperation between them and advancing scientific progress in these two fields to serve the vision of the Center and KPC. Memorandum of Understanding between Kuwait Petroleum Corporation and (Shell Petroleum NV.) was renewed in September 2020, which aims to enhance ways of cooperation between two entities in field of research and technology.

With regard to Kuwait International Petroleum Research Center (KIPRC), It is expected that construction works of KIPRC will be commenced in late 2022 and it will be operated in late fiscal year 2025/2026, as the detailed plan for KIPRC and documents for the tender have been completed in preparation for obtaining the necessary approvals to offer the tender, in implementation to desire of the late Emir Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah to establish an entity for excellence in fields of research, development and technology in oil sector and to overcome the technological challenges facing State of Kuwait in its most important sectors, the oil sector, which requires KPC to deal with in the future in order to be able to achieve the long-term strategic directions of KPC in field of technology and research. Purpose of establishing KIPRC is to create an encouraging work environment for scientific research and work and to build and develop national capabilities and cadres to meet technological and technical challenges. It is worth noting that KIPRC will be built on an area of 250,800 square meters in northeast of Ahmadi City. It includes 28 technology laboratories and more than 300 modern scientific equipment in addition to a conference center. KIPRC will accommodate from 400 to 600 employees.

Information Technology

”Promoting awareness of cyber security and effective integration with all sectors of KPC and its subsidiaries”

KPC pays special attention to digital information technology and is keen to keep abreast of the latest developments in terms of applications and tools of digital transformation mechanisms. KPC makes all efforts to enhance its employees' awareness of cybersecurity risks, as it believes in importance of integrating information technology and operational processes to create a digital work environment that focuses on efficiency, safety, security and profitability.

Perhaps one of the most prominent achievements in field of information technology during fiscal year 2020/2021 was the launch of a cybersecurity awareness campaign at level of oil sector, whereas unified cybersecurity awareness messages of the Committee (K-Cyber) were continuously shared through number of different communication channels such as social media, screensaver on computers and e-mail. Awareness training with tests covering vital topics in cybersecurity were issued to all employees of KPC and were applied by more than 97% of all employees and contractors.

In the same context, multiple workshops were held to exchange knowledge with leading entities, including vital Gulf and national entities, and technology service providers, including Aramco and Palo Alto. Information exchange platforms, cybersecurity and cyber threats in Middle East were discussed, along with the best practices adopted in this field. More than 80 reports on cyber threat information have been exchanged between oil sector companies and Gulf countries since the beginning of 2020. A meeting was held with executive directors from the Global Cybersecurity Forum (ISAC) on building a cybersecurity information exchange platform.

Further, communications protocol was prepared for exchange of cyber security information to ensure rapid communication on cyber security threats in KPC, its subsidiaries, Kuwaiti government agencies and oil and gas sector in Gulf Cooperation Council countries.

Given KPC's concern with developing plans to deal with the crisis related to cybersecurity, more than (12) simulation exercises have been conducted for major cybersecurity incidents for senior management of KPC and its subsidiaries to raise awareness, to practice methods of managing cybersecurity incidents and to test and improve response plans for each company.

Kuwait Oil Company hosted the third annual Gartner Conference on Virtual Cyber Security, in presence of many employees and officials of oil sector, and group of global and regional cyber

security experts from different sectors through channels of virtual platforms. The conference was successful and attracted local, regional, and international attention for the third year in a row, despite challenges of remote work. This confirms commitment of Kuwait Oil Company to its vital societal role to support and harness knowledge and technology safely, and its constant quest for progress and prosperity of Kuwait.

On the other hand, the information technology departments in KPC and its subsidiaries had a prominent role in providing technical support to all sector employees over a 24-hour period to ensure continuity of remote work since beginning of the Corona pandemic, as employees were enabled to access files by synchronizing their desktop files, addition to providing a set of applications and enabling authorized employees to use them remotely. Further, awareness and training programs on digital transformation have been provided with aim of increasing use of electronic platform such as Microsoft Teams and One Drive that enhances productivity and enables employees to work anywhere and anytime.

KPC's companies have started implementing the (cloud Express Service) project, which will provide a direct link with high performance in addition to protection of high information security by cloud service providers such as Microsoft, as oil sector adopts cloud orientation in line with today's requirements.



Local Content

“Consolidating the principle of partnership with the private sector”

KPC has continuously made all efforts to support local content and enhance participation of the private sector in creating competitive and sustainable local value. The strategy to encourage local content in oil sector is based on the following grounds to achieve these goals:

First: Maximizing local spending in operations and projects of the oil sector

In accordance with the existing laws, especially the new tender law. KPC and its subsidiaries seek to maximize local spending in supply of materials and services for projects of oil sector. Percentage of local spending of KPC and its subsidiaries reached 37.75% for fiscal year 2020/2021. Further, KPC is urging private sector to provide locally manufactured materials to oil sector by expanding existing factories or establishing new ones, as well as developing and increasing scope of services provided by local service providers to oil sector. In this regard, KPC and its subsidiaries make a statement of volume and aspects of spending in its future operations and projects for local private sector to enable it to know investment opportunities, whether they are related to materials or services required in future. This information also enables private sector to consider feasibility of establishing factories or locally required facilities to meet current and future needs of oil sector.

Second: Providing appropriate feedstock (if any) from outputs of oil sector operations to be exploited by private sector in manufacture of subsequent value-added products that contribute to development of national economy

Although local market is not ready to take on new investment opportunities affected by the repercussions of COVID-19, KPC is still working on preparing these opportunities to be presented after recovery of conditions of private sector.

In January 2021, KPC offered a new investment opportunity for the local private sector regarding sulfur industries, for which group of investors have participated. Work team is considering offers to determine type of sulfur product-based opportunities to be offered to investors.

In the same context, and in cooperation with Kuwait National Petroleum Company, prequalification process for the project to extract minerals from catalysts was completed in March 2021. Now, the company is conducting procedures to take the necessary approvals on the results to be presented.

Third: Involving the private sector in existing or future support operations in oil sector.

Participation methods include many forms, which extend from assigning management and operation or participation of private sector in part or in full in these operations. This will be in accordance with the legislation in force and in coordination with the relevant state agencies to determine the operations and the services in which private sector will participate. Further, Kuwaiti employees working in the relevant sectors will be dealt with in accordance with provisions of the legislation and in a manner that preserves their rights. In this context, a set of investment opportunities within oil sector were considered and identified for participation of local private sector in cooperation with a global consultant. A preliminary feasibility study was conducted for the selected projects, and the priorities and time plan for their implementation were determined. Approval of KPC's Board of Directors was obtained on March 28, 2021.

Appointing Kuwaiti workers in the above-mentioned fields is considered the cornerstone of maximizing local content in Kuwaiti private sector. KPC and its subsidiaries will develop their capabilities and expertise while working in private sector working with KPC and its subsidiaries.

On the other hand, KPC's Higher Procurement Committee, in accordance with the latest amendments to the Public Tenders Law, has identified and classified categories of small and medium-sized enterprises in oil sector, based on a survey study to determine the works that can be assigned to owners of these projects.

On the other hand, in context of enhancing prospects for joint work and organizing ways of cooperation to support local content, cooperation agreements were signed with various parties, including an agreement with Direct Investment Authority aims to develop local and international investments in oil sector, as well as an agreement of cooperation with National Fund for Small and Medium Enterprises Development with aim of strengthening institutional cooperation between both parties, encouraging entrepreneurs who own small and medium enterprises, and creating job opportunities for promising Kuwaiti youths. Further, an agreement was also signed with Public Authority for Industry with aim of maximizing role of local manufacturers in the oil sector's work, and facilitating provision of suitable lands for local private sector to establish new factories related to oil sector works, whereas a project is currently being studied to establish a petroleum industrial zone, aiming to achieve the following:

- Expanding and diversifying the production base in the related industries and services in oil sector.
- Maximizing private sector participation.
- Creating job opportunities for Kuwaitis.
- Meeting local oil industry's needs in terms of materials and services as quickly as possible, at lower cost and with a high quality.

Internal Control

“Strengthening principle of partnership with KPC and its subsidiaries management and demonstrating optimal support for efforts of audit and risk committees emanating from the Board of Directors of KPC and its subsidiaries.”

In the application of the principles of governance, KPC, through Central Internal Auditing Agency, follows up and reviews processes and decisions taken periodically to ensure their validity and to determine extent of commitment in their application, with aim of enhancing efficiency and effectiveness in managing operations and working according to the least amount of business risks.

In this context, KPC’s Central Internal Auditing Agency issued (57) reports on operations of KPC and its subsidiaries. These reports include (380) multiple recommendations that led to enhancing efficiency, performance and effectiveness of internal control systems and achieving financial savings. They also contributed to development of procedures and systems in force in many sectors of KPC and its subsidiaries.

After Central Internal Auditing Agency obtained the highest rating (Generally Conform) in external quality assessment from the American Institute of Internal Auditors (IIA) last year, Central Internal Auditing Agency committed to implementing all the recommendations contained in the external quality assessment report by end of this year.

Best practices in field of internal audit, gained from visits of internal audit departments working in some international and Gulf oil companies during the past years, have been applied with aim of developing the professional performance of the internal audit units in the Agency. List of new best practices has also been prepared, if they will be implemented over the next three years.

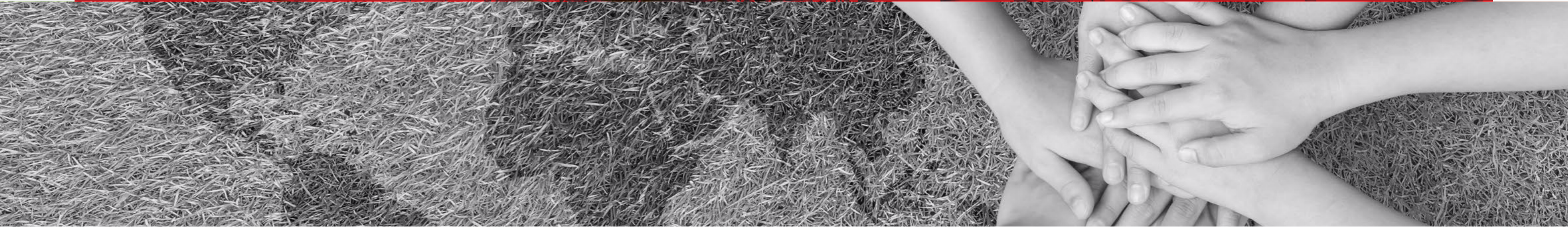
Central Internal Auditing Agency, in cooperation with Information Technology Department, is starting to use Continuous Analytical Audit system in KPC’s audit unit, which aims to continuously analyze financial statements. Criteria for classifying material notes and risk classification guidelines have also been updated to be comprehensive and meeting requirements of internal audit, which enhances, improves, and adds value to reports of the Agency.

Considering changes due to spread of the Corona pandemic, Central Internal Auditing Agency has reviewed the expenditures and activities related to the Corona pandemic at level of oil sector and issued appropriate recommendations regarding them.

Believing in importance of auditing role of the Audit Bureau, KPC has been keen to raise level of coordination and cooperation with the Bureau in areas of common interest, and the results of the same have an effective positive impact on developing supervisory performance in oil sector.

In addition, national cadres are developed and qualified by participating in audit teams with (PMT/PMC), to review implementation of major projects, for example Al-Zour refinery, environmental fuel, as well as audit work on strategic projects for oil sector.





Corporate Social Responsibility

“Actions that have turned into reality and successes referred to as good deeds that contributed to development of society.”

KPC's strategic directions call for supporting targeted national initiatives, and launching various programs and projects that contribute to supporting the community, given that the social responsibility is an integral part of its strategy and an essential pillar in its sustainability and vision towards its relationship with the society, the most prominent of which are:

The First Sustainability Report for the Oil Sector

KPC and its subsidiaries aspire to continue highlighting their commitment to embodying values of sustainability in all their operations, while being keen on showing the link between the 2040 Strategy and its contributions to the sustainable development of the State of Kuwait and the global community in general.

KPC and its subsidiaries, through the sustainability report, aim to provide a valuable tool to stakeholders that help them see KPC's efforts in various areas of sustainability, including environmental, social, and economic ones. KPC and its subsidiaries are devoted to issue a single report that includes all initiatives of the oil sector, ensuring quality and accuracy of the disclosures included in the report, as the first sustainability report of KPC and its subsidiaries was issued in August 2020.

The “Seasons” Book that Displays the Beauty of Kuwait's Environment

In February 2021, Kuwait National Petroleum Company issued a new book on the environment in Kuwait, entitled “Seasons”. This book is stemmed from the company's cooperation with the Kuwaiti Environment Lens team, which includes a group of Kuwaiti youth volunteers, who are making great and sincere efforts to highlight the beauty of Kuwait's environment. The book, which covers most areas of Kuwait, displays and documents components of Kuwaiti environment, whether land, sea, and air. The book reflects the company's willingness to fulfill its social responsibility, which always seeks to perform this responsibility fully in various fields, and in the forefront of the environment.

Launching a Tree Planting Campaign

Kuwait Oil Company launched a second phase of the campaign to plant trees and beautify lands across Al Ahmadi City in December 2020. The two-month campaign included development of the central area of Al Ahmadi City, whereas open spaces were converted into public parks. New developments include pedestrian paths and green spaces, with area of about 20,000 square meters. The campaign also supervised planting of 3,000 trees in several areas of Al Ahmadi City.

Creation of Three Lakes for Collecting Torrential Water

In December 2020, Kuwait Oil Company, represented by Al-Ahmadi Projects Group (Roads and Support Team), created three collecting lakes for torrential water in regions of Northeast Al-Ahmadi and South Al-Sabahiya, with a capacity of more than one and a half million cubic meters and for a period not exceeding for 45 days, as part of the urgent solutions to address effects of torrential rains coming from Al Ahmadi plateau and heading to residential areas (Fahaheel, South Sabahiya, Mangaf Tunnel), which led to reducing losses resulting from these torrential rains that sweep these areas.

Electronic Application for Simultaneous Interpretation for People with Hearing Loss

KPC and its subsidiaries have provided distinguished sponsorship for the deaf-mute. This sponsorship focuses on providing an interpreter for sign language. These devices were distributed and installed on many different vital places in the country, such as government hospitals and service centers, including devices installed in Kuwait Oil Company Hospital and Sheikh Ahmed Al-Jaber Exhibition during November 2020, including devices installed in Mubarak Hospital, Farwaniya and Al-Adan between (February-March) 2021, which makes it easier for them to access the required information and enable them to complete all their procedures in easy manner.

Launching the First Virtual Charitable Race across Kuwaiti Oil Sector

KPC and its subsidiaries actively participated in contributing to the people that suffered from losses because of the Corona pandemic, since serving the community is from the priorities of its 2040 strategies. Therefore, the first-of-its-kind charitable virtual challenge has been launched for the Kuwaiti oil sector, in cooperation with our partners from international oil companies, such as (Baker Hughes) and Kuwait Red Crescent Society, between 16 - 31 March 2021, which aims to help families affected by the Corona pandemic inside the State of Kuwait.

Comic Book for Children

In January 2021, Kuwait National Petroleum Company issued a new comic book for children, entitled "National Petroleum in face of Corona." The story is about the efforts of the company and its employees since the beginning of the Corona pandemic, whether in terms of conducting its business and proceeding with implementation of its projects, or its role in supporting the state and society institutions in addressing effects of this crisis. This book reflects the company's enthusiasm to perform its social responsibility, by paying attention to the various categories and groups of society, especially children. The company has previously issued a series of educational stories for children, which aims to educate them and develop their awareness regarding various aspects of life, in particular introducing them to oil industry, which is Kuwait's main source of income.

Participation in Campaign "Kuwait Is Clean Thanks to the Efforts of Its People"

Kuwait Integrated Petroleum Industries Company and Petrochemical Industry Company participated in the campaign "Kuwait is clean by the hands of its people" to clean beaches in cooperation with Al-Nuer Foundation, because KPC and its subsidiaries believe that establishing their social responsibility is important for the advancement and development of the society, the safety of individuals and the protection of the environment.

Harnessing All Capabilities to Support the State's Efforts to Confront the Corona Pandemic

From the first moment of outbreak of the Corona pandemic, KPC and its subsidiaries took the initiative to support the Ministry of Health and the concerned authorities in the country and provide the necessary support. Kuwait Integrated Petroleum Industries Company provided KIPIC Medical Center in Al-Zour area and Kuwait Field Hospital in exhibition grounds in the area Mishref, which Kuwait Integrated Petroleum Industries Company, in cooperation with Kuwait Oil Company, established and provided the necessary equipment and beds in record time to accommodate masses of people infected with Corona virus, both citizens and residents. Housing for medical staff has been equipped with 62 fully furnished chalets to serve the field hospital.

Kuwait Oil Company has also allocated an oil housing in Al-Ratqa field in northern Kuwait as a quarantine with capacity of (911) beds, which was handed over to Ministry of Health to host citizens returning from travel. For purpose of fully providing the quarantine with all means of prevention and comfort to be at the disposal of the inmates, the quarantine was provided with all means of communication as Telephones and a switchboard with a capacity of (600) lines fed by a fiber-optic network that was extended from heavy oil production complex, as well as an integrated internet network within framework of securing all requirements for an integrated residence.

Kuwait Oil Company also equipped the guest house in Al Ahmadi area for families and students to quarantine with a capacity of (130) beds, it was later handed over to the Ministry of Health. The company managed the quarantine and provided all hospitality, nutrition, and hotel management services. As part of the evacuation plan for scholarship students in Britain, 74 students were hosted for 14 days in the guest house as an institutional quarantine during the period of April 28, 2020, to May 13, 2020.

In addition, the previous Al-Ahmadi Specialist Hospital was equipped to host and care for pa-

tients of Al-Adan Hospital and was managed by the medical group of Kuwait Oil Company. The hospital's capacity is currently 110 beds (which can be increased), as the number of patients who were transferred from Al-Adan Hospital and Mubarak Hospital to Al-Ahmadi Hospital reached 89 patients, and several premature babies is (4 per week).

Kuwait Oil Company has also fully equipped a quarantine for workers in Ratqa area, north of Kuwait, with capacity of (7992) beds for category of quarantined workers and residents who were evacuated from affected areas. North Camp is supervised by 200 individuals from the Ministry of Health and volunteers, in addition to 165 individuals from the National Guard cadre.

Kuwait Oil Company provides lunch and dinner daily to the quarantined and workers, as well as the staff of the Ministry of Health, volunteers, and the National Guard. Total number of quarantined and workers in the North Camp reached approximately 7,283 persons.

Kuwait Integrated Petroleum Industries Company also manufactured protective masks using a 3D printer and distributed them to many hospitals.

Kuwait Foreign Petroleum Exploration Company donated (10) thousand Kuwaiti dinars to Kuwait Red Crescent Society, as a contribution to support the voluntary work carried out by the society inside Kuwait to confront the Corona pandemic, and to mitigate the impact of the pandemic on needy families. Further, Integrated Petroleum Company distributed food baskets in cooperation With the Kuwaiti Red Crescent.

Initiatives of KPC and Its Subsidiaries in Vaccination Campaigns against Corona Virus

In February 2021, Al Ahmadi Hospital Medical Group launched a vaccination campaign for employees of oil sector in cooperation with the Ministry of Health. This step contributes to accelerating the vaccination process in the country. Kuwait Oil Company also participated in the design and installation of the guidance materials for vaccination centers in the international fairground in Mishref and for (15) vaccination centers in government clinics spread in all governorates. Further, Kuwait Oil Company and Kuwait Integrated Petroleum Industries Company constructed and equipped the vaccination center located on South Island at Jaber Al-Ahmad Al-Sabah Bridge to comply with the requirements and needs of the Ministry of Health.

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Consolidated Financial Statement And Independent Auditor's Report For The Year Ended 31 March 2021



Kuwait Petroleum Corporation | مؤسسة البترول الكويتية
and subsidiaries | وشركاتها

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Independent auditor's report

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

Opinion

We have audited the consolidated financial statements of Kuwait Petroleum Corporation ("the Corporation") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 March 2021, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the Law Decree No. 6 of 1980.

Basis for Opinion

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

Emphasis of Matter

We draw attention to Note 1 and Note 25 to the consolidated financial statements which states that the Group had previously issued consolidated financial statements for the year ended 31 March 2021. However, as a result of certain subsequent events and instructions received from Council of Ministers requiring amendment to the consolidated financial statements to reflect changes in the proposed distribution of the profit of the Corporation, the previously issued consolidated financial statements and our audit report dated 26 July 2021 for the year ended 31 March 2021 have been amended and re-issued as the accompanying consolidated financial statements and related independent auditor's report. Refer notes 1 and 25 for more details. Our opinion is not modified in respect of this matter.



Other Information

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

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

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

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

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

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

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

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

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

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

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

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

Kuwait Petroleum Corporation and Subsidiaries
State of Kuwait



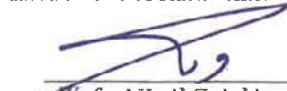
Consolidated statement of financial position
as at 31 March 2021

مؤسسة الكويت للتكوير
Kuwait Petroleum Corporation

	Notes	2021 KD'000	2020 KD'000
Assets			
Property, plant and equipment	5	31,568,875	30,618,903
Goodwill	6	125,716	116,726
Intangible assets	7	553,439	574,902
Right-of-use assets	8	1,076,432	1,065,739
Deferred tax assets	15	109,814	164,151
Other non-current assets	9	168,877	196,962
Financial assets at fair value through other comprehensive income	10	4,075,079	3,504,429
Investments in equity accounted investees	11	696,247	994,140
Non-current assets		38,374,479	37,235,952
Inventories	12	1,319,243	1,008,461
Trade receivables	13	3,072,360	2,878,528
Financial assets at fair value through other comprehensive income	10	332,661	1,401,228
Financial assets at fair value through profit or loss	10	255,590	201,392
Other receivables and prepayments	14	1,107,741	1,299,715
Taxes receivable	15	6,913	5,847
Bank balances and cash	16	714,430	681,889
Assets held for sale	17	39,780	40,886
Current assets		6,848,718	7,517,946
Total assets		45,223,197	44,753,898
Equity			
Authorised and paid-up share capital		2,500,000	2,500,000
Statutory reserve	18	1,250,000	1,250,000
Capital reserve	19	232,945	232,945
General reserve	20	15,962,095	15,178,266
Reserve for replacement and renewal of property, plant and equipment	21	3,724,691	3,703,691
Remeasurement of defined benefit obligation reserve		(138,653)	(131,708)
Cumulative changes in fair values		887,509	503,528
Foreign currency translation reserve		(214,537)	(288,873)
Proposed dividend	25	85,013	-
Equity attributable to equity holder of the Corporation		24,289,063	22,947,849
Non-controlling interest		78,596	88,433
Total equity		24,367,659	23,036,282
Non-current liabilities	22	12,954,876	12,544,518
Trade payables		1,051,249	1,396,138
Other payables and accruals	23	3,702,612	3,338,775
Lease liabilities	8	345,521	373,412
Taxes payable	15	168,435	117,511
Amounts due to Ministry of Oil	24	2,221,895	2,107,263
Profit available for distribution	25	410,950	1,839,999
Current liabilities		7,900,662	9,173,098
Total liabilities		20,855,538	21,717,616
Total equity and liabilities		45,223,197	44,753,898

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


Hashem S. Hashem
Deputy Chairman & CEO


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



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

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

Report on Other Legal and Regulatory Requirements

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the consolidated financial statements include the information required by the Law Decree No.6 of 1980. In our opinion, proper books of account have been kept by the Corporation and the accounting information given in the board of directors' report agrees with the books of accounts. We have not become aware of any contravention, during the year ended 31 March 2021, of the Law Decree No. 6 of 1980 that might have had a material effect on the business of the Group or on its consolidated financial position.



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

Kuwait: 14 September 2021

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

 مؤسسة البترول الكويتية
Kuwait Petroleum Corporation

**Consolidated statement of profit or loss
and other comprehensive income
for the year ended 31 March 2021**

	Notes	2021 KD'000	2020 KD'000
Revenues			
Sales of crude oil, gas, refined products and petrochemicals		16,239,360	25,216,954
Revenues from other operations		177,301	158,983
	26	<u>16,416,661</u>	<u>25,375,937</u>
Cost of revenues			
Cost of sales of crude oil, gas, refined products and petrochemicals		(15,215,644)	(24,269,297)
Cost of other operations		(167,127)	(162,277)
		<u>(15,382,771)</u>	<u>(24,431,574)</u>
Gross profit		1,033,890	944,363
Depreciation and amortisation	5,7,8&9	(673,153)	(391,254)
General and administrative expenses		(467,296)	(459,576)
Provision for impairment loss on property, plant and equipment, goodwill and other provisions		(119,673)	(27,302)
Operating (loss) / profit		<u>(226,232)</u>	<u>66,231</u>
Interest income		27,337	35,826
Interest expense		(183,923)	(169,553)
Net interest expense		<u>(156,586)</u>	<u>(133,727)</u>
Investment income	27	187,991	102,909
Share of loss of equity accounted investees	11	(235,958)	(47,459)
Other income (net)	28	490,114	505,679
Directors' remuneration	29	(62)	(59)
Profit before provision for income tax		59,267	493,574
Income tax credit / (expense)	15	55,820	(63,052)
		<u>115,087</u>	<u>430,522</u>
Provision for replacement and renewal of property, plant and equipment	21	(21,000)	(27,000)
Profit for the year		<u>94,087</u>	<u>403,522</u>
Other comprehensive income / (loss)			
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements of defined benefit obligations		(6,945)	(3,811)
Net change in fair value of financial assets at fair value through OCI		616,227	(287,143)
Other comprehensive income / (loss) for the year		<u>609,282</u>	<u>(290,954)</u>
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Foreign currency translation differences for foreign operations		74,336	(3,280)
Net change in fair value of financial assets at fair value through OCI		(73,407)	120,035
Other comprehensive income for the year		<u>929</u>	<u>116,755</u>
Total other comprehensive income / (loss) for the year		<u>610,211</u>	<u>(174,199)</u>
Total comprehensive income for the year		<u>704,298</u>	<u>229,323</u>
Profit attributable to:			
Equity holder of the Corporation		94,459	395,511
Non-controlling interest		(372)	8,011
Profit for the year		<u>94,087</u>	<u>403,522</u>
Total comprehensive income attributable to:			
Equity holder of the Corporation		704,670	221,312
Non-controlling interest		(372)	8,011
Total comprehensive income for the year		<u>704,298</u>	<u>229,323</u>

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

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

 مؤسسة البترول الكويتية
Kuwait Petroleum Corporation

**Consolidated statement of changes in equity
for the year ended 31 March 2021**

	Attributable to equity holder of the Corporation							Non-controlling interest KD'000	Total equity KD'000		
	Authorised and paid-up share capital KD'000	Statutory reserve KD'000	Capital reserve KD'000	General reserve KD'000	Reserve for replacement and renewal of property, plant and equipment KD'000	Remeasurement of defined benefit obligation reserve KD'000	Cumulative changes in fair values KD'000			Foreign currency translation reserve KD'000	
Balance at 31 March 2019	2,500,000	1,250,000	232,945	17,253,435	3,676,691	(127,897)	686,053	(285,593)	25,185,634	78,054	25,263,688
Total comprehensive income / (loss)	-	-	-	395,511	-	-	-	-	395,511	8,011	403,522
Profit for the year	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive income / (loss)	-	-	-	-	-	(3,811)	(167,108)	(3,280)	(174,199)	-	(174,199)
Total comprehensive income / (loss)	-	-	-	395,511	-	(3,811)	(167,108)	(3,280)	221,312	8,011	229,323
Realised gain transferred to general reserve	-	-	-	15,417	-	-	(15,417)	-	-	-	-
Reserve for replacement and renewal of property, plant and equipment (Note 21)	-	-	-	-	27,000	-	-	-	27,000	-	27,000
Profit to be distributed (Note 25)	-	-	-	(2,486,097)	-	-	-	-	(2,486,097)	-	(2,486,097)
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	2,368	2,368
Balance at 31 March 2020	<u>2,500,000</u>	<u>1,250,000</u>	<u>232,945</u>	<u>15,178,266</u>	<u>3,703,691</u>	<u>(131,708)</u>	<u>503,528</u>	<u>(288,873)</u>	<u>22,047,849</u>	<u>88,433</u>	<u>23,036,282</u>

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



Kuwait Petroleum Corporation and Subsidiaries
State of Kuwait

Consolidated statement of changes in equity
for the year ended 31 March 2021

	Attributable to equity holder of the Corporation						Total	Non-controlling interest	Total equity			
	Authorised and paid-up share capital	Statutory reserve	Capital reserve	General reserve	Reserve for replacement and renewal of property, plant and equipment	Remeasurement of defined benefit obligation reserve				Cumulative changes in fair values	Foreign currency translation reserve	Proposed dividend
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	
Balance at 31 March 2020	2,500,000	1,250,000	232,945	15,178,266	3,703,691	(131,708)	503,528	(288,873)	-	22,947,849	88,433	23,036,282
Total comprehensive income / (loss)	-	-	-	94,459	-	-	-	-	-	94,459	(372)	94,087
Profit for the year	-	-	-	94,459	-	-	-	-	-	94,459	(372)	94,087
Other comprehensive income / (loss)	-	-	-	-	-	(6,945)	542,820	74,336	-	610,211	-	610,211
Total comprehensive income / (loss)	-	-	-	94,459	-	(6,945)	542,820	74,336	-	704,670	(372)	704,298
Realised gain transferred to general reserve	-	-	-	158,839	-	-	(158,839)	-	-	-	-	-
Reserve for replacement and renewal of property, plant and equipment (Note 21)	-	-	-	-	21,000	-	-	-	-	21,000	-	21,000
Profit to be distributed (Note 25)	-	-	-	(85,013)	-	-	-	-	85,013	-	-	-
Discounting for profit to be distributed (Note 25)	-	-	-	615,544	-	-	-	-	-	615,544	-	615,544
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	-	(9,465)	(9,465)
Balance at 31 March 2021	2,500,000	1,250,000	232,945	15,962,095	3,724,691	(138,653)	887,509	(214,537)	85,013	24,289,063	78,996	24,367,659

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

Kuwait Petroleum Corporation and Subsidiaries
State of Kuwait

Consolidated statement of cash flows
for the year ended 31 March 2021



	Notes	2021 KD'000	2020 KD'000
Cash flows from operating activities			
Profit for the year		94,087	403,522
Adjustments for:			
Depreciation and amortisation	5,7,8&9	673,153	391,254
Provision for replacement and renewal of property, plant and equipment	21	21,000	27,000
Provision for impairment loss on property, plant and equipment, goodwill and other provisions		119,673	27,302
Write off of unsuccessful exploration	7	20,851	9,108
Provision for employees' terminal benefits and pensions		74,984	73,011
Loss on disposal of property, plant and equipment		1,932	16,881
Share of loss of equity accounted investees	11	235,958	47,459
Interest income		(27,327)	(35,826)
Provisions, net		-	11,304
Interest expense		183,923	169,553
Income tax (credit) / expense	15	(55,820)	63,052
Investment income		(187,991)	(102,909)
		1,154,423	1,100,711
Changes in:			
- inventories		(311,518)	123,397
- trade receivables		(193,787)	1,252,256
- other receivables and prepayments		200,041	29,401
- non-current liabilities		(137,954)	(111,074)
- trade payables		(344,889)	(142,673)
- other payables, accruals and other credit balances		46,230	(204,364)
- change in amounts due to Ministry of Oil		869,447	651,938
Cash generated from operations		1,281,993	2,699,592
Interest paid		(114,996)	(61,786)
Taxes received / (paid)		75,113	(18,355)
Net cash from operating activities		1,242,110	2,619,451
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(1,920,015)	(3,330,154)
Change in deposits maturing after three months from the date placement		135,564	(16,404)
Change in financial assets at FVOCI		1,163,918	672,932
Change in financial assets at FVTPL		-	14,315
Net movement in equity accounted investees		144,537	(242,988)
Additions to intangible assets	7	(25,473)	(54,719)
Change in other non-current assets		(17,260)	65,921
Proceeds from disposal of property, plant and equipment		30,284	8,800
Interest received		2,218	35,826
Net cash used in investing activities		(486,227)	(2,846,471)
Cash flows from financing activities			
Net change in long term loans and borrowings		212,863	56,974
Payment of lease liabilities	8	(395,353)	(303,822)
Other changes in leases	8	2,893	2,822
Dividend paid	25	(400,000)	(900,000)
Change in non-controlling interest		(9,465)	2,368
Net cash used in financing activities		(589,062)	(1,141,658)
Net effect of foreign currency translation adjustments		1,284	(3,216)
Net increase / (decrease) in cash and cash equivalents		168,105	(1,371,894)
Cash and cash equivalents at beginning of the year		508,946	1,880,840
Cash and cash equivalents at end of the year	16	677,051	508,946
Short-term deposits maturing after three months from the date of placement	16	37,379	172,943
Bank balances and cash at end of the year	16	714,430	681,889

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

Kuwait Petroleum Corporation and Subsidiaries
State of Kuwait



Notes to the consolidated financial statements
for the year ended 31 March 2021

مؤسسة البترول الكويتية
Kuwait Petroleum Corporation

1. Corporate information

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

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

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

The consolidated financial statements of the Group for the year ended 31 March 2021 were previously authorised for issue by the Board of Directors on 15 July 2021. Subsequently as a result of certain event as disclosed in Note 25, these consolidated financial statements were reissued on 14 September 2021. These consolidated financial statements are subject to 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 investments at fair value through profit or loss, investments at fair value through other comprehensive income and derivative financial instruments.

c) Functional and presentation currency

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

Kuwait Petroleum Corporation and Subsidiaries
State of Kuwait



Notes to the consolidated financial statements
for the year ended 31 March 2021

مؤسسة البترول الكويتية
Kuwait Petroleum Corporation

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.

Following the World Health Organization declaring COVID-19 outbreak to be a pandemic, many governments have imposed restrictions on individuals and businesses, resulting in a significant slowdown of the global economy. While these restrictions have been relaxed in certain jurisdictions, a resurgence of COVID-19 cases (including cases resulting from variants of the COVID-19 virus) in certain geographic areas and the risk that this could occur in other areas has caused governments in certain jurisdictions to sustain and, in some cases, re-impose restrictions. In addition, while vaccines are beginning to be distributed, there is ongoing uncertainty as to the timing, level of adoption, duration of efficacy and overall effectiveness of the vaccine, including against variants of the COVID-19 virus. As a result, significant uncertainty remains as to the extent and duration of the global economic slowdown. This uncertainty has created volatility in asset and commodity prices, currency exchange rates and a marked decline in long-term interest rates. In addition, the resulting decrease in demand for crude oil has resulted in a decline in global crude oil prices. Management applied judgment and will continue to assess the situation in determining the impact of the significant uncertainties created by these events and conditions on the carrying amounts of assets and liabilities in these consolidated financial statements. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in Note 4.

e) Changes in accounting policies

A number of amendments to standards and interpretations are effective for annual periods beginning on 1 April 2020 as below, but they do not have material effect on the Group's consolidated financial statements.

- Amendments to IFRS 3: Definition of a Business;
- Adoption of profit rate benchmark reform (IBOR reform Phase 1);
- Amendments to IAS 1 and IAS 8: Definition of Material;
- Conceptual Framework for Financial Reporting issued on 29 March 2018; and
- Amendments to IFRS 16 Covid-19 Related Rent Concession.

3. Significant accounting policies

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

a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Corporation and its significant subsidiaries. Details of the principal consolidated subsidiaries are included in Note 40.

Kuwait Petroleum Corporation and Subsidiaries
State of Kuwait



Notes to the consolidated financial statements
for the year ended 31 March 2021

مؤسسة البترول الكويتية
Kuwait Petroleum Corporation

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

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

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

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

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

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

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

Accounting periods of subsidiaries

The Corporation's financial year was from 1 April 2020 to 31 March 2021. The financial year of the Corporation's significant subsidiaries is the same as that of the Corporation with the exception of Kuwait Foreign Petroleum Exploration Company K.S.C., Kuwait Gulf Oil Company K.S.C. (Closed), KPC Energy Ventures, Inc. and Kuwait Aromatics Company K.S.C.C., whose financial years were from 1 January 2020 to 31 December 2020. 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.

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b) Property, plant and equipment

i. Oil and gas properties

Exploratory wells

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

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

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

Development wells

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

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

ii. Other property, plant and equipment

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

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

Subsequent costs

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

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Gain or loss on disposal

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

iii. Other assets under construction

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

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

iv. Depreciation

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

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

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

Asset category	Depreciation	
	2020 - 2021 Years	2019 - 2020 Years
<i>Oil and gas</i>		
	Unit of production	Unit of production
Oil and gas properties	20 - 25	20 - 25
Plant and machinery	20 - 25	20 - 25
Tankage, pipelines and jetties	10 - 20	10 - 20
Wells and surveys	4 - 5	4 - 5
Service plant and drilling equipment	30 - 35	30 - 35
Vessels		
<i>Other property and equipment</i>		
Land, buildings and roads	25	25
Furniture, tools and computers	5 - 10	5 - 10
Vehicles, ships and marine craft	5 - 13	5 - 13

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

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c) Goodwill

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

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

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

d) Intangible assets

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

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

Pre-license costs

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

License and property acquisition costs

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

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

Exploration and evaluation costs

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

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

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

Gain or loss on disposal

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

Amortisation

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

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

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

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

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

e) **Financial instruments**

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

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 marketplace.

i) **Financial assets**

Initial recognition and measurement

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

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

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

Subsequent measurement

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

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

Financial assets at amortised cost (debt instruments)

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

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and

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- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Business model assessment

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

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

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

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

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

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

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

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

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

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

Equity investments at FVOCI

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

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

Debt instruments at FVOCI

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

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

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

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Financial asset at FVTPL

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

Reclassification of financial assets

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

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

ii) Impairment of financial assets

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

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

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

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

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

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

Stage 1: 12 months ECL

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

Stage 2: Lifetime ECL not credit impaired

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

Stage 3: Lifetime ECL credit impaired

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

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

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward looking information considered includes the future prospects of the industries in which the Group's customer operates.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments from the customer are more than 12 months past due, unless the Group has reasonable and supportable information that demonstrates otherwise. Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

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The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying a significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet the following criteria are generally not recoverable.

- Information developed internally or obtained from external sources indicates that the customer is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group); or
- A breach of contract by the counterparty.

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 12 months past due from customers unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement of ECLs

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

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

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

iii) Financial liabilities

Initial recognition and measurement

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

Subsequent measurement

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

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

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

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

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

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

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.

f) Investments in equity accounted investees

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

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

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

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

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

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

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

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

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

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

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

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

g) Interests in joint operations

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

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

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

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

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

h) Inventories

i) Crude oil and petroleum products

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

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

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

ii) Other

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

i) Deferred expenses

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

j) Impairment of non-financial assets

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

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

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

k) Bank borrowings

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

l) Borrowing costs

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

m) Foreign currency transactions

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the consolidated statements of profit or loss and other comprehensive income.

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

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

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n) Fair values of financial instruments

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

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

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

o) 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.

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p) **Derivatives**

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

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

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

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

q) **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.

r) **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.

s) **Revenue recognition**

Sale of goods

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

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

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

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

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

Local marketing and distribution network operation

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

Other Services

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

Take or pay and under/over lifts

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

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

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

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

Pipeline tariff

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

Time charter of vessels

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

Voyage charter

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

Interest income

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

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

t) **Leases**

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

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i. Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies of impairment of non-financial assets (Note 3(j)).

ii. Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

iii. Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

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Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

u) **Provision for employees' indemnity**

Defined benefit and contribution scheme – Parent and local subsidiaries

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

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

Defined benefit scheme – Foreign subsidiaries

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

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

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

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Defined contribution schemes

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

Termination allowances

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

v) **Emissions rights**

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

w) **Assets held for sale**

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

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

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are shown below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right.
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

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Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

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, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Recognition of provisions

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

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

Further details of amounts for which either provision or disclosure was deemed to be required are given in Notes 22 and 35 respectively.

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Joint arrangements

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

Performance obligations

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

Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

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 within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

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 22. 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.

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Reserve and resource estimates

Oil and gas production properties are depreciated on a units of production ("UOP") basis at a rate calculated by reference to total 2P reserves determined using the latest estimates provided by the Group's technical staff, which are based on estimates provided by the field operator. Commercial reserves are determined using estimates of oil in place, recovery factors and future oil prices, the latter having an impact on the total amount of recoverable reserves and the proportion of the gross reserves which are attributable to the host government under the terms of the Production-Sharing Agreements. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs.

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

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

Exploration and evaluation expenditures

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

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

Units of production depreciation of oil and gas properties

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

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

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

Impairment of oil and gas properties

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

Fair value for oil and gas assets is generally determined as the present value of estimated future cash flows arising from the continued use of the assets, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Management has assessed its CGUs as being an individual field, which is the lowest level for which cash inflows are largely independent of those of other assets. These calculations require the use of estimates and the input factors most sensitive to change have been disclosed in Note 5.

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

Determining whether goodwill, intangible assets or property, plant and equipment, excluding oil and gas properties, are impaired requires an estimation of the fair value less cost of disposal or value in use of the relevant cash-generating units. These calculations require the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. These calculations require the use of estimates and the input factors most sensitive to change have been disclosed in Note 5 and Note 6.

Impairment of investment in equity accounted investees

After application of equity accounted method, the Group determines whether it is necessary to recognise any impairment loss on Group's equity accounted investees at each reporting date based on the existence of any objective evidence that the investment in equity accounted investees is impaired. If any impairment indicators are identified, the Group calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value and recognise the impairment loss in the consolidated statement of profit or loss. These calculations require the use of estimates and the input factors most sensitive to change have been disclosed in Note 11.

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Remeasurement gains and losses

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

Recovery of deferred tax assets

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

Decommissioning costs

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

Measurement of ECLs

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. There was no significant deterioration in the credit quality of trade receivable due to COVID-19 pandemic. Uncertainties due to COVID-19 pandemic may exist in the future, and as a result, actual losses may differ from expected credit losses on accounts receivable.

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5. Property, plant and equipment

	Oil and gas					Other property and equipment					Total KD'000
	Oil and gas properties KD'000	Plant and machinery KD'000	Tankage, pipelines and jetties KD'000	Wells and surveys KD'000	Service plant and drilling equipment KD'000	Vessels KD'000	Land, buildings and roads KD'000	Furniture, tools and equipment KD'000	Vehicles, ships and marine craft KD'000	Assets under construction KD'000	
Balance at 1 April 2020, net of accumulated depreciation and impairment losses	2,211,151	3,393,564	1,732,866	3,459,872	15,250	447,559	987,188	53,201	66,859	18,251,383	30,618,903
Additions	127,004	8,787	52	-	-	-	9,593	594	1,421	2,018,154	2,165,605
Disposals and write-offs net	(1,313)	(17,139)	(18)	(941)	-	-	(1,564)	-	-	(10,987)	(31,962)
Change in estimate	27,467	2,782,785	969,257	866,291	2,222	51,174	603,434	8,459	4,129	(5,296,674)	27,467
Transfers	8,496	4,002	2,486	(6,549)	-	-	-	61	-	-	(427)
Internal transfer-net	-	-	-	-	-	-	-	-	-	-	-
Foreign currency translation adjustment	4,115	6,647	1,570	578	-	-	9,164	(20)	72	4,713	26,839
Depreciation for the year	(199,217)	(363,502)	(165,271)	(261,756)	(8,413)	(27,643)	(91,613)	(13,954)	(8,979)	-	(1,140,348)
Impairment loss	(50,437)	(29,905)	(5,309)	-	-	(11,423)	(28)	(82)	(18)	-	(97,202)
At 31 March 2021	2,127,266	5,785,239	2,535,633	4,057,495	9,059	459,667	1,516,174	48,259	63,484	14,966,599	31,568,875
Property, plant and equipment											
At cost	4,280,647	10,696,523	4,546,836	7,225,444	75,799	834,514	2,380,330	148,425	167,540	14,966,599	45,322,657
Accumulated depreciation and impairment losses	(2,153,381)	(4,911,284)	(2,011,203)	(3,167,949)	(66,740)	(374,847)	(864,156)	(100,166)	(104,056)	-	(13,753,782)
Net carrying amount at 31 March 2021	2,127,266	5,785,239	2,535,633	4,057,495	9,059	459,667	1,516,174	48,259	63,484	14,966,599	31,568,875



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5. Property, plant and equipment (continued)

	Oil and gas				Other property and equipment				Total KD '000		
	Oil and gas properties KD '000	Plant and machinery KD '000	Tankage, pipelines and jetties KD '000	Wells and surveys KD '000	Service plant and drilling equipment KD '000	Vessels KD '000	Land, buildings and roads KD '000	Furniture, tools and equipment KD '000		Vehicles, ships and marine craft KD '000	Assets under construction KD '000
Balance at 1 April 2019, net of accumulated depreciation and impairment losses	2,283,069	3,510,779	1,738,602	3,387,546	17,224	400,882	977,311	17,958	65,861	15,552,577	27,951,909
Additions	154,155	17,586	192	6	-	-	14,775	4,297	616	3,428,931	3,620,558
Disposals and write-offs net	-	(11,810)	(3)	(1,865)	(25)	(64)	(2,567)	(5)	(157)	(385)	(16,881)
Change in estimate	(41,766)	-	-	-	-	-	-	-	-	-	(41,766)
Transfers	25,351	105,076	103,703	316,604	7,153	85,844	56,807	41,657	8,564	(728,396)	22,363
Internal transfer-net	-	(12,203)	11,946	-	1,368	-	(211)	-	-	-	-
Foreign currency translation adjustment	(1,584)	4,242	(311)	(2,168)	2	-	(2,524)	(1,073)	(6)	(1,334)	(4,756)
Depreciation for the year	(203,527)	(220,106)	(120,363)	(240,251)	(10,572)	(19,078)	(36,403)	(9,653)	(8,019)	-	(887,752)
Impairment loss	(4,747)	-	-	(20,025)	-	(20,025)	-	-	-	-	(24,772)
At 31 March 2020	2,211,151	3,393,564	1,732,866	3,459,872	15,250	447,559	987,188	53,201	66,859	18,251,393	30,618,903
Property, plant and equipment At cost	4,115,753	7,939,295	3,570,610	6,368,387	73,917	783,340	1,758,505	150,157	163,478	18,251,393	43,174,835
Accumulated depreciation and impairment losses	(1,904,602)	(4,545,731)	(1,837,744)	(2,908,515)	(58,667)	(335,781)	(771,317)	(96,956)	(96,619)	-	(12,555,932)
Net carrying amount at 31 March 2020	2,211,151	3,393,564	1,732,866	3,459,872	15,250	447,559	987,188	53,201	66,859	18,251,393	30,618,903

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The depreciation charged to profit or loss is reduced by KD 537 million (2020: KD 509 million) being the amount charged to the Ministry of Oil in respect of the operations of local wholly owned subsidiaries engaged in exploration activities. Included in assets under construction are amounts of KD 5,410,959 thousand and KD 463,074 thousand (2020: KD 5,053,864 thousand and KD 4,286,717 thousand) relating to the Group's new refinery i.e. Al-Zour Refinery Project and Clean Fuels Project ("CFP") respectively. During the year, KNPC completed commissioning of various units of CFP. As a result, a substantial portion of accumulated CFP costs of KD 3,921 million were transferred from assets under construction to various classes of property, plant and equipment.

"Land, buildings and roads" and "Plant and machinery" includes certain building, plant and machinery constructed on land leased from the Government of Kuwait for a renewable period of twenty-five years maturing on 25 June 2023 and 2031. During the year, borrowing costs of KD 63 million (2020: KD 107 million) were capitalised in assets under construction. Land, buildings and roads includes land amounted to KD 69 million (2020: KD 66 million). Certain "Property, plant and equipment" are secured against borrowing facilities (Note 22).

Impairment of property, plant and equipment

The COVID-19 pandemic has resulted in a significant decrease in global demand for crude oil and commodity prices. Accordingly, the Group's subsidiaries performed asset impairment tests on certain CGUs included within oil and gas properties and other property and equipment.

Oil and gas properties

In assessing whether an impairment is required, the carrying value of the asset or CGU is compared with its recoverable amount. The recoverable amount is the higher of the asset's/CGU's fair value less costs to sell and value in use. Given the nature of the Group's activities, information on the fair value of an asset is usually difficult to obtain unless negotiations with potential purchasers are in place. Consequently, the recoverable amount is determined using value in use.

The calculation of value in use for the oil and gas properties exploration and production CGUs are most sensitive to discount rates and hydrocarbon prices. Estimated production volumes are based on detailed data for the fields and take into account development plans for the fields agreed by management as part of the long-term planning process. Forecast oil and gas prices are based on management's estimates and available market data and consider forward curve pricing over the period for which there is a liquid market (2-3 years), thereafter reverting to a long-term oil price assumption that considers long-term views of global supply and demand in a changing environment, particularly with respect to climate risk and COVID-19, building on past experience of the industry and consistent with external sources. Crude oil prices have been revised to reflect the lower, post COVID-19 prices currently prevailing and anticipated for 2021, and revised views of oil prices in the longer term.

The future cash flows are discounted to their present value using discount rates ranging from 6.33% to 14.53% (2020: 7.33% to 17.25%) depending on the specific risk characteristics of the respective CGU. Accordingly, the Group recorded a net impairment loss of KD 50,437 thousand (2020: impairment loss of KD 4,747 thousand) is recognised in the consolidated statement of profit or loss.

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Vessels

The KOTC's management conducted a review of its vessels to determine if there are any indicators of impairment and determined that current and projected level of international fleet rates may not allow KOTC to fully recover its investments in certain vessels during their useful lives. The Group determined the fair value less cost to sell based on the information provided by the independent brokers and categorised as level 2 inputs. Value in use is determined by discounting the future cash flows to be generated from the continued use if the vessels during their remaining useful lives and residual value. The key assumptions used in the calculation of value in use is discount rate 3.79% (2020: discount rate of 4.64%) and terminal growth rate ranging from 3% to 6% (2020: 3% to 6%). Accordingly, an impairment loss of KD 11,423 thousand (2020: impairment loss of KD 20,025 thousand) was recognised in the consolidated statement of profit or loss.

Plant and machinery

KPC-Aruba has carried out an impairment analysis of its refinery business in Italy. This assessment has resulted in an impairment loss of US\$ 105 million (2020: US\$ Nil) as the recoverable amount of the CGU is assessed to be lower than its carrying value. Value in use cash flows have been discounted by applying a discount rate of 10% (2020: Nil). The future cash flows are projected taking into account the forecasted margins/spreads derived from primary market advisors' forward projections, updated at the latest available date. EBITDA margins are considered to increase at a Compound Annual Growth Rate (CAGR) of 12% from financial year 2022 to 2026 due to projected improvement in selling prices and change in optimal mass balance over the forecast period.

6. Goodwill

	2021 KD'000	2020 KD'000
Balance at beginning of the year	116,726	113,860
Acquisitions	3,349	4,442
Impairment	-	(130)
Disposals	(110)	-
Foreign currency translation effects	5,751	(1,446)
Balance at end of the year	125,716	116,726

The Group management assessed the goodwill for impairment annually or more frequently if events or changes in circumstances indicate the recoverable amount of the group of CGUs to which the goodwill relates should be assessed. This requires an estimation of recoverable amount of the CGU to which goodwill is allocated. The recoverable amount is determined based on the higher of fair value less costs to sell and value in use. The calculations use pre-tax cash flow projections based on five year plans approved by the subsidiary's management. The cash flows are discounted at a pre-tax discount rate ranges from 7% to 10% (2020: 7% to 10%) per annum. The value in use of the cash-generating units to which goodwill has been allocated, as estimated by the subsidiary's management, indicates that there has been no impairment during the year ended 31 March 2021.

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7. Intangible assets

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

	2021 KD'000	2020 KD'000
Balance at beginning of the year	574,902	576,729
Additions during the year	25,473	54,719
Transfer from assets under construction	602	80
Transfer to oil and gas properties (Note 5)	(8,496)	(25,351)
Amortisation	(22,711)	(21,321)
Write-off of unsuccessful exploration cost	(20,851)	(9,108)
Impairment loss	(301)	-
Foreign currency translation effects	4,821	(846)
Balance at end of the year	553,439	574,902

The above primarily consists of licenses in respect of the Group's retail network together with capitalized software development costs and exploration and evaluation assets. At the reporting date, the carrying amount of intangible assets includes KD 358 million (2020: KD 369 million) of exploration and evaluation assets.

The amortization charged to profit or loss is reduced by KD 12 million (2020: KD 11 million) being the amount charged to the Ministry of Oil in respect of the operations of local wholly owned subsidiaries engaged in exploration activities.

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8. Right-of-use assets

	Right-of-use of assets				Lease liabilities	
	Rigs KD'000	Land and Building KD'000	Vehicles* KD'000	Property and equipment KD'000		Others KD'000
Balance at 1 April 2020	841,035	165,496	38,928	11,789	8,491	1,065,739
Additions	255,793	22,099	33,063	67,553	779	379,287
Depreciation charge for the year	(104,825)	(30,084)	(22,150)	(6,222)	(3,426)	(166,707)
Depreciation capitalised in assets under construction	(220,420)	-	-	-	-	(220,420)
Other changes	-	8,323	(2,105)	(762)	2,950	8,406
Foreign currency translation effects	-	9,812	(83)	61	337	10,127
Interest expense	-	-	-	-	-	-
Interest expense capitalised in assets under construction	-	-	-	-	-	-
Payment of lease liability	-	-	-	-	-	-
Balance at 31 March 2021	771,583	175,646	47,653	72,419	9,131	1,076,432

The depreciation charge and interest expenses related to right of use assets and lease liabilities for the year ended 31 March 2021 is reduced by KD 121,658 thousand (2020: KD 80,986 thousand) and KD 9,559 thousand (2020: KD 5,130 thousand) respectively being the amount charged to the Ministry of Oil in respect of the operations of local wholly owned subsidiaries engaged in exploration activities. As at 31 March 2021, lease liabilities have been classified as current and non-current amounted to KD 345,521 thousand (2020: KD 373,412 thousand) and KD 880,347 thousand (2020: KD 812,934 thousand) (Note 22) respectively.

*Vehicles includes motor vehicles, aircrafts, marine vessels, helicopters etc.

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	Right-of-use of assets				Lease liabilities	
	Rigs KD'000	Land and Building KD'000	Vehicles* KD'000	Property and equipment KD'000		Others KD'000
Balance at 1 April 2019	655,737	177,044	41,091	14,638	10,636	899,146
Additions	526,101	6,697	13,933	3,195	416	550,342
Depreciation charge for the year	(76,486)	(27,579)	(15,436)	(5,619)	(3,278)	(128,398)
Depreciation capitalised in assets under construction	(264,317)	-	-	-	-	(264,317)
Other changes	-	7,112	(632)	(500)	638	618
Foreign currency translation effects	-	2,222	(28)	75	79	2,348
Interest expense	-	-	-	-	-	-
Interest expense capitalised in assets under construction	-	-	-	-	-	-
Payment of lease liability	-	-	-	-	-	-
Balance at 31 March 2020	841,035	165,496	38,928	11,789	8,491	1,065,739

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9. Other non-current assets

	2021 KD'000	2020 KD'000
Loans to joint ventures	104,692	136,989
Deferred expenses	21,265	13,616
Others	42,920	46,357
	<u>168,877</u>	<u>196,962</u>

In prior years, the Group advanced long term loans denominated in US\$ to NSRP, which carries one month US\$ Libor rate plus 6% (2020: 6%) per annum. At the reporting date, the outstanding loan balance receivable from NSRP amounts to US\$ 300 million (2020: US\$ 406 million) and is fully repayable on 27 May 2029. Due to its nature, the Group considered the loan as part of the investment in NSRP. During the year, the loan amount is reduced with the Group's share in NSRP losses of US\$ 163 million (2020: US\$ 389 million) (Note 11).

Furthermore, the Group also advanced long term loans denominated in Swedish Krona to OK-Q8, which carries 6 month Stibor rate plus 0.5% per annum till 31 December 2018 and thereafter, 3 months Stibor rate plus 1% till maturity. At the reporting date, the outstanding loan balance receivable from OK-Q8 amounts to US\$ 34 million (2020: US\$ 30 million) and is fully repayable on 1 January 2024 respectively.

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

10. Investments

	2021 KD'000	2020 KD'000
<i>Financial assets at fair value through other comprehensive income</i>		
<i>Non-current assets</i>		
Equity securities	1,486,190	1,073,246
Bonds	<u>2,588,889</u>	<u>2,431,183</u>
	<u>4,075,079</u>	<u>3,504,429</u>
<i>Current assets</i>		
Bonds	<u>332,661</u>	<u>1,401,228</u>
<i>Financial assets at fair value through profit or loss</i>		
Funds	<u>255,590</u>	<u>201,392</u>

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

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11. Investment in equity accounted investees

	2021 KD'000	2020 KD'000
<i>Carrying values of equity accounted investees</i>		
Significant equity accounted investees	471,967	713,015
In-significant equity accounted investees	<u>224,280</u>	<u>281,125</u>
	<u>696,247</u>	<u>994,140</u>
<i>Share of loss of equity accounted investees</i>		
Share of loss of significant equity accounted investees	(180,509)	(63,143)
Share of (loss) / profit of in-significant equity accounted investees	<u>(55,449)</u>	<u>15,682</u>
	<u>(235,958)</u>	<u>(47,459)</u>

- PIC has a 50% interest in Canada Kuwait Petroleum Corporation ("CKPC" or "General Partner") and Canada Kuwait Petroleum Limited ("CKPLP" or "Project Owner"), together referred to as either "Partnership" or "Joint Venture", which were formed to execute an integrated propane dehydrogenation ("PDH") plant and polypropylene (PP) upgrading facility ("the Project") in Alberta, Canada. Investment in CKPC and CKPLP are owned via KPIC and KPPLC, which are wholly owned subsidiaries of PIC.

In December 2020, the Management Committee of the General Partner authorized cancellation of insurance coverage and the credit facility that supported the financing of the Project. A formal recommendation to indefinitely suspend development and construction on the Project was also made at that time, and was later ratified in January 2021. The decision to indefinitely suspend the project was the result of significant risks arising from the ongoing COVID-19 pandemic, most notably with respect to project economics. The impairment assessment was triggered by the indefinite suspension of the Project, which resulted in a significant change in the intended use of the Project. The Partnership has no history of earnings and dependent on financial support from the Joint Venture Partners for continued operations. Accordingly, CKPLP estimated that the recoverable amount of the Project to be Nil and recognised full impairment loss on its assets under construction of KD 117 million, of which PIC share is 50%.

The Joint Venture has also commitment from the Partners to provide additional financial support up to US\$ 32 million, equivalent to KD 9.8 million, to maximise the preservation of the Project value for future restart and to finalise and execute and approved indefinite suspension plan.

In February 2020, CKPLP entered into a long-term loan agreement with a consortium of banks. The long-term loan consisted of US\$ 1.7 billion, equivalent to KD 529 million, amortizing term facility and US\$ 150 million, equivalent to KD 47 million, revolving credit facility and are equally guaranteed by the partners of the joint venture on a completion of construction basis. The final maturity date of the term facility and revolving credit facility is 27 February 2027. In December 2020, the Partnership repaid US\$ 26 million drawn under the term facility. Pursuant to the decision to suspend the Project, a notification was provided to the lenders to cancel the credit facilities, effective from 6 January 2021. The lenders also restrict the cash in Canadian Dollars 5 million, equivalent to KD 1.5 million, as security against the letter of credits issued previously under the credit facility.

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- During the year, Duqm Refinery and Petrochemical Industries Company L.L.C. ("DRPIC") has carried out an impairment analysis of its project under construction due to outbreak of the COVID-19 pandemic, commodities price volatility and uncertainty which has resulted in an impairment of US\$ 1,205 million (2019: US\$ Nil) on a 100% basis as the recoverable amount of the CGU is assessed to be lower than its carrying value. The Group's share of 100% impairment loss recorded by DRPIC amounts to US\$ 603 million, equivalent to KD 185 million (2020: KD Nil).
- In 2019, the Group carried out the impairment assessment of its investment in NSRP and concluded that due to changes in the outlook especially related to forecasted refinery margins, the investment in NSRP is impaired by US\$ 378 million, equivalent to KD 115 million. The impairment loss is included in the Group's share of net income in NSRP. For the calculation of value in use, a discount rate of 14% was applied.
- On 29 February 2020, PIC acquired 49% equity interest of SK PIC Global Ltd (SKPIC) valued at KD 141 million, equivalent to US\$ 465 million, the consideration was based on an enterprise value performed by an external expert and adjusted by net debt based on best estimate at the transaction date. During the year, the Group completed the purchase price allocation ("PPA") with the assistance of an external expert. The Group's share of the net assets fair value was KD 44 million and the remaining amount in excess of the fair value of net assets was included in the carrying amount of investment.
- The Group's share in the contingent liabilities and contractual commitments of equity accounted investees was KD 1,018 million (2020: KD 818 million). Equate and TKOC are jointly and severally a guarantor for the credit facilities undertaken by Equate. During the year, the Group received cash dividend of KD 162,956 thousand from equity accounted investees (2020: cash dividend of KD 44,751 thousand).
- At the reporting date, the fair value of certain listed equity accounted investees amounted to KD 23,307 thousand (2020: KD 20,199 thousand) and the valuation input categorized under level 1 of fair value hierarchy.

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11 Investments in equity accounted investees (continued)

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

2021	Ownership	Total assets KD'000	Total liabilities KD'000	Net assets/ (liabilities) KD'000	Group's share of net assets/ carrying value KD'000	Revenues KD'000	Expenses KD'000	Profit/ (loss) KD'000	Group's share of results KD'000
<i>Associates</i>									
EQUATE	42.5%	2,220,984	2,040,192	180,792	76,837	934,033	877,756	56,277	23,918
TKOC	42.5%	238,334	64,677	173,658	73,804	145,277	92,488	52,789	22,435
GPIC	33.33%	167,202	8,719	158,483	52,822	33,075	81,616	1,459	486
KDCC	49%	378,285	282,439	95,846	46,965	117,425	115,093	2,332	1,143
OULLA	24%	126,208	60,992	65,216	15,652	126,987	124,001	2,986	717
SOULR	24%	82,579	18,412	64,167	15,400	122,771	120,163	2,608	626
<i>Joint Ventures</i>									
TKSC	57.5%	119,643	38,101	81,542	46,887	120,840	103,041	17,799	10,234
OKO8	50%	458,944	252,914	206,030	103,015	739,342	724,634	14,708	7,354
NSRP**	35.1%	2,549,832	2,737,348	(187,516)	-	922,924	1,084,752	(161,827)	(56,801)
DRPIC	50%	1,292,412	1,215,701	76,711	40,585	-	381,241	(381,241)	(190,621)
		7,634,423	6,719,495	914,929	471,967	3,312,674	3,704,785	(392,110)	(180,509)

** This represents certain adjustments made by the Group in relation to its investment in NSRP of US\$ 163 million (2020: US\$ 389 million) (Note 9).

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15. Deferred tax assets and liabilities

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

a. Income taxes

	2021 KD'000	2020 KD'000
Statement of profit or loss		
Current year credit / (expense)	26,640	(23,992)
Deferred tax credit / (expense)	29,180	(39,060)
	<u>55,820</u>	<u>(63,052)</u>
Statement of financial position		
Deferred tax assets	109,814	164,151
Deferred tax liabilities (Note 22)	(8,132)	(93,034)
	<u>101,682</u>	<u>71,117</u>

Income tax credit mainly resulted due to temporary tax legislative changes enacted in certain geography. These tax legislative changes are primarily related to accelerated tax depreciations and accelerated uplift utilization in addition to the ability to claim a refund of the current year tax losses.

b. Taxes receivable/ (payable)

	2021	2020
Taxes receivable	6,913	5,847
Taxes payable	(168,435)	(117,511)
	<u>(161,522)</u>	<u>(111,664)</u>

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

16. Bank balances and cash

	2021 KD'000	2020 KD'000
Cash and current accounts at banks	603,191	352,016
Short-term bank deposits maturing within three months	73,860	156,930
Cash and cash equivalents	677,051	508,946
Short-term bank deposits maturing after three months	37,379	172,943
	<u>714,430</u>	<u>681,889</u>

Bank balances and cash include Pound Sterling 151 thousand, equivalent to KD 62 thousand (2020: Pound Sterling 149 thousand, equivalent to KD 57 thousand) recovered from former employees against whom the Corporation has initiated legal proceedings for financial irregularities (Note 35).

The corresponding amount of KD 62 thousand (2020: KD 57 thousand) is reported under other credit balances (Notes 23).

The interest rate on short-term deposits ranges from 0.16% to 3.05% (2020: interest rate ranges from 1.7% to 2.7%) per annum.

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17. Assets held for sale

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

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

	2021 KD'000	2020 KD'000
Balance at beginning of the year	40,886	33,160
Reclassification from property, plant and equipment	-	3,700
Reclassification (to) / from inventories	(1,106)	4,026
	<u>39,780</u>	<u>40,886</u>

18. 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.

19. 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 (2020: KD Nil).

20. 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 25).

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

Article 10 of Law Decree No. 6 of 1980 states that the Corporation may provide part from its profits to meet the costs of replacement and renewal of the Corporation's and its subsidiaries' property, plant and equipment, after approval of the Supreme Council for Petroleum. The reserve is based on the difference between depreciation, calculated on the historical cost of the property, plant and equipment of the Corporation and its Kuwaiti subsidiaries, and depreciation calculated on the replacement cost of assets using their insured (generally replacement) values. The management has proposed to transfer KD 21 million to the reserve as at 31 March 2021 (2020: KD 27 million), which is subject to approval of the Supreme Council for Petroleum.

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	2021 KD'000	2020 KD'000
Profit available for distribution (Note 25)	6,703,517	6,224,605
Employees' terminal benefits (Note 22.1)	1,471,537	1,461,957
Pension fund liabilities (Note 22.1)	54,611	33,753
Long-term loans (Note 22.2)	3,490,205	3,593,949
Deferred tax liabilities (Note 15a)	8,132	93,034
Provisions (Note 22.3)	59,302	54,095
Lease liabilities (Note 8)	880,347	812,934
Others (Note 22.4)	287,225	270,191
	<u>12,954,876</u>	<u>12,544,518</u>

22.1. Employees' terminal benefits and Pension fund liabilities

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

The latest actuarial valuations took place on 31 March 2021, and these showed that the funds and schemes in the United Kingdom, Belgium, Germany and Italy had a net deficit. The main assumptions used in the actuarial valuation were a rate of pension increase ranging from 1.75% to 3% (2020: 1.75% to 2.3%) per annum, an annual salary increase ranging from 0% to 4.6% (2020: 0% to 3.8%) per annum, a discount rate ranges from 0.7% to 2.1% (2020: 1.4% to 2.3%) per annum and inflation rate assumed ranging from 2% to 3.1% (2020: 2% to 2.3%) per annum.

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

Sensitivity analysis

A 0.25% increase/ decrease in the rate of pension increase, discount rate, annual salary and inflation assumed at 31 March 2021 would not have any significant effect on the pension fund liabilities as of that date.

22.2. Long-term loans

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

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On 17 May 2007, KARO's subsidiary signed a US\$ 1,400 million term debt facility agreement with a consortium of banks which includes commercial facilities of US\$ 1,053 million and an Islamic loan facility of US\$ 347 million. The term loan is repayable over a period of 11 years in biannual instalments starting from 15 December 2010 and maturing on 15 June 2021. The coupon rate on this facility is LIBOR + 0.4% till the completion of the project, LIBOR + 0.45% till 7th anniversary of the project, LIBOR + 0.6% till 10th anniversary of the project and LIBOR + 0.7% till the maturity date. The effective interest rate on the outstanding loan was 2.82% (2019: 2.39%) per annum. The facility contain certain financial covenants which are being met by KARO Group. The facility is secured by a charge over the property, plant and equipment of KARO (Note 5). At the reporting date, the remaining loan amount payable to banks has been classified as current and included in "Other payables and accruals" in "Borrowings".

KPC-Aruba

In prior years, Kuwait Petroleum Italia S.P.a, a subsidiary of KPC-Aruba, secured a loan facility of Euro 160 million. The loan facility bears interest rate ranging from 0.55% to 0.97% and is payable monthly. This loan facility is expected to be fully repaid in 2022-2023.

In prior year, Kuwait Petroleum Espana, a subsidiary of KPC-Aruba, secured a long-term loan facility of Euro 43 million. The loan carries an interest rate at 6 monthly EURIBOR plus 1.05% and is expected to be fully repaid in seven years. At the reporting date, the subsidiary drew down Euro 41.6 million.

Further, Kuwait Petroleum Belgium, a subsidiary of KPC-Aruba, secured long-term loan facility of Euro 75 million. The loan carries an interest rate 1.22% and repayment will start after a grace period of 2 years in 2023 and expected to be fully repaid by 2027-2028. At the reporting date, the subsidiary drew down Euro 61.6 million.

In prior years, a long-term loan facility has been secured by Milazzo Refinery, a joint operation. The Group's share of the amount outstanding is US\$ 87 million (2020: US\$ 62 million). The loan carries an interest rate at 6 monthly EURIBOR plus 0.85% (2020: interest rate at 6 monthly EURIBOR plus 0.85%) and is expected to be fully repaid in 2023-2024.

KUFPEC

As of 31 December 2020, KUFPEC had an unsecured loan facility with principal amount of US\$ 1,100 million, equivalent to KD 334 million. The average interest rate during 2020 was 3.11% (2019: 3.11%) per annum. The loan facility is repayable in 7 half yearly instalments of US\$ 157 million, equivalent to KD 47.6 million, starting from 2020 and will be fully repaid in year 2023.

KNPC

On 28 April 2016, KNPC entered into a long-term loan agreement ("Facility") of KD 1.2 billion with a consortium of banks. The Facility consists of conventional and Islamic financing and is repayable in semi-annual instalments of KD 80 million from April 2019 till 28 April 2026. The Facility carries an interest rate of 1% (2020: 1%) per annum over and above the Central Bank of Kuwait discount rate and is unsecured. The funds were specifically borrowed to finance the CFP. At the reporting date, KNPC fully utilized Islamic facility of KD 490 million and conventional facility of KD 710 million.

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

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

KOTC

On 15 March 2018, KOTC entered into a murabaha agreement ("Murabaha Financing") with three participating local banks to finance the construction of 8 new vessels comprising of 3 gas tankers, 4 product tankers and 1 oil tanker. The total approved facility is KD 140 million comprising of Tranche A and Tranche B amounting to KD 28 million and KD 112 million respectively. As per the agreement, Tranche A is given 6 months and Tranche B is given 45 days to drawdown the approved facility amount starting from 15 March 2018 and 15 September 2019 respectively. Murabaha Financing carries a profit rate of 2.20% (2020: 2.20%) per annum and is repayable in equal semi-annual instalments of KD 9,324 thousand starting from 15 March 2021 to 15 September 2027 with a final instalment amounting to KD 9,464 thousand payable on 15 March 2028.

KIPIC

On 11 June 2018, KIPIC entered into long term loan agreement ("Long-term loans") of KD 390 million with a consortium of local banks. The Long-term loans consists of both conventional and Islamic financing and principal is repayable in 21 semiannual instalments of KD 18,571 million each from the date falling 36 months after the agreement signing date, and maturing is expected by 2031. The interest on these loans is payable on biannual basis and carries variable interest rate of 0.750% per annum over and above the Central Bank of Kuwait discount rate. At the reporting date, KIPIC fully drew down the long-term loans.

Further, on 31 August 2018, KIPIC signed a USD 1.3 billion long term loan agreement with Export Credit Agencies ("the ECAs Financing"). As per terms of the ECA Financing, the principal is repayable in 20 semi-annual instalments of USD 65 million each starting either 6 months after 1 August 2021 or 6 months after the commencement of LNGI operations (date stated in the Provisional Acceptance Certificate (as defined in the EPCC Contract)), whichever falls earlier, and maturing is expected by 2031. The interest on this loan is payable on biannual basis and carries variable interest rate of 6 months LIBOR plus margin that ranges from 0.80% to 0.94% per annum. At the reporting date, KIPIC fully drew down the ECA Financing.

Export Credit Agencies loans, which is denominated in US Dollars and are guaranteed by KPC, and long-term loans, denominated in Kuwaiti Dinar, are specifically borrowed only to finance Liquefied Natural Gas Import project.

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On 16 September 2020, the Corporation entered into a long-term agreement for a Kuwaiti Dinar term facility ("the Facility") of KD 1 billion with a consortium of local banks. The dual tranche facility consists of a KD 600 million conventional facility and a KD 400 million commodity Murabaha facility with a 15-year tenor and is unsecured. The Facility is repayable over 24 semi-annual instalments based on a pre-agreed amortization structure commencing 42 months from the signing date of the Facility. The Facility carries an interest rate comprised of a margin over and above the Central Bank of Kuwait discount rate and is payable quarterly.

22.3. Provisions

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

	2021 KD'000	2020 KD'000
Environmental (Note i)	57,893	53,186
Restructuring and others (Note ii & iii)	1,409	909
	<u>59,302</u>	<u>54,095</u>

i. Environmental

The Group has accrued for costs associated with environmental clean-up, principally relating to Belgium and Italy. In Belgium, costs are expected to be incurred in the next one to three years and which has now started, progresses. Costs related to clean up of depot facilities at Naples have been adjusted for inflation and discounted at 10% (2020: 9.67%) as these are not expected to be incurred until at least 2027. Remediation costs to logistics facilities at Silone in Italy were to be incurred following the closure of the facility but the decision on closure has been deferred. There is a related non-current government receivable which relates to a fiscal reimbursement in Italy. In Belgium, costs are expected to be incurred in the next one to three years and have not been discounted as the net effect of interest and inflation is not considered to be material.

ii. Restructuring

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

iii. Other

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

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22.4. Others

As at 31 March 2021, non-current liabilities include an amount of KD 269,341 thousand (2019: KD 241,482 thousand) which represents provision for decommissioning costs related to KUPPEC.

KUPPEC makes full provision for the future cost of decommissioning oil producing facilities and pipelines on a discounted basis on the installation of those facilities. The decommissioning provision represents the present value of decommissioning costs relating to oil and gas properties, which are expected to be incurred when the producing oil and gas properties are expected to cease operations. These provisions have been estimated based on the KUPPEC's internal estimates using operators estimates where applicable. The discount rate used in the calculation of the provision ranges from 0.75% to 4.5% (2019: discount rate ranges from 3.5% to 4.5%).

23. Other payables and accruals

	2021 KD'000	2020 KD'000
Borrowings	1,733,767	1,416,160
Retention payable	541,654	597,628
Payable to contractors	381,379	415,031
Liquidated damages	363,209	311,910
Accruals	219,540	246,282
Provision for annual leave and accrued compensation	218,455	186,678
Payable to exchange partners	22,832	44,685
Other credit balances	221,776	120,401
	<u>3,702,612</u>	<u>3,338,775</u>

Borrowings represents short-term loans, including bank overdraft, and current portion of long term loans (Note 22.2). Short-term loans are unsecured and bear interest at prevailing market rates. On 7 February 2019, KPC-Aruba entered in a revolving credit facility with the National Bank of Kuwait. This facility is maximum of US\$ 500 million without repayment schedule. The interest paid on the amount borrowed is Libor +1% and for the unused facility a commitment fee of 0.35% is charged.

On 24 March 2021, KPC-Aruba entered in a revolving credit facility with Ahli United Bank K.S.C.P. This facility is up to a maximum of US\$ 100 million without repayment schedule. The interest paid on the amount borrowed is Libor +1.65%. At the reporting date, the KPC-Aruba utilised US\$ 75 million.

On 1 October 2019, the Corporation entered into an agreement for a Kuwaiti Dinar revolving credit facility of KD 350 million with a consortium of local banks. The dual tranche facility consists of a conventional facility and a Murabaha facility with a 5-year tenor and is unsecured. The facility carries an interest rate comprised of a margin over and above the Central Bank of Kuwait discount rate payable quarterly. The proceeds of the facility will be used for general corporate purposes. At the reporting date, the Corporation fully utilised this facility.

Further, on 12 December 2019, the Corporation entered into an agreement for a US Dollar revolving credit facility of US\$ 1 billion with a consortium of global banks. The facility is a conventional, 5-year unsecured facility. The facility carries an interest rate comprised of the aggregate of the facility margin and 6 month LIBOR rate payable semi-annually. The proceeds of the facility will be used for general corporate purposes. At the reporting date, the Corporation fully utilised this facility.

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Other credit balances include funds recovered from former employees, against whom one of the subsidiary companies has initiated legal proceedings for financial irregularities, together with accumulated interest (Notes 16 and 35).

24. Amounts due to Ministry of Oil

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

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

25. Profit available for distribution

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

On 4 April 2021, KPC signed an agreement with the Ministry of Finance ("MoF") and Kuwait Investment Authority ("KIA") with respect to payment of profit available for distribution relating to years 2007-2008, 2008-2009, 2013-2014, 2016-2017, 2017-2018, 2018-2019 and 2019-2020. The profit available for distribution of aforementioned years was KD 9,550,242 thousand, out of which the Corporation transferred KD 1,800,000 thousand to MoF in the current and prior years. According to the terms of the agreement, the Corporation will settle the outstanding amount of profit available for distribution to KIA in 60 equal quarterly instalments of KD 137,543 thousand each starting from 30 June 2021, and maturing by 31 March 2036. KPC determined this transaction as transaction with shareholder of the Corporation. Accordingly, KPC determined the present value of profit available for distribution using incremental borrowing rate and recorded the difference between the carrying value and the present value of KD 615,544 thousand in the consolidated statement of changes in equity for the year ended 31 March 2021.

On 30 July 2019, the National Assembly issued Law No. (121) approved dividend distribution of for the year ended 31 March 2014 amounted to KD 1,339,366 thousand.

On 5 October 2020, the National Assembly issued Law No.51/2020 and Law No. 52/2020 approved dividend distribution of for the year ended 31 March 2019 and 31 March 2020 amounted to KD 790,771 thousand and KD 355,960 thousand respectively.

Subsequent to above, the Council of Ministers approved the consolidated financial statements of the Corporation for year ended 31 March 2021 and issued referral decree No. 156/2021 referral of suggested law National Assembly of State of Kuwait. The referral decree No. 156/2021 superseded the Board of Directors proposal to retain profit for the year ended 31 March 2021 and proposed the distribution of profit amounted to KD 85,013 thousand. Accordingly, the Corporation adjusted its consolidated financial statements for the year ended 31 March 2021 by debiting and crediting general reserve and proposed dividend amounted to KD 85,013 thousand for the year ended 31 March 2021. The proposed dividend is subject to approval by National Assembly of State of Kuwait. The above did not have any impact on profit for the year or cash flows.

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The current and non-current classification of profit available for distribution is as follows:

	2021 KD'000	2020 KD'000
Current portion	410,950	1,839,999
Non-current portion (Note 22)	6,703,517	6,224,605
	<u>7,114,467</u>	<u>8,064,604</u>

During the year ended 31 March 2021, the Corporation paid dividend of KD 400 million to the Ministry of Finance (2020: KD 900 million).

26. Revenues

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

	2021 KD'000	2020 KD'000
Crude oil	9,087,675	14,100,386
Refined petroleum products	5,353,574	8,788,806
LPG and lean gases	1,491,469	1,895,827
Petrochemical products	306,642	431,934
Revenue from marketing and distribution activities	93,155	98,986
Marine	34,767	28,964
Other revenue	49,379	31,034
	<u>16,416,661</u>	<u>25,375,937</u>
<i>Point in time</i>		
Crude oil	9,008,146	14,039,608
Refined petroleum products	5,325,014	8,755,986
LPG and lean gases	1,489,611	1,891,162
Petrochemical products	300,728	431,934
Other revenue	49,379	31,034
	<u>16,172,878</u>	<u>25,149,724</u>
<i>Over the time</i>		
Revenue from marketing and distribution activities	93,155	98,986
Marine	34,767	28,964
Shipping and handling services	115,861	98,263
	<u>243,783</u>	<u>226,213</u>
	<u>16,416,661</u>	<u>25,375,937</u>

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

27. Investment income

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

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	2021 KD'000	2020 KD'000
Recovery of financial cost	381,586	478,032
Foreign currency exchange gain / (loss)	64,167	(23,922)
UN compensation received	6,831	5,953
Miscellaneous income- net	37,530	45,616
	<u>490,114</u>	<u>505,679</u>

29. 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.

30. Staff costs

Total staff costs for the year amounting to KD 1,605,064 thousand (2020: KD 1,629,729 thousand) are included in cost of revenues and general and administrative expenses shown on the consolidated statement of profit or loss. Of the staff costs for the year, KD 1,163,454 thousand (2020: KD 1,272,994 thousand) and KD 431,707 thousand (2020: KD 356,735 thousand) is related to cost of revenues and general and administrative expenses respectively.

The staff costs charged to profit or loss is reduced by KD 835 million (2020: KD 855 million) being the amount charged to the Ministry of Oil in respect of the operations of local wholly owned subsidiaries engaged in exploration activities.

Staff costs, including the amount charged to the Ministry of Oil, consist of the following:

	2021 KD'000	2020 KD'000
Salaries, wages and other benefits	1,579,293	1,607,256
Pension and other retirement benefit expenses:		
- defined contribution	9,211	8,578
- defined benefit	6,657	4,186
Compensation of key management personnel (Note 32):		
- short-term benefits	6,994	6,315
- termination benefits	2,909	3,394
	<u>1,605,064</u>	<u>1,629,729</u>

31. Fair value information

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

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

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

	2021 USD'000	2020 USD'000	2021 KD'000	2020 KD'000
Foreign exchange contracts	938,772	493,945	283,697	152,209

The net fair value of these contracts was asset of KD 3,022 thousand (2020: KD 1,695 thousand), level 2 inputs. The above amount is included in foreign currency exchange gain in the consolidated statement of profit or loss and other comprehensive income.

Determination of fair value and fair value hierarchy:

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

- Level 1: quoted prices in active market for the same instrument.
- Level 2: quoted prices in active market for similar instruments or other valuation techniques for which all significant inputs are based on observable market data and
- Level 3: valuation techniques for which any significant input is not based on observable market data

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

	Level 1 KD'000	Level 2 KD'000	Level 3 KD'000	Total KD'000
2021				
Financial assets at fair value through other comprehensive income	4,111,548	296,192	-	4,407,740
Financial assets at fair value through profit or loss	-	255,742	-	255,742
2020				
Financial assets at fair value through other comprehensive income	4,349,011	556,646	-	4,905,657
Financial assets at fair value through profit or loss	-	201,392	-	201,392

There have been no transfers between fair value levels during the year ended 31 March 2021.



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32. Related parties

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

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

	Associates and joint ventures KD'000	Other related parties KD'000	Total 2021 KD'000	Total 2020 KD'000
Purchases	68,671	-	68,671	65,436
Sales	717,233	-	717,233	1,264,185
Cost of production	27,043	-	27,043	41,171
Marketing fees received	2,335	-	2,335	1,847
Compensation of key management personnel (Note 30)	-	9,903	9,903	9,710
Balances with related parties included in the consolidated statement of financial position are as follows:				
	Associates and joint ventures KD'000	Other related parties KD'000	Total 2021 KD'000	Total 2020 KD'000
Non-current receivables from joint venture	104,691	-	104,691	136,989
Due from related parties	5,063	164	5,227	21,281
Trade receivables and prepayments	433,752	-	433,752	432,002
Due to related parties	2,852	-	2,852	5,509

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33. Financial risk management

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

- credit risk
- liquidity risk
- market risk.

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

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

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

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

Credit risk

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

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk. Approximately 57% (2020: 64%) of the Group's outstanding trade receivables is attributable to 12 customers (Note 13). However, geographically there is no significant concentration of credit risk.

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

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

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

Exposure to credit risk

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

	2021 KD'000	2020 KD'000
Other non-current assets (other than deferred expenses)	147,612	183,346
Financial assets fair value through other comprehensive income	2,921,550	3,832,411
Trade and other receivables	3,668,214	4,152,528
Bank balances and cash	714,430	681,889
	<u>7,451,806</u>	<u>8,850,174</u>

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

	2021 KD'000	2020 KD'000
Middle East	1,414,952	979,997
Europe (other than United Kingdom)	521,211	344,785
United Kingdom	33,488	53,340
Other regions	1,250,320	1,683,752
	<u>3,219,971</u>	<u>3,061,874</u>

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

	2021 KD'000	2020 KD'000
Government	712,556	1,203,709
Private sector	2,507,415	1,858,165
	<u>3,219,971</u>	<u>3,061,874</u>

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

	2021 KD'000	2020 KD'000
Not past due	3,018,417	2,440,528
Past due not more than one year	30,879	409,710
Past due more than one year	59,885	64,327
	<u>3,109,181</u>	<u>2,914,565</u>

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

	2021 KD'000	2020 KD'000
Balance at 1 April	36,037	38,266
Provision for expected credit losses	3,233	5,207
Other changes	(2,449)	(7,436)
Balance at 31 March	<u>36,821</u>	<u>36,037</u>

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

*Expected credit losses**Trade receivables and other receivables*

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

Due from related parties balances

Transactions with related parties are carried out on a negotiated contract basis. The related parties are with high credit rating and repute in the market. Impairment on the due from a related party have been measured on the basis of lifetime expected credit losses. The Group considers that these have low credit risk based on historical experiences, available press information and experienced credit judgment. As on 31 March 2021, these are neither impaired nor due. The lifetime ECL computed on due from related parties are not significant.

Bank balances and cash

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

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

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

Liquidity risk

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



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

	2021					2020						
	Carrying amount KD'000	Contractual maturities KD'000	Within 1 year KD'000	1 - 2 years KD'000	2 - 5 years KD'000	More than 5 years KD'000	Carrying amount KD'000	Contractual maturities KD'000	Within 1 year KD'000	1 - 2 years KD'000	2 - 5 years KD'000	More than 5 years KD'000
Long term loans and borrowings	5,223,972	5,293,176	1,810,096	102,948	2,529,579	850,553	5,010,109	5,086,091	1,432,564	5,143	2,223,808	1,424,576
Trade payables	1,051,249	1,051,249	1,051,249	-	-	-	1,396,138	1,396,138	1,396,138	-	-	-
Other payables and accruals (excluding borrowings)	1,968,845	1,968,845	1,968,845	-	-	-	1,922,615	1,922,615	1,922,615	-	-	-
Lease liabilities	1,225,868	1,478,499	631,658	332,136	357,786	156,919	1,186,346	1,208,931	375,224	429,113	249,341	155,253
Amounts due to Ministry of Oil	2,221,895	2,221,895	2,221,895	-	-	-	2,107,263	2,107,263	2,107,263	-	-	-
Profit available for distribution	7,114,467	8,252,555	550,170	1,100,341	1,788,054	4,813,990	8,064,604	7,999,197	1,839,999	5,583,944	575,254	-
	18,806,296	20,266,219	8,233,913	1,535,425	4,675,419	5,821,462	19,687,075	19,720,235	9,073,803	6,018,200	3,048,403	1,579,829

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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.

	2021 Equivalent position long/(short) KD'000	2020 Equivalent position long/(short) KD'000
EURO	(22,916)	64,725
USD	4,103,371	4,478,768
GBP	35,606	35,525
JPY	67,173	59,102
BHD	(2,847)	(1,704)
Others	722,629	450,545

Sensitivity analysis

A five percent strengthening of the KD against the following currencies at 31 March 2021 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 2020.

Effect in thousands of Kuwaiti Dinars 2021	Equity	Profit or (loss)
EURO	(1,146)	(4,786)
USD	205,169	175,845
GBP	1,780	187
JPY	3,359	144
BHD	(142)	(142)
Others	36,131	1,959
	245,151	173,207

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Effect in thousands of Kuwaiti Dinars 2020	Equity	Profit or (loss)
EURO	3,236	(32)
USD	223,938	200,080
GBP	1,776	162
JPY	2,955	-
BHD	(85)	(85)
Others	22,527	1,990
	<u>254,347</u>	<u>202,115</u>

Interest rate risk

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

	2021 KD'000	2020 KD'000
<i>Variable rate instruments</i>		
Financial assets	3,138,232	3,940,584
Financial liabilities	(5,223,973)	(5,010,109)
Net exposure	<u>(2,085,741)</u>	<u>(1,069,525)</u>

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates would have increased or decreased profit before taxation by KD 20,857 thousand (2020: KD 10,695 thousand).

Other market price risk

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

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

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

Sensitivity analysis

For the majority of the Group's equity investments, quoted market prices are readily available. For such financial assets carried at FVOCI, a 3% increase or decrease in stock prices at the reporting date would have increased or decreased equity by KD 44,586 thousand (2020: an increase or decrease of KD 32,197 thousand). The analysis is performed on the same basis for the year ended 31 March 2020.

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Kuwait Petroleum Corporation*Capital management*

The Board's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net profit divided by average capital employed. There were no changes in the Group's approach to capital management during the year.

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

34. Expenditure commitments• *Operating lease commitments*

The minimum rental commitments under operating leases fall due as follows:

	2021 KD'000	2020 KD'000
Within 1 year	8,886	9,238
Between 1 to 5 years	32,293	32,539
After 5 years	<u>27,056</u>	<u>30,755</u>
	<u>68,235</u>	<u>72,532</u>

• *Other commitments*

	2021 KD'000	2020 KD'000
Estimated contracted capital expenditure	2,246,748	2,486,628
Supply commitments	530,158	387,181

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

35. Contingent assets/ liabilities*Contingent assets**Legal case*

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

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

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

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

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

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

In parallel steps, the subsidiary has initiated civil cases in the United Kingdom, Switzerland, and other countries, and with the efforts of those working on the case, it won the case filed in the United Kingdom and obtained a judgment against three of the defendants for an amount of US Dollars 136,000 thousand excluding interest. In addition to this, the case ended with the rejection by the UK House of Lords on 10 December 2000 of the appeal submitted by Abdul Fatah Al-Bader. An amount of US Dollars 85,351 thousand has been collected till 7 May 2006. This collected amount was invested in deposits. The collected amounts along with interest till 7 May 2006 amounted to US Dollars 92,757 thousand (which has been subsequently distributed) plus an amount of US Dollars 6,200 thousand transferred by the Public Prosecution from the accused Hassan Qabazard and received by the subsidiary in Kuwait, which was invested in a deposit renewable with its interest thereon pending a decision on crime No. 275/93. The deposit of USD 6,200 thousand along with accumulated interest reached US Dollars 13,157 thousand till 31 March 2016 (31 March 2015: US Dollars 13,157 thousand). Legal measures are being carried out to collect the remaining balance. However, the uncollected amounts of US Dollars 151,709 thousand pending in the liability of the accused parties comprise of the balance remaining from the total amounts awarded in favour of the subsidiary according to the verdict from London, and inclusive of interest till August 2005 amounting to US Dollars 123,559 thousand plus such amounts, being the difference between the amounts claimed before London Court and those mentioned in the Public Prosecution Charge Report in connection with crime No.275/93 amounting to US Dollars

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25,000 thousand, for which a civil case was filed where a final and conclusive verdict was announced in the session dated 7 March 2011 by rejecting the appeal, plus an amount of US Dollars 3,150 thousand (Chesapeake- selling debris of Surf City Vessel) for which a case was filed where a final and inclusive verdict was announced in hearing dated on 18 February 2014 in the appeal No. 9/commercial 2000/976 by rejecting the appeal. In 18 March 2014, appeal in cassation was filed against the rule and no hearing scheduled.

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

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

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

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

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

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

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

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

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

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

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Also the subsidiary attorney assigned to file a lawsuit before Kuwaiti courts under No. 1527/2012 civil total / 12 against the heirs of Abdul Fattah Al-Bader and others to claim the final compensation which includes the reported in the sentence in crime No.3589/94 felonies, public money jurisdiction 94/245 Investigation department as well as the amounts subject to the judgment issued in London that the Court of Cassation rejected to annex in the executive formula since the case was deliberated by the Court of First Instance and on 4 December 2014 the Court sentenced to reject the case and the verdict has been appealed and registered under No. civil 5261/2014 civil. In 9 June 2015, the court amended the appealed judgment by dismissing the lawsuit on as is basis and confirmed other rulings. The subsidiary has filed appeal of cassation against the appealed judgement and registered under No. 1322/2015. Opponent also filed appeal of cassation enrolled under No. 1339/2015 and no hearing has been scheduled till date hereof.

h. Dry Cargo (358/94 crimes)

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

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

Contingent liabilities

- a. At the reporting date, the Group had contingent liabilities of approximately US\$ 12.2 million, equivalent to KD 3.7 million (2020: US\$ 27.5 million, equivalent to KD 8.5 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.
 - During 2013-2015, there was an accusation in Italy that a subsidiary and its management failed to comply with environmental laws and regulations. As a precaution the local Public Prosecutor has ordered the seizure of certain company assets which may not be disposed pending resolution of the case. Management believes that it has always complied with the laws and regulations and will defend itself from these charges both in the investigative phase and before the Court through the most appropriate legal actions. Evidence and other defence arguments will be presented to the Court in the current trial phase but the timing of such proceedings remains uncertain. Last hearings of the trial phase took place on 11 September 2020, 2 October 2020 and 29 January 2021 with the examination of some witnesses and the objection of time prescription moved by KP Italy, the latter unfortunately rejected by the Court. Last hearing of the trial phase was scheduled on 19 April 2021 for the examination of other witnesses indicated by Public Prosecutor but it was not held and postponed to July 16 2021. At this early stage it is not possible to reliably estimate the potential liabilities.

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- There is a long outstanding claim for compensation relating to the sale of assets and equipment of the former Naples refinery. A legal ruling issued by an Arbitrator, subject to appeal, states that the buyers have to reimburse the Group. Buyers appealed against the ruling and the next hearing has been scheduled on 24 March 2022 before the Court of Appeal of Rome.
- Kuwait Petroleum Europe B.V (“KPE”) has provided a Completion Guarantee in proportion to its shareholding (50%) in DRPIC, whereby KPE has undertaken to (i) pay debt service not otherwise paid by DRPIC and (ii) to repay the Secured Credit Facilities then outstanding, if the Actual Completion Date is not achieved within two years of the Scheduled Completion Date. The obligations of KPE under the Completion Guarantee are guaranteed by the Sponsor Backstop Guarantee provided by KPC.
- NSRP is experiencing financial difficulties, the reasons for which are several and varied. Crucially, the recent extraordinary socio-economic events - the coronavirus pandemic and the dramatic drop in crude prices - have presented NSRP with extremely serious difficulties. The combination of these factors has resulted in NSRP currently facing unforeseen financial and liquidity difficulties.

To overcome these difficulties, NSRP engaged a well-recognised financial advisor to develop a comprehensive financial solution. This solution will have to be approved and supported by all of NSRP’s Shareholders and the requisite majority of NSRP’s Lenders.

NSRP’s project financing documents (each a “Finance Document”) provide that NSRP must reach Financial Completion (“FC”) by 27 May 2021 (the “Sunset Date”) at the latest. The FC represents a significant milestone for NSRP and was intended to signify the transition to a fully functional refinery that is operating sustainably with steady state financials. FC can occur any time prior to the Sunset Date provided that NSRP satisfies various preconditions that are either qualitative or quantitative. If NSRP fails to achieve FC by the Sunset Date, a Fundamental Event of Default (a “FEOD”) will occur under the Finance Documents, namely the Common Terms Agreement (the “CTA”). Following the occurrence of a FEOD, Mizuho Corporate Bank, as the Lenders’ Agent, can take enforcement action on behalf of the Lenders and call on guarantees provided by, amongst others, KPC, KPC Holdings (Aruba) AEC (“KPI”) and KPE. Specifically, the Completion Guarantee provided by KPE and the Backstop Guarantee provided by KPC could be drawn either to pay scheduled debt service that is not paid by NSRP on its due date or for the repayment of loans that have been accelerated following the occurrence of the FEOD. Based on current criteria, achieving FC by the Sunset Date does not appear possible for NSRP. Part of the financial solution is therefore to negotiate with NSRP’s Lenders to postpone the FC to a later date. However, without such a postponement, the enforcement action that the Lenders may take against NSRP and its Sponsors results in significant exposure for those parties and uncertain recovery prospects.

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KPE’s (and KPC’s and KPI’s) exposure arises primarily under five agreements:

- a) the Completion Guarantee, under which KPE guarantees NSRP’s obligations under the Finance Documents (including the Facility Agreements and Sponsor Working Capital Facility Agreement (the “SWCFA”)) proportional to KPE’s interest in NSRP;
- b) the KPC Backstop Guarantee, under which KPC guarantees KPE’s obligations under the Completion Guarantee;
- c) the Sponsor Support Agreement (the “SSA”) and the SWCFA under which the Sponsors provide a working capital facility to NSRP proportional to each such Sponsor’s own interest in NSRP; and
- d) the KPC Holdings (Aruba) AEC (“KPI”) Guarantee of the Sponsor Working Capital Facility, under which KPI guarantees KPE’s performance under the SSA and SWCFA.

Prior to reaching the original Sunset Date of 27 May 2021, the Intercreditor Agent has agreed to a waiver to allow NSRP to defer the Sunset Date to 27 November 2021

- On 1 February 2019, the EPC contractor (“the Contractor”) initiated separate arbitration proceedings in Singapore by filing a Notice of Arbitration against NSRP which is amended on 21 February 2019 (“the Amended Notice of Arbitration”). The Contractor has advanced a number of monetary claims against NSRP in the Amended Notice of Arbitration, which includes alleged false representation made by NSRP, extension of time, other compensation claims, wrongful demand claims etc. The arbitral tribunal has directed that issues of liability must be resolved in a separate first phase of the arbitration, following an evidentiary hearing that is currently scheduled to take place in June and July 2021, and that issues of quantum will not be addressed until a subsequent second phase of the arbitration, if required, in light of the award on liability. Consequently, the monetary amounts of the contractor’s claims have not yet been quantified and it is not possible to provide a precise figure for the total of the monetary claims made by the Contractor in the arbitration. On 1 March 2020, NSRP filed its full statement of defense and counterclaim, seeking orders of dismissing contractor’s claim, require the Contractor to pay liquidated damages in respect of delay in mechanical completion and initial acceptance, compensation for defective work, a declaration to pay that NSRP is entitled to a reduction of US\$ 36.6 million in the contract price under determination of agreement No.8 and compensate NSRP for legal and other costs incurred in respect of this arbitration.

The Contractor filed its Statement of reply and defence to counterclaims on 22 June 2020. The Contractor (i) generally maintained the claims set out in its statement of claim save for the dredging disposal site and pipeline dewatering claims which have been dropped, (ii) introduced a new claim for fraudulent misrepresentation and (iii) supplemented the claimed relief by seeking an order dismissing NSRP’s counterclaims.

On 14 September 2020, NSRP filed its statement of rejoinder, maintaining its existing defences and counterclaims and adding additional counterclaims in respect of further defective works. The value of the monetary claims made by NSRP and the Contractor may change in the arbitration.

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Given the number of claims, it has been decided to divide the liability arbitration into two tranches: tranche 1 covers all claims but the additional claims and low value defective claims which are covered by tranche 2. The hearing for tranche 1 remains planned for 21 June 2021, whereas the tranche 2 hearing will be held on 13 September 2021.

Given the fact that it will cost NSRP more to pursue the claims under US\$ 150,000 than the value of such claims should NSRP win, NSRP has entered into an agreement with the Contractor under which both parties agreed to withdraw any claims under such threshold.

The first hearing will start on 21 June 2021 and will cover the Mechanical Completion Delay claims, the Soil Conditions Claim and two of NSRP's major defects: the FGD and Flushing Defect Claims. The Tribunal has directed that the first hearing will take place virtually. The second hearing will start on 13 September 2021 and will cover the Cost Reduction Claim. A third hearing will start on 11 April 2022 and will cover the Initial Acceptance Delay, the Welding and Flanges Claims. A fourth hearing has been provisionally reserved to start on 20 June 2022, but this should be used as an ultimate fall back, and the parties are to do their best to complete the evidence on liability within the first three hearings.

- On the 15 June 2020 the subsidiary Kuwait Petroleum Nederland BV received a writ of summons from the State of The Netherlands, formally claiming damages suffered as a consequence of the existence of a Bitumen Cartel in The Netherlands between 1997 and 2002, as it was evidenced by the Decision of the European Commission of 13 September 2006. The writ of summons includes a claim of 32 million Euro to be increased with statutory legal interests, which may amount to another 30 million Euro. Together with KP Nederland BV, the lawsuit is also addressed to two other former cartel members, on joint and several bases. Management believes, also based on legal analysis, that it is very unlikely that the court will award the claim (in full). In case the claim would be partially awarded, there is the possibility that also the other cartel members that have not been sued, would be made (co-) liable as well.

36. Investment in joint operations

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

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

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

	KJO		WJO	
	31 December 2020 KD'000	31 December 2019 KD'000	31 December 2020 KD'000	31 December 2019 KD'000
Statement of financial position				
Total assets	883,758	889,817	326,455	287,892
Total liabilities	(223,285)	(224,020)	(136,719)	(69,971)
Net assets	660,473	665,797	189,736	217,921
Proportionate share in joint operation capital commitment	86,504	27,420	1,000	5,091

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In December 2019, the State of Kuwait and Kingdom of Saudi Arabia signed a Memorandum of Understanding on procedures to restart the production at KJO and WJO. The crude oil production at KJO and WJO was resumed in February 2020 and July 2020 respectively.

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

Raffineria di Milazzo S.p.A.

The Group allocates revenues and expenses of its joint operation, Raffineria di Milazzo S.p.A., on the basis of the relative performance of each party to the joint arrangement and the parties have agreed to share the profit or loss relating to the arrangement on the basis of a specified proportion. The expected financial performance of the joint operation is designed to operate at break-even, or to generate losses that will be funded by the parties in the joint operation. The substantial part of the output produced at Raffineria di Milazzo S.p.A, is purchased by the parties in this joint arrangement.

The investment in Raffineria di Milazzo S.p.A is accounted for using the proportional consolidation method. As at 31 March 2021, the ownership remained unchanged. The consolidation method for revenues and expenses is made on the basis of the relative performance of each party to the joint arrangement.

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

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

	2020 (mmboe)	2019 (mmboe)
Proved and probable reserves at beginning of year		
-Fields in production	445.30	460.25
-Projects under development	6.47	9.24
	451.77	469.49
Changes during the year		
-Revision of previous estimates	5.92	21.52
-Production (from on-going projects)	(37.79)	(39.24)
	(31.87)	(17.72)
Proved and probable reserves at end of year		
-Fields in production	413.75	445.30
-Projects under development	6.14	6.47
	419.89	451.77

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.

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

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

38. Comparative figures

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

39. Subsidiaries, associates and joint ventures

a) Principal subsidiaries registered in the State of Kuwait:

Directly held

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

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Indirectly held

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

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

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

c) Principal associates

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

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40. COVID 19 Update

In December 2019, the emergence of coronavirus (COVID-19) was reported in China and has subsequently spread globally. On 11 March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. Mobility restrictions, quarantines and similar lockdown measures implemented in different countries to cope with the pandemic had a significant negative impact on the global economy. Deceleration of economic activity resulted in a substantial decrease in demand for hydrocarbons leading to oversupply on the international oil market and a sharp decline in oil prices. Failure of OPEC+ countries to reach a new agreement on crude oil production quotas in the beginning of March put an incremental pressure on oil prices. On 12 April 2020, OPEC+ countries entered into a new agreement to reduce their collective output starting from 1 May 2020. This coordinated production cut together with the negative impact of low oil prices on crude oil production in different countries resulted in lower supply of crude oil, reduction of surplus on the crude oil market and led to a gradual recovery of oil prices. This upward oil price trend was further supported by the start of gradual lifting of lockdowns in different countries, recovery in economic activity and respective growth in demand for hydrocarbons. The OPEC+ agreement to continue production cuts in the first quarter of 2021 to clear surpluses built up over the pandemic has supported prices to levels not seen since January 2020. But the second wave of COVID-19 lockdowns which continue to dampen demand are likely to put a cap on prices in the short-term. Market conditions had improved over the course of the third and early fourth quarters of 2020 as nations began re-opening their economies, but the recent resurgence of COVID-19 cases (including cases related to variants of the COVID-19 virus) in certain geographic areas, and the possibility that a resurgence may occur in other areas, has resulted in the re-imposition of restrictions. The energy markets saw a sharp recovery in the first quarter of 2021 as countries around the world started to rollout vaccination programs. This resulted in a steady increase in crude oil prices.

In response to COVID-19, the Group has implemented active prevention programs at its sites and contingency plans in order to minimize the risks related to COVID-19 and to continue business operations. Crude oil accounts for a substantial portion of the Group's revenue. Crude oil is also a fundamental feedstock to the Group's Downstream operations. The COVID-19 pandemic has had an adverse impact on oil demand, which has led to an oversupply in global markets. This has resulted in a reduction in crude oil prices, which has significantly impacted Group's revenue and overall financial performance during the year ended 31 March 2021. The decline in the updated future commodity price estimates made during the year ended 31 March 2021, and particularly with regard to oil, negatively impacted the estimated recoverable amount of certain upstream and downstream assets and investment in equity accounted investees. Accordingly, impairment losses were recognised for property, plant and equipment and investment in equity accounted investee, see Note 5 and Note 11.

The management has taken measures to optimize spending, which resulted in reducing operational and capital expenditures during the year ended 31 March 2021. Additionally, the Group has secured additional credit facilities, see Note 22 and 23, to ensure sufficient funding to meet forecasted cash flow requirements and limit any potential financial exposure. The full extent and impact of the COVID-19 pandemic is unknown at this time and the degree to which it may impact the Group's business operations and financial results will depend on future developments, which are highly uncertain and cannot be predicted with any degree of confidence, including: the duration, severity and geographic spread of the COVID-19 virus.

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d) Principal joint ventures

Name of company	Country of incorporation	Proportion held	Principal activities
The Kuwait Styrene Company K.S.C.C. ("TKSC")	Kuwait	57.5%	Petrochemicals
OKQ8 AB ("OKQ8")	Sweden	50%	Fuel marketing
Nghi Son Refinery Product ("NSRP")	Vietnam	35.1%	Refining, LPG manufacturing, and local marketing of refined products.
Duqm Refinery and Petrochemical Industries Company L.L.C. ("DRPIC")	Oman	50%	Refining, LPG manufacturing, and local marketing of refined products.

e) Principal joint operations

Name of company	Country of incorporation	Effective ownership	Principal activities
Reffineria di Milazzo S.p.A.	Italy	50%	Refinery operations
Al Khafji Joint Petroleum Operation ("KJO")	Kuwait	50%	Exploration for and production of crude oil and natural gas.
Wafra Joint Operation ("WJO")	Kuwait	50%	Exploration for and production of crude oil and natural gas.

