

# THE FUTURE



ANNUAL REPORT  
2017/2018  
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Kuwait Petroleum Corporation | مؤسسة البترول الكويتية  
and subsidiaries | وشركاتها



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His Highness

**Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah**

The Amir of the State of Kuwait





His Highness

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

The Crown Prince





**Eng. Bakheet Shabeeb Al-Rashidi**

His Excellency Minister of Oil and Minister of  
Electricity and Water

Chairman of the Board of Directors,  
Kuwait Petroleum Corporation



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# Members of the Board of Directors



**Bakheet Shabeeb Al-Rashidi**

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



**Nizar Mohammed Al-Adsani**

Deputy Chairman and CEO, KPC



**Abdulghaffar Al-Awadhi**

Member of the Board of Directors



**Khaled Saleh Bouhamra**

Member of the Board of Directors



**Sami Al-Rushaid**

Member of the Board of Directors



**Wael Al-Asousi**

Member of the Board of Directors



**Abdulmajeed Al-Shatti**

Member of the Board of Directors



**Abdulmalek Al-Gharaballi**

Member of the Board of Directors



**Mufreh Al-Shammari**

Member of the Board of Directors



# Message of the Chairman of the Board of Directors

The accelerated rate of global civilization and economic growth in societies requires developing and focusing efforts in order to meet the society's current and future needs in various aspects of life. Realizing this fact, Kuwait Petroleum Corporation took efforts to identify the future requirements of the state of Kuwait and achieve them according to clear strategic directions based on its human and technical assets. The clear vision and specified goals played a vital role in the positive steps that KPC took and resulted in tangible achievements in the form of various capital projects, which by 2040 would make up the broad business of Kuwait as a major player in the global oil industry.

In this regard, I would like to express gratitude on behalf of

myself and board members to oil sector employees for all efforts they exert to support the country's economic growth and reach leadership status in the oil industry. It is also my pleasure to present the annual report of KPC and its subsidiaries for the fiscal year 2017/2018, which sheds light on the main achievements of KPC and its subsidiaries, and highlights the capabilities and determination that enabled us to realize those achievements. We are proud of the subsidiaries' achievements highlighted in this report, which cover all fields including upstream and export operations, strenuous efforts to develop the shipment fleet, and serious steps to achieve integration between refinement and the petrochemical industry through Al-Zour Refinery project

which was 56% complete as of March 2018, while five seabed export pipelines have been built, extending for 17.5 kilometers from the shoreline to the industrial island.

Those steps also resulted in pushing the completion rate of the Clean Fuel Project to 94% as of March 2018, and creating job opportunities for the Kuwaiti youth, as 537 candidates were hired in various positions as of March 2018. In this regard, the oil sector came up with an ambitious plan to create 6,845 new jobs in the next five years, provide the latest training programs to qualify newly hired staff, while at the same time developing national manpower at KPC and its subsidiaries so that they can keep up with the accelerating changes in

the global oil industry. This embodies the belief of KPC and its subsidiaries that human resources are the country's true wealth.

In conclusion, I would like to express gratitude to His Highness the Amir, His Highness the Crown Prince and His Highness the Prime Minister for their undying support to their children in the oil sector to continue the march towards further growth and prosperity.

**Eng. Bakheet Shabeeb Al-Rashidi**

His Excellency Minister of Oil and  
Minister of Electricity and Water  
Chairman of the Board of Directors,  
Kuwait Petroleum Corporation

# Introduction

Over the past 40 years, KPC has been leading national efforts for Kuwait's development and prosperity under the wise leadership of His Highness the Amir Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah. KPC and its subsidiaries continued their achievements and contributions to sustainable development of the society and economy in our beloved Kuwait. The directions of His Highness the Amir played an active role in laying the foundation for a better future, through unleashing the full potential of Kuwaiti human resources; our true wealth.

KPC and its subsidiaries continued their success in the fiscal year 2017/ 2018, as they implemented several strategic projects and initiatives in various fields, including several achievements in operation and safety, which are detailed in this report.

The success of KPC and its subsidiaries in 2017/ 2018 was realized in their ability to overcome the various challenges that they faced, which was manifested in their rapid response to the drop in global oil prices, and their ability to adapt and transition to better situations for the performance of Kuwait's natural resources.







# Financial Performance

## Financial Performance for the Fiscal Year Ending on 31/ 3 / 2018 :

- The consolidated revenues of KPC and its subsidiaries reached KD 24,883.7 million for the fiscal year ending in 31 March 2018, including KD 23,402.9 million in current operations' revenues, while other revenues reached KD 1,480.8 million, whereas consolidated expenses reached KD 22,893.3 million.
- The consolidated profits reached KD 1,990.4 million (compared to KD 1,440.9 million in 2016/ 2017), including KD 737.6 million in operational profits (KD 793.6 million in 2016/ 2017) and KD 1,085.9 million in investment revenues (KD 444.4 million in 2016/ 2017).
- The return on the average invested capital reached 7% (5.4% in 2016/ 2017), while the average return on equity reached 7.8% (5.9% in 2016/ 2017).
- Total assets reached KD 40,997.5 million (compared to KD 38,317.7 million in 2016/ 2017).
- Total equity reached KD 25,796.8 million (compared to KD 25,483.4 million in 2016/ 2017), recording a KD 313.4 million increase as a result of a KD 693.5 million increase in the general reserve, increasing the reserve for replacement and renovation of property, plant and equipment by KD 142.0 million, increasing the re-measurement of the reserve of a specific benefit obligation by KD 6.8 million, raising non-controlling interests by KD 1.3 million, in addition to the decrease in the net change in fair value by KD 527.6 million, and decrease in the foreign currency exchange reserve by KD 2.6 million.
- KPC managed to finance its current capital projects program via external and self-financing sources. Investment in fixed assets during the fiscal year reached KD 5,312.9 million compared to KD 4,567.9 in the fiscal year 2016/ 2017.

# International Marketing

Continuous success in traditional markets, and clear imprints in new markets

- Since its establishment, KPC realized that its success depends first and foremost on its ability to market oil and petroleum products, as marketing is one of the most important dynamic tools to achieve its goals of sustainability and continuation. Regardless of how strong the oil sector's upstream and downstream capabilities are, they remain incomplete unless they are combined with active marketing efforts that help in understanding clients' needs and wishes. Therefore, the International Marketing Department set up KPC's goals and aspirations by seizing several distinguished opportunities to enter new markets, in addition to maintaining its distinctive position in global oil markets.





**The International Marketing Department made several achievements during the fiscal year 2017/ 2018, which mainly include:**

- The International Marketing Department achieved a quantum leap by increasing Kuwait's revenues, through shifting 106,000 barrels a day of crude from European and American markets to new agreements in Asian markets. Meanwhile, some amounts of jet fuel were shifted from the European market to the GCC market while taking advantage of the best prices.
- Furthermore, the International Marketing Department signed new contracts to import gasoline shipments in order to meet the local market's demand in Kuwait. It also achieved great savings in financial returns by purchasing instant shipments of liquefied natural gas (LNG) instead of using diesel to generate electricity.
- A part of efforts to maximize the value of Kuwait's hydrocarbons by marketing them in safe, diverse and long-term outlets while maintaining presence in promising emerging markets, the contractual amounts of liquefied petroleum gas (LPG) in KPC's share in Asian markets of growing demand have been increased by signing a long-term contract with an international company to export LPG starting from January 2018. In addition, KPC entered the Indian market by signing a new annual contract with a company there to export naphtha.
- Among the greatest achievements during the fiscal year was signing strategic contracts with international companies to import LNG in order to meet Kuwait's long-term needs of clean energy for 15 years.
- Several long-term contracts were signed with global oil companies in India, Pakistan, Egypt, Indonesia and Vietnam.
- The first sulfur granules shipment was made at the sulfur pier in Al-Ahmadi Port on 11 November 2017 after the mechanical completion of the project to build new sulfur handling facilities and upgrade current ones at Al-Ahmadi Refinery.





# Commitment to excellence in The Upstream field

**Kuwait Petroleum Corporation gives top priority to excellence, especially in light of the highly competitive global oil market. Therefore, it maintains excellent performance in carrying out its main task, which is oil and gas exploration and production (upstream) in Kuwait. For that goal, the Kuwaiti oil sector draws and implements a clear strategy that pushes this vital sector to attain a global status and leave a clear imprint and quantum leap in the local economy.**

To achieve those goals, Kuwait Oil Company (KOC) continued its effort to increase its future production capacity to meet global demands and local requirements, and that according to the 2040 Strategic Directions of KPC. KOC managed to maintain a sustainable production capacity of 3.15 million barrels a day, as a number of vital projects entered operation during the fiscal year 2017/ 2018 including:

- Completing the 29 & 30 gathering centers, which entered operation.
- Operating the heavy oil facility in Um Naqa.

And as part of efforts to achieve the strategic directions of KPC towards producing 1,150 million standard cubic feet of free gas by 2025, the JPF-WR and JPF-SA stations at Al-Sabiriya and Al-Roudhatain fields have entered operation, thus increasing the total production of free gas to 215 million cubic feet a day.



The KPC Strategic Directions stipulate compensating produced hydrocarbons by adding amounts from confirmed oil and gas reserves annually through enhanced extraction from known reservoirs and continuous intensified onshore and offshore explorations to cover future needs. through implementing those directions, KOC has managed, thanks to Allah and the efforts of its employees, to achieve the following:

- Discover new reserves in the Cretaceous and Jurassic layers of various kinds of oil (light, medium, heavy) in multiple locations of KOC operations.
- Placing a tender for integrated offshore drilling services for exploration in search for new oil reserves in Kuwait's territorial waters.
- Placing a tender for integrated drilling services to develop new fields west of Kuwait.
- Launching the demo version of the first stage of chemical injection at Al-Sabiriya field. This step is considered the first of its kind at a hydrocarbon field in the Middle East. It is aimed towards evaluating the technical and commercial aspects in order to increase reserves while also maintaining current production levels.
- Completing acquisition for the high quality third and fourth dimensional vertical seismic profile, using the thermal survey method for the first time in the world. We are expecting encouraging results from the preliminary analysis.

Meanwhile, two mega deals were signed in the second quarter for the FEED project for pipelines at Al-Zour refinery, and for installing a new 48-inch pipeline for crude from North of Kuwait to the central mixing manifold.

KOC's achievements continue in this regard through completing approximately 63% of construction operations relevant to the heavy oil production facility at South Al- Ratga field, while also revitalizing and re-establishing production of six wells that date back from the 1980's at South Al-Ratga field in its continuous efforts towards boosting its heavy oil production capacity. Furthermore, it completed building a fuel gas pipeline to replace diesel in steam production required for projects under testing, which resulted in reducing financial costs.

And as part of Kuwait Oil Gulf Company's efforts for optimum exploration at the divided land zone of the Wafra joint operations and to increase oil reserves, KGOOC finished data analysis for the three dimensional seismic profile project at the divided land zone of the Wafra joint operations. The new data was received in high quality for the eastern and western parts of the divided zone, while the ongoing analysis for that data is expected to be completed in June 2019.

KGOOC employees' efforts resulted in completing 98.3% of gas facilities in 'Al-Hoot' field at Al-Khafji joint operations, which will be used to burn gas and achieve optimum utilization of associated gas while meeting the environmental requirements of the area.



# Kuwait's illustrious achievements in foreign Exploration shining brightly

Kuwait Petroleum Corporation's strategy for foreign upstream operations targets reaching a sustainable production of oil and gas outside Kuwait of 150,000 barrels of oil equivalent, while maintaining the 12-year age of oil reserves in 2020 and maintaining it until 2040. Furthermore, it works tirelessly as an operator of upstream investments outside Kuwait in line with the designated average of the total targeted production, and gives priority to investment opportunities that guarantee transfer of technology and expertise. Kuwait Foreign Petroleum Exploration Company (KUFPEC) acquired an additional 15% interest in Norway's Gina Krog field in a deal that follows the acquisition agreement of Greater Sleipner assets signed in 2016, raising KUFPEC's total share in the Gina Krog field to 30%. The deal had added reserves estimated at around 34 million barrels of oil equivalent, while maximum production from the Greater Sleipner area reached around 25,000 barrels of oil equivalent a day in October 2017.

KUFPEC also added new oil reserves estimated at 64 million barrels of oil equivalent through acquisitions and development operations completed during the fiscal year. Confirmed oil reserves were estimated at 491 million barrels of oil equivalent by the end of 2017.

And in line with its plan to abandon unfeasible assets, KUFPEC completed the exit from the Harriet project in Australia, signed sale deals for the Seram and south east Sumatra projects and collected the sale funds, and exited from the 'Block-7' exploration sector in Yemen. Exit operations from those projects are ongoing.

And following those successes, the first phase of production from the Wheatstone LNG project in Australia started in October 2017, and maximum production reached nearly 10,000 barrels of oil equivalent a day in November.

Furthermore, it achieved a net production value from the Wheatstone Julimar venture estimated at \$73 million, through restructuring LNG sale contracts into one contract with JERA (TEPCO), while maintaining partnership with Chevron, and changing the shipment method from delivery to the client in Japan to loading on ships.

KUFPEC also succeeded in drilling 39 wells (development/evaluation) in Canada's Kaybob project that is rich in condensers, and falls under the activities of global licensors (Chevron and Paramount). It added around 12.5 million barrels of oil equivalent in confirmed reserves as a result of drilling and connection to current production lines.

In addition, KUFPEC completed seismic survey analysis for Pakistan's Paharpur project, in which it acts as the operator and technical and administrative preparator to drill the first exploration well.



# Clear imprints for Downstream Activities inside Kuwait

The Kuwaiti oil sector, represented by Kuwait Petroleum Corporation and its subsidiaries, is proud of its values and successful practices which enabled us to become a global leader in the oil and gas industry. We are even more proud of the opportunities that we create for others, as people around the world benefit from our products that include crude, natural gas, refined products and chemicals to achieve their aspirations. This serves as an extra motivation for us, knowing that our products are the building block that societies around the world rely on to achieve prosperity and economic growth.

To achieve that, meet the local and international markets' needs, improve products quality to increase our competitive capabilities in the global market, protect the Kuwaiti environment and create economic returns, several mega vital projects were completed, including:

- The LPG Terminal 4 project.
- The sulfur handling facilities at Mina Al-Ahmadi Refinery project.
- The operation of the flare gas recovery unit at Mina Abdulla Refinery project.

Meanwhile, the Clean Fuel Project is 94% complete, while the second financing batch was signed with Export Credit Agencies (ECA) from Japan, Korea, England, Italy and Holland.





To meet the local demand on energy, the northern tanks project at Mina Al-Ahmadi Refinery was completed in December 2017. The project included building 10 tanks with a capacity of 72,000 cubic meters of gas each, as five tanks were allocated for butane and five for propane. This project gains significance from the fact that it provides storage space to store and export additional gas products after the fourth and fifth pipelines are added.

And as part of the program to build 100 new gas stations, the first group was started, which includes building 19 new gas stations. As for the second group, the feasibility and preliminary engineering studies were conducted to build 15 new gas stations, while works are ongoing to obtain approval from required committees.

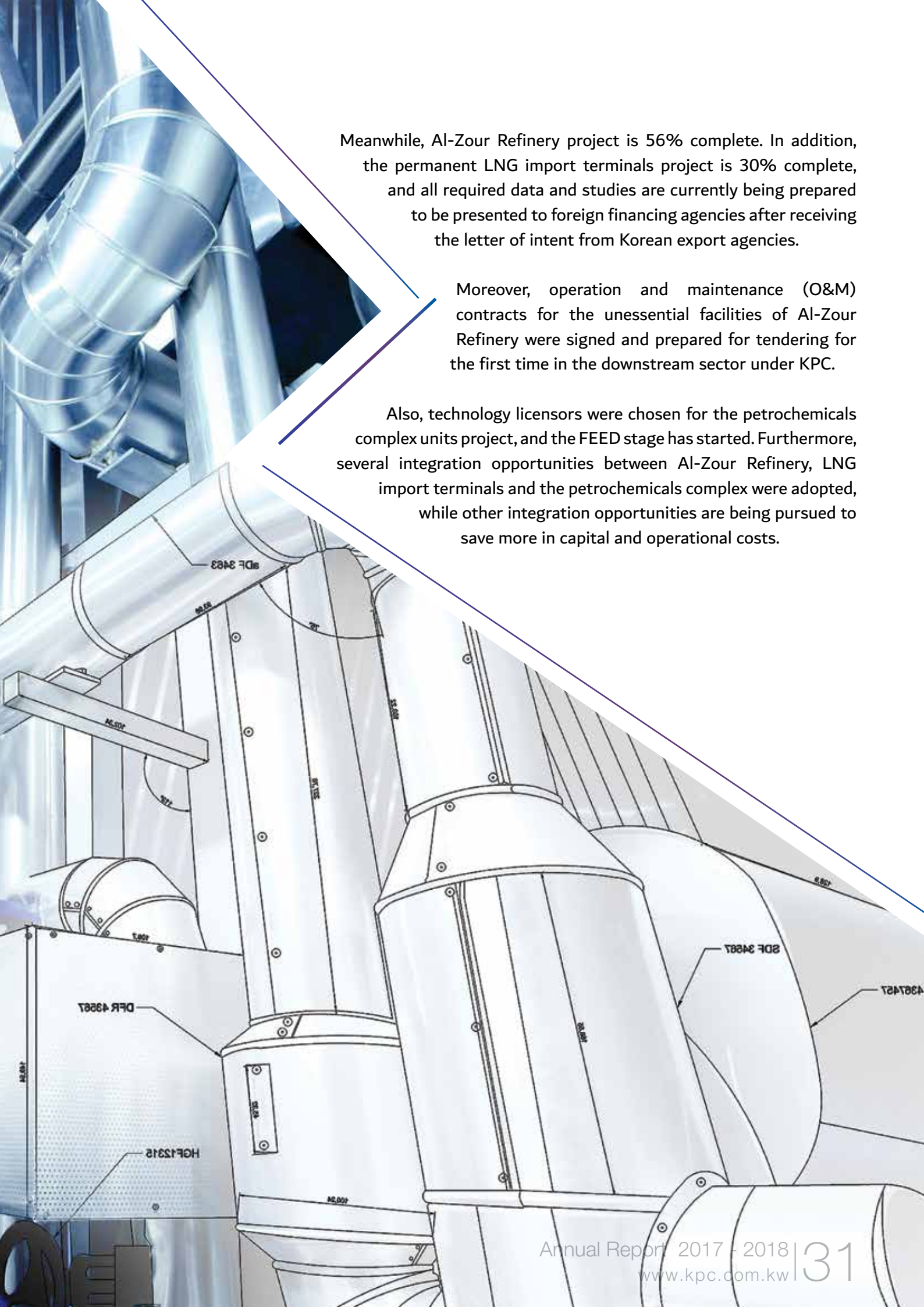
And in implementation of KPC's strategy to give opportunity to the local private sector to establish downstream industries in Kuwait, two direct investment opportunities were given to the private sector:

- Metal extraction from used catalysts.
- Using carbon dioxide in improving oil extraction.

Kuwait Aviation Fueling Company (KAFCO), a subsidiary of Kuwait National Petroleum Company (KNPC), gave an exceptional performance this year, as it improved its own ability to mix several types of fuel at its depot to meet the increasing demand in the market. Furthermore, it signed seven new jet fueling contracts with seven new airlines at Kuwait International Airport.

And to achieve KPC's directions of expanding the refinement capacity in Kuwait at the highest level while taking into account maximizing the discharge of Kuwaiti heavy oils in local refineries, and to meet local demand on energy, Kuwait Integrated Petroleum Industries Company (KIPIC) was officially launched in 3 April 2017. This company was the result of great efforts and support from KPC and its subsidiaries.





Meanwhile, Al-Zour Refinery project is 56% complete. In addition, the permanent LNG import terminals project is 30% complete, and all required data and studies are currently being prepared to be presented to foreign financing agencies after receiving the letter of intent from Korean export agencies.

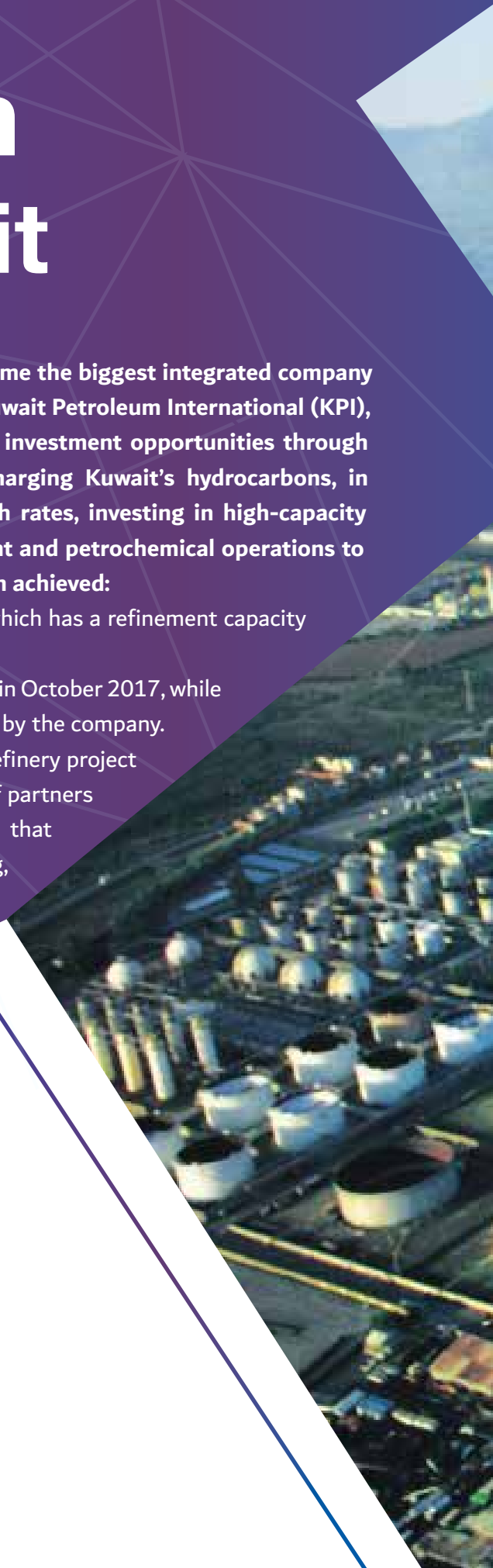
Moreover, operation and maintenance (O&M) contracts for the unessential facilities of Al-Zour Refinery were signed and prepared for tendering for the first time in the downstream sector under KPC.

Also, technology licensors were chosen for the petrochemicals complex units project, and the FEED stage has started. Furthermore, several integration opportunities between Al-Zour Refinery, LNG import terminals and the petrochemicals complex were adopted, while other integration opportunities are being pursued to save more in capital and operational costs.

# Downstream outside Kuwait

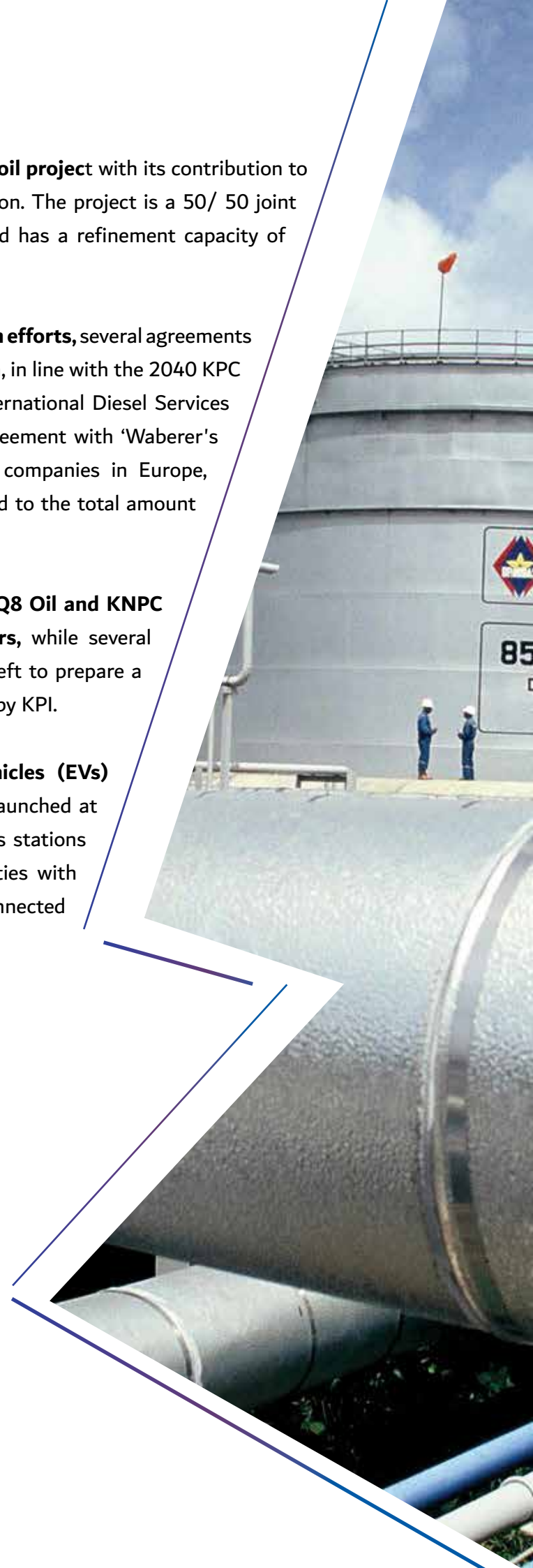
In continuation of KPC and its subsidiaries' ambitions to become the biggest integrated company for energy and chemicals in the world, KPC, represented by Kuwait Petroleum International (KPI), achieved notable progress by entering economically feasible investment opportunities through partnerships and alliances, while taking into account discharging Kuwait's hydrocarbons, in addition to focusing on promising markets with high growth rates, investing in high-capacity refineries and achieving active integration between refinement and petrochemical operations to increase the added value. In this regard, the following has been achieved:

- Operation and crude pumping started at Vietnam Refinery, which has a refinement capacity of 200,000 barrels a day.
- The company's first gas station in Hanoi, Vietnam was opened in October 2017, while licensing is ongoing to operate the second gas station owned by the company.
- Obtaining the final investment decision (FID) for Al-Duqm Refinery project in Oman, and forming a comprehensive management team of partners in cooperation with the projects management consultant that was hired to manage the three packages of the engineering, procurement and construction contracts for Al-Duqm Refinery, while engineering and construction contracts for the three packages of Al-Duqm Refinery were signed with the chosen contractors.





- **Al-Duqm Refinery is considered the largest GCC oil project** with its contribution to the enhancement of the economy of the GCC region. The project is a 50/ 50 joint venture between KPI and Oman Oil Company, and has a refinement capacity of nearly 230,000 barrels a day of 100% Kuwaiti oil.
- **And as we strive to continue our foreign expansion efforts**, several agreements were signed to build 15 new sites in southern Spain, in line with the 2040 KPC Strategy to expand in Europe. Meanwhile, the International Diesel Services company (IDS), a subsidiary of KPI, signed an agreement with 'Waberer's International', one of the largest transportation companies in Europe, through which nearly 40 million liters will be added to the total amount of IDS.
- **In addition, an agreement was signed between Q8 Oil and KNPC to provide it with Q8 lubricants for three years**, while several long-term contracts were signed with Gazprom Neft to prepare a mixture of oils at the Antwerp plant that is owned by KPI.
- **And to meet the needs of the electrical vehicles (EVs) market**, an electrical vehicles' charging unit was launched at the Belgium coast. The strategic locations of KPI's stations on Belgium highways were chosen to link key cities with public charging stations and create an interconnected transportation network.





  
**TK-020**  
DIESEL TANK  
40,000 BBL

# Petrochemicals and the 2040 Vision

Kuwait Petroleum Corporation and its subsidiaries left clear imprints on the petrochemicals industry, and took remarkable steps forward in this field out of their belief in the importance of downstream industries in maximizing the added value to the local economy. Successive notable achievements were made in this sector. For example, the Petrochemical Industries Company (PIC) made an estimated KD 196 million in actual profits in 2017/ 2018, which exceeded the profits approved in the budget. This was made possible through record profits made by partnership companies, including Kuwait Aromatics Company (KARO), Kuwait Paraxylene Production Company (KPPC), The Kuwait Styrene Company (TKSC) which is a subsidiary of KARO, EQUATE Petrochemicals, SK Advanced and The Kuwait Olefins Company (TKOC).

Meanwhile, a new record was set in urea exports in 2017/ 2018, in which production reached 1,178,860 metric tons. Furthermore, PIC saved nearly KD 5 million in costs by implementing more than 30 Six Sigma projects. With that, PIC has saved a total of more than KD 74 million since the this methodology was first applied in 2007.

And as part of KPC's strategy to expand the petrochemical industries inside and outside Kuwait, PIC achieved the following:

- **A number of technical consultants are being evaluated to select the consultant for the Olefins 4 Plant project in Kuwait. The preliminary economic feasibility study for the project is scheduled for the second quarter of 2018, after which the steps that follow will be determined according to the study's results.**



- As for the Vietnam project, a marketing company was established in Vietnam, wholly owned by PIC, to market polypropylene produced by NSRP in the Nghi Son area.
- Furthermore, a memorandum of understanding was signed with a Chinese company to study acquiring an existing project in China, and build a new petrochemicals plant.
- PIC succeeded in signing a partnership deal with its Canadian partner 'Pembina' to build a polypropylene plant with an estimated production capacity of 550,000 tons a year in Alberta, Canada. An agreement was reached with the Canadian partner to secure the feedstock (propane) in competitive prices, while another agreement was reached whereby PIC has the exclusive right to market polypropylene. Furthermore, a technology licensor was chosen for the dehydrogenation unit (UOP), and a technology licensor for the polypropylene unit (GRACE), while the architectural design package for the licensors have been completed. In addition, a FEED contract was signed with Jacobs, and the completion rate currently stands at 10%, while this stage is expected to be completed in November 2018. Also, the PMC contract was signed with WOOD.
- In the meantime, detailed engineering for the project to build a petrochemicals complex to produce ethylene glycol (EG) in the United States was finished, while 80% of procurement and 20% of construction were completed as well. The plant is expected to enter operation in the middle of 2019.
- Studies are currently ongoing with partners regarding the expansion of the polypropylene plant to be built in South Korea. A memorandum of understanding was signed with SKA and PMC on 28 November 2017 to start the detailed feasibility study.

And as part of efforts to boost KPC's role in supporting and motivating the national economy in petrochemical projects, PIC offered investment opportunities to the private sector, including building a biaxially-oriented polypropylene (BOPP) plant and polypropylene raffia (PP Raffia) plant. Also, a third opportunity was offered in cooperation with EQUATE to build a plant for linear low-density polyethylene (LLDPE) and high-density polyethylene (HDPE). Those investment opportunities are considered the first of many the company plans to offer in the future.





# Shipping

## Navigating through the seas

To achieve our future hopes and aspirations, Kuwait Petroleum Corporation – stemming from its national role first and its economic role second – managed all of its activities using best practices to generate the highest returns for Kuwait.

And for that reason, it intensified its local and foreign activities to achieve the desired goals. In the shipping field, KPC, represented by Kuwait Oil Tankers Company (KOTC), made great achievements that left clear imprints on the global shipment industry, given the efficiency and competitiveness that the Kuwaiti fleet established in the global market, and offering the best shipping services to its clients through a huge fleet of 28 tankers, the gas plant in Um Al-Aish, and other mega projects that help elevate the status of the Kuwaiti oil sector regionally and globally.





KOTC's fleet navigated through the seas in 2017/ 2018 for over one million nautical miles and stopped in 505 ports around the world with high efficiency, zero marine pollution incidents and zero carbon dioxide emissions from LNG tankers.

Meanwhile, KOTC's fleet shipped nearly 33.29 million metric tons of crude, petroleum products and LNG this year, while operation averages of Kuwaiti tankers increased by nearly 1.07% this year, reaching 97.43%.

Furthermore, the LPG filling branch (Um Al-Aish) was filled with LPG from Al-Ahmadi Refinery using pipes instead of tanks, which eliminated risks associated with transporting LPG during the past two years and a half.

And to keep up with the latest advancements in the shipping field and as part of the fourth fleet upgrade stage, KOTC signed the following contracts:

- The contract to build and deliver three VLGC gas tankers in June 2018 with Hyundai Heavy Industries – South Korea.
- The contract to build and deliver one VLCC giant crude tanker in March 2018 with Bohai Shipbuilding Heavy Industry – China.





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AL DERWAZAH

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# Our Human Resources

## The secret to our excellence

Kuwait Petroleum Corporation is keen on developing its staff, and adopts it as a principle in recognition of its distinguished national manpower who qualify it to become competitive in all fields. KPC and its subsidiaries managed to invest in its human resources, and produced 'ambassadors' who spread its human investment philosophy inside Kuwait, and through its offices around the world.

KPC and its subsidiaries adopt a balanced method in staff selection in terms of the academic qualification, as well as the behaviors that match its philosophy because it believes that human investment is the key factor to earn returns for any corporation.

KPC made several notable achievements including the application of the competencies system which is considered a training and evaluation tool, and which allows detecting flaws in competencies and training needs, thus helping enhance the performance level. In this regard, it completed the professional **development**





program (PDP) for oil sector employees, by applying the competencies system on the learning management system (LMS) for the first time, accompanied with introductory and awareness meetings on the new system for all staff appointed in the project.

KPC exerts distinguished efforts in preparing its future leaders. Several specialized programs were prepared and implemented in this field by an elite group of internationally-recognized training centers. Meanwhile, a talent management system for team leaders in the oil sector was developed and adopted in KPC and its subsidiaries, while the first stage of evaluating applicable team leaders was completed, and preliminary analysis were made separately for each company. Furthermore, 1,476 training courses featuring 26,332 trainees were completed in various general, technical and professional fields in the oil sector.

In addition, KPC training group, which is affiliated to the human resources sector, signed several memorandums of understanding with specialized academic bodies, including the Australian College of Kuwait (ACK), for local scholarships as part of the scholarships and studying leave program for employees of KPC and its subsidiaries. Moreover, it signed an agreement with Kuwait Institute for Scientific Research (KISR) to cooperate in staff training and development for three years. Meanwhile, KGOC completed two of the most successful training programs in the oil sector: the 'Fab Lab' applied sciences workshops program through cooperation with the Sheikh Sabah Al-Ahmad Center for Giftedness and Creativity, and the intensified training program for technical specialties in cooperation with Compagnie Generale Geophysique (CGG) company, which handles the three dimensional seismic survey that was done in the divided land zone.

In the meantime, KUFPEC enrolled 12 KOC and KGOC staff members in its offices abroad as part of its efforts to provide training opportunities to the oil sector's staff that guarantee transporting technology and expertise between downstream operations inside and outside Kuwait.

Furthermore reflecting KPC's commitment to hire national cadres, KPC and its subsidiaries hired 1,157 employees, while 'Kuwaitization' levels of contractors' staff reached 26.1%, as 322 employees were hired.





# Social Responsibility

## Our way to a better tomorrow

**Kuwait Petroleum Corporation aspires to be a major contributor in a better future for Kuwait, not only through the energy it produces, but also through its contributions in societies around the world. Its citizenship programs motivate for the establishment of vibrant societies, and are committed to making the world a better place. KPC exerted great efforts to earn the trust and support it enjoys today around the world. In addition to its regular business practices, it implements awareness and social activities to enhance societies' health.**

Based on a solid foundation built on shared values between KPC and the society in various fields including economic opportunities, building knowledge, skills and cultural enrichment and social partnership, we seek to seize opportunities in which our commercial interests and citizenship goals meet.

Our role is featured in the economy, knowledge and the environment, which are general fields we believe that we can achieve a positive impact in on the Kuwaiti society by linking between energy, human resources and ideas. Given the attention that KPC and its subsidiaries give in this field and its application of various social initiatives, it earned the His Highness the Amir's Award for Social Responsibility.





Various distinguished achievements were made in social responsibility, the most notable of which is His Highness the Amir Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah's patronage of the opening of KOC's new Al-Ahmadi Hospital in April 2017. His Highness the Amir attended the inauguration ceremony of this new medical edifice that is equipped with the latest advanced medical equipment. The full transition was completed in March 2018, while the technical team did a notable achievement by transferring patients to the new building in less than two hours and 40 minutes, in cooperation with support services' team, ambulances and Interior Ministry's traffic department.

And as part of efforts to protect Kuwait's environment, KOC, in cooperation with KIPIC, contained an oil leak in Al-Zour waters in record time and high efficiency, which helped protect Ministry of Electricity and Water facilities and KOC projects.

And as part of the initiatives that the Kuwaiti oil sector presents to the local community, KUFPEC launched several initiatives that help boost social responsibility and confirm that the Kuwaiti oil sector is an inseparable part of society. For example, it offered financial donations to official organizations that provide aid and support to people in need, including the Kuwait Red Crescent Society, Kuwait Down Syndrome Society and Kuwait Disabled Sports Club.

In addition, KIPIC organized its first blood donation drive in cooperation with the Central Blood Bank, in which a large number of employees participated to help increase the blood bank's stock. KPC and its subsidiaries are pioneers in this field and are among the leading donors locally every year. In addition, KIPIC organized a beach cleaning campaign in Al-Khairan featuring 225 employees who helped clean an area that was 1.5 kilometers long and 500 square meters wide. Furthermore, KIPIC launched the 'Giving to the Environment' initiative, in which 200 sidra trees were planted along the fence surrounding the development building at Al-Zour Refinery, in addition to more trees planted inside the building. And in the environment protection field, KGOC rehabilitated petroleum holes in Al-Wafra joint venture operations, as the soil was treated and vegetation was restored in large areas.

Driven by our 'We Care' motto which we adopt in our businesses inside and outside Kuwait, we also take care of foreign societies that we share distinguished working relationships with. For example, KPI installed photovoltaic panels on top of its station in Stockholm, Sweden, to limit energy consumption and carbon dioxide emissions.

To create renewable energy resources in Kuwait as part of efforts to secure 15% of the Kuwaiti oil sector's electricity needs by 2020, approvals were obtained from KPC board and the Cabinet to move forward with establishing Al-Debdebeh solar power plant with a capacity of 1.5 gigawatts inside the Shaqaya Renewable Energy Complex. Furthermore, approvals were given by internal and higher committees to qualify contractors. The project's implementation is expected to start in January 2019, while the plant is scheduled to enter operation in January 2021.

And in line with KPC's vision to protect the environment, KOTC managed to reduce the amount of water resulting from washing tankers and discharging it into the sea to limits below the allowed limit according to the International Convention for the Prevention of Pollution from Ships (MARPOL).



# We only accept Excellence

**This is the motto that KPC and its subsidiaries adopt, and through which they achieve development, advancement and excellence in all fields. And as a natural result of that, KPC and its subsidiaries earned several international awards of high importance, which are as follows:**

## **Kuwait Petroleum Corporation:**

- 1. The Leadership in Energy and Environmental Design (LEED) Gold Certificate in May 2017.**
- 2. KPC's training center won the following:**
  - The 26000 certificate for social responsibility.
  - The 10002 certificate for handling customers' complaints.

## **Kuwait Oil Company**

- 1. KOC earned two awards as a result of its efforts in applying Health, Safety, Security and the Environment standards:**
  - Gold medal for health and safety and golden award for marine operations and export fleet for 2017 from the Royal Society for the Prevention of Accidents (RoSPA).
  - The standard navigation for marine colonies award (environment category) during a ceremony held in Dubai in October 2017.





# OIL SECTOR COMPLEX

Kuwait City, Kuwait

WAS AWARDED THE DISTINGUISHED LEED GREEN BUILDING RATING SYSTEM CERTIFICATION & COMPLETED BY THE U.S. GREEN BUILDING COUNCIL, 1900 AVENUE OF THE STARS, SUITE 1500, FORT MYERS, FL 33907, USA

LEED 2009  
EXISTING BUILDINGS: OPERATIONS AND MAINTENANCE

# GOLD

May 2017

*Mahesh Ramnagar*

MAHESH RAMNAGAR, PRESIDENT & CEO, U.S. GREEN BUILDING COUNCIL,  
PRESIDENT & CEO GREEN BUILDING CENTER & WRI INC.

## **Kuwait National Petroleum Company**

1. First place in the human resources management excellence award for 2017 in the 'innovation in training and development' category, and the second place in the 'innovation in the leaders and executives development' category during a ceremony held in Park Hyatt Dubai in November 2017.
2. It achieved a professional accomplishment by winning the award for the best implementation of information technology projects in the energy and industry field in November 2017, given by 'CAN' magazine.
3. The RoSPA award in 2017 in the HSSE field.

## **Kuwait Petroleum International**

1. KPI won the RoSPA award for the second straight year, and earned several certificates of quality:
  - ISO's Standards 9001:2015
  - Responsible Care (RC) 14001:2015
  - Business Continuity Management (BCM) 22301:2013
2. The lubricants plant in Antwerp won the Petroleum Economist's award for the best project in 2017, while a long-term contract was signed with Russia's Gezprom Neft, which is considered one of the most widespread companies in Europe to expand the marketing of its products.

## **Kuwait Oil Tankers Company**

1. KOTC won the 'best oil tanker operator' award for the second straight year.
2. It also won the 'marine crewing and manning' award in the Middle East and Indian subcontinent.
3. CEO Sheikh Talal Al-Khaled Al-Ahmad Al-Sabah was awarded the title of the 'outstanding leadership' during the annual ceremony of The Maritime Standard in Dubai, the United Arab Emirates.
4. KOTC maintained its commitment to the Green Award standards and requirements for 18 straight years.
5. KOTC received a certificate of appreciation from the International Maritime Organization in recognition of the distinguished humanitarian role that its 'Al-Salmi' tanker played in rescuing 536 refugees from drowning in international waters near the Italian shores.







## Consolidated financial statements and independent auditor's report for the year ended 31 March 2018

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State of Kuwait  
TEL.: +965 2228 7000  
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## Independent Auditor's Report

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

#### Opinion

We have audited the consolidated financial statements of Kuwait Petroleum Corporation (the Corporation) and its subsidiaries together (the Group), which comprise the consolidated statement of financial position as at 31 March 2018, 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 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 Auditors Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Emphasis of Matter

We draw attention to Note 1 to the consolidated financial statements that the Group had previously issued consolidated financial statements for the year ended 31 March 2018. However, as a result of certain event as explained in Note 1 and Note 24 to the accompanying consolidated financial statements, the previously issued consolidated financial statements and our audit report dated 31 May 2018 for the same year are replaced with these accompanying consolidated financial statements and this independent auditor's report. 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 of assurance conclusion thereon.

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and the Law Decree No. 6 of 1980, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### **Report on other legal and regulatory requirements**

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the consolidated financial statements include the information required by the Law Decree No.6 of 1980. In our opinion, proper books of account have been kept by the Corporation and the accounting information given in the board of directors' report agrees with the books of accounts. We have not become aware of any contravention, during the year ended 31 March 2018 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.

Kuwait, 16 September 2018

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

## Consolidated statement of financial position

for the year ended 31 March 2018


Kuwait Petroleum Corporation and Subsidiaries

State of Kuwait

	Notes	2018 KD'000	2017 KD'000
<b>Assets</b>			
Property, plant and equipment	5	24,975,740	20,479,678
Goodwill	6	122,831	108,194
Intangible assets	7	639,964	591,985
Deferred tax assets	14	355,651	451,778
Other non-current assets	8	234,493	213,080
Available-for-sale investments	9	6,488,488	6,974,952
Investments in equity accounted investees	10	744,303	705,440
<b>Non-current assets</b>		<b>33,561,470</b>	<b>29,525,107</b>
Inventories	11	1,167,075	1,214,351
Trade receivables	12	3,980,842	3,261,330
Other receivables and prepayments	13	1,121,706	1,572,222
Taxes receivable	14	15,954	16,970
Bank balances and cash	15	1,102,808	2,687,031
Assets held for sale	16	47,606	40,731
<b>Current assets</b>		<b>7,435,991</b>	<b>8,792,635</b>
<b>Total assets</b>		<b>40,997,461</b>	<b>38,317,742</b>
<b>Equity</b>			
Authorised and paid-up share capital		2,500,000	2,500,000
Statutory reserve	17	1,250,000	1,250,000
Capital reserve	18	232,945	232,945
General reserve	19	17,955,264	17,261,726
Reserve for replacement and renewal of property, plant and equipment	20	3,578,691	3,436,691
Remeasurement of defined benefit obligation reserve		(140,854)	(147,649)
Cumulative changes in fair values		596,809	1,124,380
Foreign currency translation reserve		(252,355)	(249,764)
<b>Equity attributable to equity holder of the Corporation</b>		<b>25,720,500</b>	<b>25,408,329</b>
Non-controlling interest		76,322	75,045
<b>Total equity</b>		<b>25,796,822</b>	<b>25,483,374</b>
<b>Non-current liabilities</b>			
Liabilities held for sale	16	3,897	-
Trade payables		1,223,738	1,168,884
Other payables and accruals	22	2,403,704	2,052,221
Taxes payable	14	179,034	177,526
Amounts due to Ministry of Oil	23	1,908,755	1,990,838
Profit available for distribution	24	5,272,796	3,975,946
<b>Current liabilities</b>		<b>10,991,924</b>	<b>9,365,415</b>
<b>Total liabilities</b>		<b>15,200,639</b>	<b>12,834,368</b>
<b>Total equity and liabilities</b>		<b>40,997,461</b>	<b>38,317,742</b>

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

  
 Nizar M. Al Adsani  
 Deputy Chairman & CEO

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

	Notes	2018 KD'000	2017 KD'000
<b>Revenues</b>			
Sales of crude oil, gas, refined products and petrochemicals		23,332,787	19,678,222
Revenues from consultancy and other operations	25	<u>70,142</u>	<u>63,268</u>
		<u>23,402,929</u>	<u>19,741,490</u>
<b>Cost of revenues</b>			
Cost of sales of crude oil, gas, refined products and petrochemicals		(21,731,041)	(18,186,867)
Cost of consultancy and other operations		<u>(54,553)</u>	<u>(51,311)</u>
		<u>(21,785,594)</u>	<u>(18,238,178)</u>
<b>Gross profit</b>		1,617,335	1,503,312
Depreciation and amortisation		(283,340)	(291,915)
General and administrative expenses		(482,649)	(367,835)
Provision for impairment loss on property, plant and equipment and goodwill and others		<u>(113,715)</u>	<u>(49,912)</u>
<b>Operating profit</b>		737,631	793,650
Interest income		36,937	51,237
Interest expense		<u>(28,103)</u>	<u>(24,524)</u>
Net interest income		8,834	26,713
Investment income	26	871,623	274,470
Share of results of equity accounted investees	10	177,372	118,671
Other income (net)	27	394,880	332,665
Directors' remuneration	28	<u>(63)</u>	<u>(58)</u>
<b>Profit before provision for income tax</b>		2,190,277	1,546,111
Income tax (expense) / benefit	14	<u>(49,171)</u>	<u>5,970</u>
		2,141,106	1,552,081
Provision for replacement and renewal of property, plant and equipment	20	<u>(142,000)</u>	<u>(100,000)</u>
<b>Profit for the year</b>		<u>1,999,106</u>	<u>1,452,081</u>
<b>Other comprehensive (loss) / income</b>			
<i>Items that will never be reclassified to profit or loss</i>			
Remeasurements of defined benefit obligations		6,795	(13,573)
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Foreign currency translation differences for foreign operations		(2,591)	(25,770)
Net change in fair value of available-for-sale investments		<u>(527,571)</u>	<u>283,589</u>
<b>Other comprehensive (loss) / income for the year</b>		<u>(523,367)</u>	<u>244,246</u>
<b>Total comprehensive income for the year</b>		<u>1,475,739</u>	<u>1,696,327</u>
<b>Profit attributable to:</b>			
Equity holder of the Corporation		1,990,388	1,440,944
Non-controlling interest		<u>8,718</u>	<u>11,137</u>
<b>Profit for the year</b>		<u>1,999,106</u>	<u>1,452,081</u>
<b>Total comprehensive income attributable to:</b>			
Equity holder of the Corporation		1,467,021	1,685,190
Non-controlling interest		<u>8,718</u>	<u>11,137</u>
<b>Total comprehensive income for the year</b>		<u>1,475,739</u>	<u>1,696,327</u>

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

## Consolidated statement of changes in equity

for the year ended 31 March 2018

Kuwait Petroleum Corporation and Subsidiaries

State of Kuwait

	Attributable to equity holder of the Corporation										
	Authorised and paid-up share capital KD'000	Statutory reserve KD'000	Capital reserve KD'000	General reserve KD'000	Replacement and renewal of property, plant and equipment KD'000	Remeasurement of defined benefit obligation reserve KD'000	Cumulative changes in fair values KD'000	Foreign currency translation reserve KD'000	Total KD'000	Non-controlling interest KD'000	Total equity KD'000
<b>Balance at 31 March 2016</b>	2,500,000	1,250,000	232,945	15,820,782	3,336,691	(134,076)	840,791	(223,994)	23,623,139	64,392	23,687,531
<b>Total comprehensive income</b>	-	-	-	1,440,944	-	-	-	-	1,440,944	11,137	1,452,081
Profit for the year	-	-	-	1,440,944	-	-	-	-	1,440,944	11,137	1,452,081
Other comprehensive (loss) / income	-	-	-	-	-	(13,573)	283,589	(25,770)	244,246	-	244,246
<b>Total comprehensive income / (loss)</b>	-	-	-	1,440,944	-	(13,573)	283,589	(25,770)	1,685,190	11,137	1,696,327
Reserve for replacement and renewal of property, plant and equipment	-	-	-	-	100,000	-	-	-	100,000	-	100,000
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	(484)	(484)
<b>Balance at 31 March 2017</b>	2,500,000	1,250,000	232,945	17,261,726	3,436,691	(147,649)	1,124,380	(249,764)	25,408,329	75,045	25,483,374

<i>Attributable to equity holder of the Corporation</i>										
	<i>Authorised and paid-up share capital KD'000</i>	<i>Statutory reserve KD'000</i>	<i>Capital reserve KD'000</i>	<i>General reserve KD'000</i>	<i>Reserve for replacement and renewal of property, plant and equipment KD'000</i>	<i>Remeasurement of defined benefit obligation reserve KD'000</i>	<i>Cumulative changes in fair values KD'000</i>	<i>Foreign currency translation reserve KD'000</i>	<i>Non-controlling interest KD'000</i>	<i>Total equity KD'000</i>
<b>Balance at 31 March 2017</b>	2,500,000	1,250,000	232,945	17,261,726	3,436,691	(147,649)	1,124,380	(249,764)	75,045	25,483,374
<b>Total comprehensive income</b>										
Profit for the year				1,990,388					8,718	1,999,106
Other comprehensive income / (loss)						6,795	(527,571)	(2,591)		(523,367)
<b>Total comprehensive income / (loss)</b>				1,990,388		6,795	(527,571)	(2,591)	8,718	1,475,739
Reserve for replacement and renewal of property, plant and equipment					142,000					142,000
Profit to be distributed (Note 24)				(1,296,850)						(1,296,850)
Net movement in non-controlling interest									(7,441)	(7,441)
<b>Balance at 31 March 2018</b>	2,500,000	1,250,000	232,945	17,955,264	3,578,691	(140,854)	596,809	(252,355)	76,322	25,796,822

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

## Consolidated statement of cash flows

for the year ended 31 March 2018

Kuwait Petroleum Corporation and Subsidiaries

State of Kuwait

	Notes	2018 KD'000	2017 KD'000
<b>Cash flows from operating activities</b>			
Profit for the year		1,999,106	1,452,081
<i>Adjustments for:</i>			
Depreciation and amortisation		283,340	291,915
Provision for replacement and renewal of property, plant and equipment	20	142,000	100,000
Provision for impairment loss on property, plant and equipment and goodwill and others		113,715	49,912
Write off of unsuccessful exploration	7	16,992	24,084
Provision for employees' terminal benefits and pensions		204,251	101,662
(Gain) / loss on disposal of property, plant and equipment		(26,284)	209
Share of results of equity accounted investees	10	(177,372)	(118,671)
Interest income		(36,937)	(51,237)
Provisions, net		32,987	25,714
Interest expense		28,103	24,524
Income tax expense / (benefits)	14	49,171	(5,970)
Investment income		(871,623)	(274,470)
		<u>1,757,449</u>	<u>1,619,753</u>
<i>Changes in:</i>			
- inventories		34,053	(258,319)
- trade receivables		(725,296)	(1,041,028)
- other receivables and prepayments		447,833	198,998
- non-current liabilities		(296,111)	(352,709)
- trade payables		54,854	187,683
- other payables, accruals and other credit balances		308,400	318,961
- change in amounts due to Ministry of Oil		545,761	815,930
Cash generated from operations		<u>2,126,943</u>	<u>1,489,269</u>
Interest paid		(10,409)	(24,524)
Taxes paid (net)		(28,103)	(45,054)
<i>Net cash from operating activities</i>		<u>2,088,431</u>	<u>1,419,691</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	5	(5,312,896)	(4,567,939)
Change in deposits maturing after three months		(172,054)	258,989
Acquisition of assets	37	(18,628)	(4,424)
Change in available-for-sale investments		823,352	462,062
Net movement in equity accounted investees		140,643	78,076
Additions to intangible assets	7	(81,399)	(18,608)
Change in other non-current assets		(22,405)	(80,907)
Proceeds from disposal of property, plant and equipment		46,515	5,223
Interest received		36,937	51,237
<i>Net cash used in investing activities</i>		<u>(4,559,935)</u>	<u>(3,816,291)</u>
<b>Cash flows from financing activities</b>			
Net change in long term loans and borrowings		740,104	933,633
Change in non-controlling interest		(7,441)	(484)
<i>Net cash from financing activities</i>		<u>732,663</u>	<u>933,149</u>
Net effect of foreign currency translation adjustments		(17,436)	(20,088)
<i>Net decrease in cash and cash equivalents</i>		<u>(1,756,277)</u>	<u>(1,483,539)</u>
<b>Cash and cash equivalents at beginning of the year</b>		<u>2,524,096</u>	<u>4,007,635</u>
<b>Cash and cash equivalents at end of the year</b>	15	<u>767,819</u>	<u>2,524,096</u>
Short-term deposits maturing after three months from the date of placement	15	334,989	162,935
<b>Bank balances and cash at end of the year</b>	15	<u>1,102,808</u>	<u>2,687,031</u>

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

## 1. Corporate information

The Kuwait Petroleum Corporation (“the Corporation” or “the Parent”) is wholly-owned by the Government of the State of Kuwait. The Corporation was established by Law Decree No. 6 of 1980 which came into effect on 27 January 1980. The principal activities of the Corporation and its subsidiaries (together referred to as “the Group”) include exploration, drilling, production, storage, refining, processing, transportation, distribution and marketing of crude oil, natural gas, chemical, petrochemical and associated products. The marketing of crude oil and petroleum products produced by subsidiaries in the State of Kuwait is undertaken by the Corporation. The entire Group’s other activities, including the marketing of crude oil and petroleum products produced by subsidiaries outside the State of Kuwait are carried out through its subsidiaries, associates and joint ventures/ operations. The principal subsidiaries, associates and joint ventures/ operations are set out in Note 40. The Group operates principally in the Middle East, Far East, Western Europe, U.S.A, Canada and the 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.

These consolidated financial statements of the Group for the year ended 31 March 2018 were previously authorised for issue by the board of directors in accordance with resolution no. 33/2018 on 31 May 2018. However, as a result of certain event as disclosed in Note 24, these consolidated financial statements were authorized for reissuance with resolution by the Deputy Chairman & CEO on 16 September 2018. The Board of Directors in their meeting dated 9 September 2018 resolution no. 76/2018, vested their powers to Deputy Chairman & CEO for authorization of reissuance of these consolidated financial statements. These consolidated financial statements are subject to change upon approval of the Supreme Council for Petroleum.

## 2. Basis of preparation

### a) Statement of compliance

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

### b) Basis of measurement

The consolidated financial statements are prepared under the historical cost convention, modified for the measurement at fair value of available-for-sale investments and derivative financial instruments.

### c) Functional and presentation currency

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

**d) Use of estimates and judgements**

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

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

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

**e) Changes in accounting policies**

The Group has adopted the following revised and newly issued IFRSs effective for annual periods beginning on or after 1 April 2017.

*Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative*

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

*Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The application of this amendment has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

*Annual Improvements Cycle - 2014-2016*

*Amendments to IFRS 12 Disclosure of Interests in Other Entities:* Clarification of the scope of disclosure requirements in IFRS 12. The amendments clarify that the disclosure requirements in IFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

**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.

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 to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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. 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 2017 to 31 March 2018. 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., whose financial years were from 1 January 2017 to 31 December 2017. Where such subsidiaries do not prepare financial statements up to the same date as that of the Group, adjustments are made for the effects of any significant events or transactions which have occurred in the months following the year end of these subsidiaries.

**b) Property, plant and equipment**

**i. Oil and gas properties**

*Exploratory wells*

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

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

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

*Development wells*

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

Oil and gas properties are stated at cost, less accumulated depreciation and accumulated impairment losses.

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

Other property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.

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

*Subsequent costs*

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

is immediately written off. Inspection costs associated with major maintenance programmes are capitalised and amortised over the period to the next inspection. All other day-to-day repairs and maintenance costs are expensed as incurred.

*Gain or loss on disposal*

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

iii. Other assets under construction

Assets in the course of construction are carried at cost, less any recognised impairment loss. 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 Company, as approved by the Supreme Council for Petroleum, are as follows:

<b><u>Asset category</u></b>	<b>Depreciation</b>	
	<b>2017 - 2018</b>	<b>2016 - 2017</b>
	<b>Years</b>	<b>Years</b>
<i>Oil and gas</i>		
	Unit of	Unit of
Oil and gas properties	production	production
Plant and machinery	20 - 25	20 - 25
Tankage, pipelines and jetties	20 - 25	20 - 25
Wells and surveys	10 - 20	10 - 20
Service plant and drilling equipment	4 - 5	4 - 5
Vessels	30 - 35	30 - 35
<i>Other property and equipment</i>		
Land, buildings and roads	25	25
Furniture, tools and computers	5 - 10	5 - 10
Vehicles, ships and marine craft	5 - 13	5 - 13

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

**c) Goodwill**

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

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

Where goodwill forms part of a CGU and part of the operation in that unit is disposed of, 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

it has been determined, or work is under way to determine, that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing development plans and timing.

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

#### *Exploration and evaluation costs*

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

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

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

#### *Gain or loss on disposal*

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

#### *Amortisation*

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

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

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

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

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

**e) Available for sale investments**

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

*Impairment*

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

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

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

**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.

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 m)*.

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.

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) Trade receivables**

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

**j) Deferred expenses**

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

**k) Cash and cash equivalents**

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

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

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

**m) Impairment**

*Impairment of non-financial assets*

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

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

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

*Impairment of financial assets other than available for sale investments*

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

Objective evidence that financial assets are impaired includes:

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

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

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

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

**n) Trade payables**

Trade payables are stated at their amortised cost.

**o) 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.

**p) 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.

**q) Foreign currency translation**

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to 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.

**r) Fair values of financial instruments**

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

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

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

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

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

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

**s) Trade and settlement date accounting**

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

**t) Taxes on income**

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

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

**u) Derivatives**

The Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties whose value changes in response to movements in a reference price, rate, index or similar variable that requires a minimal initial net investment relative to other types of contracts, and that is settled at a future date. Derivative financial instruments include forwards, futures, swaps and options.

Derivatives are stated 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 and willing parties in an arm's length transaction. Derivatives with positive market values (unrealised gains) are

included in other receivables and derivatives with negative market values (unrealised losses) are included in other payables in the consolidated statement of financial position. The resultant gains and losses from derivatives held for trading purpose are included in the consolidated statement profit or loss and other comprehensive income.

The Group also enters into sales and purchase contracts as part of its international operations. Where these contracts qualify as a derivative or include an embedded derivative as defined by IAS 39, they are stated at fair value. Fair value is assessed by applying prevailing market prices directly to the contract or embedded derivative, where possible, or by identifying separate financial instruments which have the same terms and are readily traded in the relevant markets.

**v) Provisions**

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

**w) Offsetting**

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

**x) Revenue recognition**

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

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

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

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

Interest income is recognised on the accrual basis.

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

**y) Leases**

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

**z) Provision for employees' indemnity***Defined benefit and contribution scheme – Parent and local subsidiaries*

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

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

*Defined benefit scheme – Foreign subsidiaries*

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

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

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

*Defined contribution schemes*

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

### *Termination allowances*

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

#### **aa) 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.

#### **bb) 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.

#### **cc) New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective at 31 March 2018, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's financial results and financial position. The Group plans to adopt these pronouncements when they become effective.

*IFRS 16 Leases*, issued in January 2016, replaces the existing lease accounting guidance in *IAS 17 Leases*, *IFRIC 4 Determining whether an Arrangement contains a lease*, *SIC-15 Operating Leases – Incentives* and *SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. Early adoption is permitted if *IFRS 15 Revenue from Contracts with Customers* is also adopted. The Group is currently assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

*IFRS 9 Financial instruments*, published in July 2014, replaces the existing guidance in *IAS 39 Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment of financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is currently assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

*IFRS 15 Revenue from Contracts with Customers*, issued in May 2014, establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is currently assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

*IFRIC 22 Foreign Currency Transactions and Advance Consideration*, issued in December 2016, addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRIC 22.

#### 4. Significant accounting judgement and estimates

##### Critical judgements in applying the Group's accounting policies

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

##### *Recognition of provisions*

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

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

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

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

The Group treats available-for-sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

### *Classification of securities*

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

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

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

### *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.

### **Key sources of estimation uncertainty**

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

#### *Valuation of unquoted equity securities*

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

- recent market transactions;
- current fair value of another instrument that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

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

#### *Measurement of provisions*

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

### *Reserve and resource estimates*

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

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

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

### *Exploration and evaluation expenditures*

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

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

### *Units of production depreciation of oil and gas properties*

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

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

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

#### *Impairment of oil and gas properties*

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

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

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

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

#### *Remeasurement gains and losses*

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

*Recovery of deferred tax assets*

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

*Decommissioning costs*

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

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

The depreciation charged to profit or loss is reduced by KD 416 million (2017: KD 361 million) being the amount charged to the Ministry of Oil in respect of the operations of local wholly owned subsidiaries. Included in assets under construction are amounts of KD 2,872,840 thousand and KD 3,594,586 thousand (2017: KD 1,264,887 thousand and KD 2,751,228 thousand) relating to the Group's new refinery i.e. Al-Zour Refinery Project, and the Clean Fuels Project ("CFP") respectively. Oil and gas properties includes additions of KD 100,030 thousand (2016: KD 117,267 thousand) acquired through asset acquisition by KUPPEC (Note 37).

"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 116 million (2017: KD 36 million) were capitalised in oil and gas properties and assets under construction. Land, buildings and roads includes land amounted to KD 70 million (2017: KD 61 million). Certain "Property, plant and equipment" are secured against borrowing facilities (Note 21).

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

	Oil and gas					Other property and equipment					
	Oil and gas properties KD '000	Plant and machinery KD '000	Tankage, pipelines and jetties KD '000	Wells and surveys KD '000	Service plant and drilling equipment KD '000	Vessels KD '000	Land, buildings and roads KD '000	Furniture, tools and equipment KD '000	Vehicles, ships and marine craft KD '000	Assets under construction KD '000	Total KD '000
Balance at 1 April 2016, net of accumulated depreciation	1,843,102	3,010,434	1,373,686	1,920,482	6,362	490,914	689,322	18,096	65,577	7,212,422	16,630,397
Additions	397,238	9,428	264	78	-	-	6,315	647	643	4,153,326	4,567,939
Disposals	-	(1,197)	(6)	-	-	(2,920)	69	(722)	-	(4,955)	(9,731)
Change in estimate	30,357	-	-	-	-	-	-	-	-	-	30,357
Transfers	-	333,362	104,613	589,094	27,604	9,005	292,257	9,616	12,467	(1,384,023)	(6,005)
Foreign currency translation adjustment	9,677	(10,095)	(1,474)	3,471	2	-	(8,504)	105	(69)	1,063	(5,824)
Depreciation for the year	(123,248)	(190,181)	(84,093)	(152,997)	(7,863)	(24,459)	(49,824)	(6,843)	(6,944)	-	(646,452)
Assets classified as held for sale (Note 16)	-	(27,811)	(7,935)	-	-	-	(1,257)	-	-	-	(37,003)
Impairment loss	(32,851)	-	-	-	-	(11,149)	-	-	-	-	(44,000)
At 31 March 2017	2,124,275	3,123,940	1,385,055	2,360,128	26,105	461,391	928,378	20,899	71,674	9,977,833	20,479,678
<b>Property, plant and equipment</b>											
At cost	3,757,711	7,015,416	2,912,851	4,649,710	66,887	806,668	1,530,863	109,305	147,727	9,977,833	30,974,971
Accumulated depreciation and impairment losses	(1,633,436)	(3,891,476)	(1,527,796)	(2,289,582)	(40,782)	(345,277)	(602,485)	(88,406)	(76,053)	-	(10,495,293)
Net carrying amount at 31 March 2017	2,124,275	3,123,940	1,385,055	2,360,128	26,105	461,391	928,378	20,899	71,674	9,977,833	20,479,678

Pursuant to the Board of Directors resolution, PIC decided to cease the operational activities of fertilizer plant with effect from 31 May 2019. On 31 March 2018, the management determined that the expected disposal proceeds from sale of fertilizer plant is lower than its carrying value. Consequently, the management recorded an impairment loss of KD 54 million.

## 6. Goodwill

	<b>2018</b>	<b>2017</b>
	<b>KD'000</b>	<b>KD'000</b>
Balance at beginning of the year	108,194	112,269
Acquisitions	387	1,786
Foreign currency translation effects	14,250	(5,861)
Balance at end of the year	<u>122,831</u>	<u>108,194</u>

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of recoverable amount of the CGU to which goodwill is allocated. The recoverable amount is determined based on the higher of fair value less costs to sell and value in use. The key assumptions used in calculating value in use includes growth rate either nil or below zero after first five years in pre-tax cash flow projections and pre-tax discount rate ranges from 7.5% to 10% (2017: 7.5% to 10%) per annum. The value in use of the cash-generating units to which goodwill has been allocated, as estimated by management indicates that there has been no impairment during the year ended 31 March 2018.

## 7. Intangible assets

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

	<b>2018</b>	<b>2017</b>
	<b>KD'000</b>	<b>KD'000</b>
Balance at beginning of the year	591,985	604,656
Additions during the year	81,399	18,608
Transfer from assets under construction	42,280	5,984
Transfer to oil and gas properties (Note 5)	(31,660)	-
Transfer from other receivables and prepayments (Note 13)	4,679	-
Amortisation	(21,010)	(15,623)
Write-off of unsuccessful exploration cost	(16,992)	(24,084)
Disposals	-	(110)
Impairment loss	(4,650)	(1,939)
Foreign currency translation effects	(6,067)	4,493
Balance at end of the year	<u>639,964</u>	<u>591,985</u>

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 425 million (2017: KD 473 million) of exploration and evaluation assets.

**8. Other non-current assets**

	<b>2018</b>	<b>2017</b>
	<b>KD'000</b>	<b>KD'000</b>
Loans to joint ventures	192,677	127,435
Long term portion of trade receivables	-	47,908
Deferred expenses	17,160	16,861
Others	24,656	20,876
	<u>234,493</u>	<u>213,080</u>

In prior years, the Group advanced long term loans denominated in US\$ to NSRP, which carries one month US\$ Libor rate plus 6% per annum. At the reporting date, the outstanding loan balance receivable from NSRP amounts to US\$ 601 million (2017: US\$ 381 million) and is fully repayable on 27 May 2029.

Furthermore, the Group also advanced long term loans denominated in Swedish Krona to OK-Q8, which carries 6 month Stibor rate plus 0.5% per annum till 31 December 2018 and thereafter, 3 months Stibor rate plus 1% till maturity. At the reporting date, the outstanding loan balance receivable from OK-Q8 amounts to US\$ 36 million (2017: US\$ 31 million) and is fully repayable on 1 January 2024 respectively.

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

**9. Available-for-sale investments**

	<b>2018</b>	<b>2017</b>
	<b>KD'000</b>	<b>KD'000</b>
Managed portfolios and funds	6,439,491	6,926,647
Others	48,997	48,305
	<u>6,488,488</u>	<u>6,974,952</u>

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

**10. Investment in equity accounted investees**

	<b>2018</b>	<b>2017</b>
	<b>KD'000</b>	<b>KD'000</b>
<i>Carrying values of equity accounted investees</i>		
Significant equity accounted investees	647,273	644,814
In-significant equity accounted investees	97,030	60,626
	<u>744,303</u>	<u>705,440</u>
<i>Share of profit of equity accounted investees</i>		
Share of profit of significant equity accounted investees	169,647	117,311
Share of profit of in-significant equity accounted investees	7,725	1,360
	<u>177,372</u>	<u>118,671</u>

## 10 Investments in equity accounted investees (continued)

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

2018	Ownership	Total assets KD'000	Total liabilities KD'000	Net assets KD'000	Group's share of net assets/ carrying value of investments KD'000	Revenues KD'000	Expenses KD'000	Profit/ (loss) KD'000	Group's share of results KD'000
<i>Associates</i>									
EQUATE	42.5%	2,134,893	1,958,267	176,626	75,066	1,352,409	1,119,291	233,118	99,075
TKOC	42.5%	315,015	143,505	171,510	72,892	228,564	119,872	108,692	46,194
GPIC	33.33%	162,871	21,616	141,255	47,080	91,779	81,534	10,245	3,415
KDC	49%	379,884	281,979	97,905	47,973	100,572	95,491	5,081	2,490
OULA	24%	91,342	30,375	60,967	14,632	152,410	148,828	3,582	860
SOUR	24%	98,811	32,554	66,257	15,902	154,598	151,138	3,460	830
<i>Joint Ventures</i>									
TKSC	57.5%	161,708	69,597	92,111	52,963	168,845	140,268	28,577	16,432
OKO8	50%	424,616	225,453	199,163	99,582	820,775	801,494	19,281	9,641
NSRP	35.1%	2,300,691	1,670,540	630,151	221,183	-	26,468	(26,468)	(9,290)
		<u>6,069,831</u>	<u>4,433,886</u>	<u>1,635,945</u>	<u>647,273</u>	<u>3,069,952</u>	<u>2,684,384</u>	<u>385,568</u>	<u>169,647</u>

The Group's share in the contingent liabilities of associates was KD 38 million (2017: KD 9 million) representing letters of guarantee issued to third parties. During the year, the Group received cash dividend of KD 173,756 thousand from equity accounted investees (2017: cash dividend of KD 103,974 thousand).

At the reporting date, the fair value of listed equity accounted investees amounted to KD 21,850 thousand (2017: KD 24,667 thousand) and the valuation input categorized under level 1 of fair value hierarchy.

2017	Ownership	Total assets KD'000	Total liabilities KD'000	Net assets KD'000	Group's share of net assets/ carrying value of investments KD'000	Revenues KD'000	Expenses KD'000	Profit/ (loss) KD'000	Group's share of results KD'000
<i>Associates</i>									
	42.5%	2,087,950	1,918,192	169,758	72,147	1,100,805	976,053	124,752	53,020
EQUATE		350,587	176,008	174,579	74,196	176,550	97,042	79,508	33,791
TKOC	42.5%	167,607	25,286	142,321	47,436	73,448	72,616	832	277
GPIC	33.33%	346,088	251,064	95,024	46,562	77,053	72,855	4,198	2,057
KDC	49%	89,847	29,885	59,962	14,391	121,409	117,931	3,478	835
OULA	24%	72,820	13,526	59,294	14,231	120,411	117,010	3,401	816
SOUR	24%								
<i>Joint Ventures</i>									
	57.5%	183,321	89,192	94,129	54,124	148,918	116,470	32,448	18,658
TKSC		388,894	210,814	178,080	89,040	680,900	646,907	33,993	16,997
OKQ8	50%	2,013,900	1,350,975	662,925	232,687	-	26,040	(26,040)	(9,140)
NSRP	35.1%	5,701,014	4,064,942	1,636,072	644,814	2,499,494	2,242,924	256,570	117,311

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

In prior year, PIC acquired 25% of the issued shares of SK Advance Company Ltd. ("SK") for a purchase consideration of KD 30,341 thousand. SK is principally engaged in petrochemical industrial activities. At the date of acquisition, the fair value of acquired shares amounts to USD 118.4 per share as per the valuation carried out by an independent valuer. The valuer averaged fair value derived from three different valuation techniques which includes income based, market and transaction techniques. No goodwill nor gain on bargain purchase was recognised from this transaction.

## 11. Inventories

	2018 KD'000	2017 KD'000
Crude oil	136,832	150,169
Liquefied petroleum gas	32,516	26,956
Refined petroleum products	546,697	528,383
Finished petrochemical products	9,746	10,345
Spare parts, materials and supplies	441,284	498,498
	<u>1,167,075</u>	<u>1,214,351</u>

During the year, KUFPEC transferred inventories of KD 1,644 thousand to assets classified held for sale related to South East Sumatera Block in Indonesia (Note 16). In prior year, KNPC transferred inventories, net of provision, of KD 3,728 thousand to assets held for sale related to closure of SHU (Note 16).

Further to approval of ceasing fertilizer plant operations, PIC management impaired spare parts amounted to KD 10 million and recorded the loss in the consolidated statement of profit or loss and other comprehensive income.

## 12. Trade receivables

83% (2017: 83%) of trade receivables relates to the Corporation and one of its major subsidiary who deal mainly with state owned and international oil companies. Another major subsidiary operating mainly in Europe contributes approximately 11% (2017: 11%) of the consolidated total trade receivables and their receivables relate to a large number of corporate customers in that region. The Group's 12 largest customers account for 56% of outstanding trade receivables at 31 March 2018 (2017: 56%).

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

Trade receivables include KD 523 million (2017: KD 398 million) receivable from Ministry of Electricity and Water.

## 13. Other receivables and prepayments

	2018 KD'000	2017 KD'000
Advances to contractors	510,205	984,653
Receivable from exchange and concession partners	115,844	101,661
Marine sub-charter	36,166	31,207
Amount due from the Public Authority for Industry (PAI)	-	57,463
Prepaid expenses	33,385	29,215
Refundable deposits	16,930	13,225
Employee receivables	49,986	31,207
Other	359,190	323,591
	<u>1,121,706</u>	<u>1,572,222</u>

Amount due from the Public Authority for Industry (PAI) represents costs incurred by PIC to construct Sea Water Cooling Tower ("SCT") on behalf of PAI. PIC started construction of the SCT in May 2006 and was completed in 2009. On 19 November 2009, the Board of Directors of PAI approved the transfer subject to approval of Fatwa and Legislation Bureau ("FLB") which was obtained in October 2012.

On 15 August 2017, the Board of Directors of PAI assigned ownership of SCT to PIC subsequent to approval of FLB obtained on 23 August 2010. As a result, PIC transferred SCT related assets of KD 52,784 thousand and KD 4,679 thousand to property, plant and equipment and intangible assets, respectively (Note 5 and Note 7).

Furthermore, PIC recognised entire amount of KD 34,151 thousand related to net revenues generated from SCT operations till 31 March 2018 as other income (Note 27). In prior years, the above said amount was included in other payables and accruals.

#### 14. Deferred tax assets and liabilities

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

##### a. Income taxes

	2018 KD'000	2017 KD'000
<b>Profit or loss</b>		
Current year expense	17,138	15,177
Deferred tax expense / (reversal)	32,033	(21,147)
	<u>49,171</u>	<u>(5,970)</u>
<b>Consolidated statement of financial position</b>		
Deferred tax assets	355,651	451,778
Deferred tax liabilities (Note 21)	(97,095)	(184,235)
	<u>258,556</u>	<u>267,543</u>
<b>b. Taxes receivable/ (payable)</b>		
Taxes receivable	15,954	16,970
Taxes payable	(179,034)	(177,526)
	<u>(163,080)</u>	<u>(160,556)</u>

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

#### 15. Bank balances and cash

	2018 KD'000	2017 KD'000
Cash and current accounts at banks	732,393	1,314,008
Short-term bank deposits maturing within three months	35,426	1,210,088
Cash and cash equivalents	767,819	2,524,096
Short-term bank deposits maturing after three months	334,989	162,935
	<u>1,102,808</u>	<u>2,687,031</u>

Bank balances and cash include Pound Sterling 146 thousand, equivalent to KD 62 thousand (2017: Pound Sterling 181 thousand, equivalent to KD 69 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 (2017: KD 69 thousand) is reported under other credit balances (Notes 22).

The interest rate on short-term deposits ranges from 0.01% to 2.15% (2017: interest rate ranges from 0.03% to 1.85%) per annum.

## 16. Assets held for sale

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

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

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

	2018 KD'000	2017 KD'000
Balance at beginning of the year	40,731	-
Transfer from property, plant and equipment (Note 5)	3,567	37,003
Transfer from inventories, net (Note 11)	1,644	3,728
Trade and other receivables	4,313	-
Reclassification to property, plant and equipment (Note 5)	(1,925)	-
Reclassification to inventories	(724)	-
<b>Assets held for sale</b>	<b>47,606</b>	<b>40,731</b>
Decommissioning provision	639	-
Trade and other payables	3,258	-
<b>Liabilities classified as held for sale</b>	<b>3,897</b>	<b>-</b>

## 17. Statutory reserve

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

**18. Capital reserve**

The capital reserve mainly represents the difference between the Corporation's cost of acquisition of its original subsidiaries, which were transferred by the Government of the State of Kuwait, and their net asset values at 31 December 1979. No transfer to capital reserve has been made for the current year (2017: KD Nil).

**19. General reserve**

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

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

Article 10 of Law Decree No. 6 of 1980 states that the Corporation may provide part from its profits to meet the costs of replacement and renewal of the Corporation's and its subsidiaries' property, plant and equipment, after approval of the Supreme Council for Petroleum. The reserve is based on the difference between depreciation, calculated on the historical cost of the property, plant and equipment of the Corporation and its Kuwaiti subsidiaries, and depreciation calculated on the replacement cost of assets using their insured (generally replacement) values. The management has proposed to transfer KD 142 million to the reserve as at 31 March 2018 (2017: KD 100 million), which is subject to approval of the Supreme Council for Petroleum.

**21. Non-current liabilities**

	2018 KD'000	2017 KD'000
Employees' terminal benefits (Note 21.1)	1,100,740	823,784
Pension fund liabilities (Note 21.1)	29,992	32,860
Long-term loans (Note 21.2)	2,543,648	1,920,001
Deferred tax liabilities (Note 14a)	97,095	184,235
Provisions (Note 21.3)	53,515	61,294
Others (Note 21.4)	383,725	446,779
	<u>4,208,715</u>	<u>3,468,953</u>

**21.1. Employees' terminal benefits and Pension fund liabilities**

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

The latest actuarial valuations took place on 31 March 2018, and these showed that the funds and schemes in the United Kingdom, Belgium, Germany and Italy had a net deficit. The main assumptions used in the actuarial valuation were a rate of pension increase ranging from 1.75% to 3.1% (2017: 1.75% to 3.2%) per annum, an annual salary increase ranging from 0% to 4.7% (2017: 0% to 4.8%) per annum, a discount rate ranges from 1.5% to 2.6% (2017: 1.3% to 2.6%) per annum and inflation rate assumed ranging from 2% to 3.2% (2017: 2% to 3.2%) per annum.

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

#### *Sensitivity analysis*

A 0.25% increase/ decrease in the rate of pension increase, discount rate, annual salary and inflation assumed at 31 March 2018 would not have any significant effect on the pension fund liabilities as of that date.

### **21.2. Long-term loans**

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

#### *KARO*

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

#### *KPC-Aruba*

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

In prior year, a long term loan facility has been secured Milazzo Refinery, a joint operation. The Group's share of amount outstanding at the reporting date is Euro 60 million, equivalent to US\$ 64 million. The loan carries an interest rate at 3 monthly EURIBOR plus 3.25% and is repayable in 2020.

#### *KUFPEC*

As of 31 December 2017, KUFPEC had following two borrowings:

- i.* First borrowing facility with principal amount of US\$ 1,000 million, equivalent to KD 308 million, is unsecured and its average interest rate during 2017 was 2.14% (2016: 1.87%) per annum. It is repayable in 7 half yearly instalments of US\$ 143 million, equivalent to KD 44 million, starting from July 2015 and will be fully repaid in year 2018.
- ii.* Second borrowing facility with principal amount of US\$ 2,500 million, equivalent to KD 769 million, is unsecured and its average interest rate during 2017 was 2.50% (2016: 1.78%) per annum. It is repayable in 7 half yearly instalments of US\$ 357 million, equivalent to KD 110 million, starting from 2016 and will be fully repaid in year 2019.

**KNPC**

On 28 April 2016, KNPC entered into a long term loan agreement of KD 1.2 billion with a consortium of banks. Long term loans consists of conventional and islamic financing and is repayable in semi-annual instalments of KD 80 million from April 2019 till 28 April 2026. Long term loans carries an interest rate of 1% (2017: 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 utilised the amount under this facility.

Furthermore, 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 1,722 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 the Corporation and were specifically borrowed to finance CFP. As at 31 March 2018, KNPC drew down KD 931 million of the total committed ECAs Financing.

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

**KOTC**

On 15 March 2018, KOTC entered into a murabaha agreement ("Murabaha Financing") with three participating local banks to finance the construction of 8 new vessels comprising of 3 gas tankers, 4 product tankers and 1 oil tanker. The total approved facility is KD 140 million comprising of Tranche A and Tranche B amounting to KD 28 million and KD 112 million respectively. As per the agreement, Tranche A is given 6 months and Tranche B is given 45 days to drawdown the approved facility amount starting from 15 March 2018 and 15 September 2019 respectively. As at 31 March 2018, KOTC had drawdown KD 10,650 thousand from Tranche A. Murabaha Financing carries a profit rate of 3.45% per annum and is repayable in equal semi-annual instalments of KD 9,324 thousand starting from 15 March 2021 to 15 September 2027 with a final instalment amounting to KD 9,464 thousand payable on 15 March 2028.

**21.3. Provisions**

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

	<b>2018</b>	<b>2017</b>
	<b>KD'000</b>	<b>KD'000</b>
Environmental (Note i)	52,450	60,549
Restructuring and others (Note ii & iii)	1,065	745
	<u>53,515</u>	<u>61,294</u>

**i. Environmental**

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

**ii. Restructuring**

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

**iii. Other**

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

**21.4. Others**

As at 31 March 2018, non-current liabilities includes an amount of KD 300,120 thousand (2017: KD 309,385 thousand) which represents provision for decommissioning costs related to KUFPEC.

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

**22. Other payables and accruals**

	<b>2018</b>	<b>2017</b>
	<b>KD'000</b>	<b>KD'000</b>
Borrowings	605,110	549,659
Provision for annual leave and accrued compensation	147,746	150,626
Payable to contractors	595,296	268,165
Accruals	234,287	528,750
Retention payable	270,536	180,817
Payable to exchange partners	121,831	88,362
Other credit balances	428,898	285,842
	<u>2,403,704</u>	<u>2,052,221</u>

Borrowings represents short-term loans, including bank overdraft, and current portion of long term loans. Short-term loans are unsecured and bear interest at prevailing market rates (Note 21.2).

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

**23. Amounts due to Ministry of Oil**

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

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

**24. Profit available for distribution**

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

In reference to Supreme Council for Petroleum resolution no.2/114(2/2017) dated 8 August 2017, the Supreme Council for Petroleum decided to retain profit attributable to shareholders of the Corporation for the year ended 31 March 2017.

Subsequent to above, the National Assembly approved the consolidated financial statements of the Corporation for year ended 31 March 2017 and issued Law No.(84) dated 16 July 2018. The Law No. 84 superseded the Supreme Council for Petroleum's approval to allow the Corporation to retain profits and approved the distribution of profits for the above said year. As a result, the Ministry of Finance requested the Corporation to distribute and transfer the profits amounted to KD 1,296,850 thousand to the State of Kuwait. As a result, the Corporation adjusted its consolidated financial statements for the year ended 31 March 2018 by debiting and crediting general reserve and profit available for distribution with above said amount. The above did not have any impact on profit for the year or cash flows.

**25. Revenues from consultancy and other operations**

	<b>2018</b>	<b>2017</b>
	<b>KD'000</b>	<b>KD'000</b>
Marine operations	11,514	15,602
Merchandise and other services	58,628	47,666
	<u>70,142</u>	<u>63,268</u>

**26. Investment income**

Investment income mainly represents income from managed portfolios.

**27. Other income (net)**

	<b>2018</b>	<b>2017</b>
	<b>KD'000</b>	<b>KD'000</b>
Recovery of financial cost	324,203	272,636
Foreign currency exchange (loss) / gain	(40,373)	16,512
Income realised on transfer of SCT (Note 13)	34,151	-
Miscellaneous income- net	76,899	43,517
	<u>394,880</u>	<u>332,665</u>

**28. Directors' remuneration**

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

**29. Staff costs**

Total staff costs for the year amounting to KD 1,674,592 thousand (2017: KD 1,347,508 thousand) are included in cost of revenues and general and administrative expenses shown on the consolidated statement of comprehensive income. Of the staff costs for the year, KD 1,167,077 thousand (2017: KD 986,986 thousand) has been included in cost of revenues and KD 507,515 thousand (2017: KD 360,522 thousand) has been included in general and administrative expenses.

Staff costs consist of the following:

	<b>2018</b>	<b>2017</b>
	<b>KD'000</b>	<b>KD'000</b>
Salaries, wages and other benefits	1,626,427	1,313,209
Pension and other retirement benefit expenses:		
- defined contribution	8,154	9,316
- defined benefit	28,572	14,900
Compensation of key management personnel (Note 32):		
- short-term benefits	6,444	6,332
- termination benefits	4,995	3,751
	<u>1,674,592</u>	<u>1,347,508</u>

**30. UN compensation claims**

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

As at 31 March 2018, the Corporation received USD 12,932 million, equivalent to KD 3,900 million (2017: USD 12,932 million, equivalent to KD 3,900 million).

During the year, no compensation claims received from the United Nations (2017: KD Nil).

**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 'Available for sale' are stated at fair values except for certain investments carried at cost. For other financial asset and liabilities carried at cost less impairment or amortized cost, the carrying value is not significantly different from their fair values as most of these assets and liabilities are of short term maturity or re-priced immediately based on market movement in interest rates.

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

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

	2018 USD'000	2017 USD'000	2018 KD'000	2017 KD'000
Foreign exchange contracts	1,148,450	675,176	344,248	206,097

The net fair value of these contracts was asset of KD 1,679 thousand (2017: KD 2,106 thousand), level 2 inputs. The above amount is included in foreign currency exchange gain in the consolidated statement of profit or loss and other comprehensive income.

*Determination of fair value and fair value hierarchy:*

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

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

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

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

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

	<b>Level 1 KD'000</b>	<b>Level 2 KD'000</b>	<b>Level 3 KD'000</b>	<b>Total KD'000</b>
<b>2018</b>				
Available-for-sale financial assets	6,288,872	59,749	-	6,348,621
<b>2017</b>				
Available-for-sale financial assets	6,731,107	66,607	-	6,797,714

There have been no transfers between fair value levels during the year ended 31 March 2018.

The above table does not include KD 139 million (2017: KD 175 million) of available-for-sale financial assets that are measured at cost, less any impairment losses, and for which disclosure of fair value is not provided.

**32. Related parties**

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

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

	Associates and joint ventures KD'000	Other related parties KD'000	Total 2018 KD'000	Total 2017 KD'000
Purchases	2,633	-	2,633	2,258
Sales	188,882	-	188,882	193,365
Cost of production	38,233	-	38,233	33,196
Marketing fees received	1,155	-	1,155	1,542
Provision for doubtful debts	-	-	-	4,398
Compensation of key management personnel (Note 29)	-	11,575	11,575	9,741

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 2018 KD'000	Total 2017 KD'000
Non-current receivables from joint venture	192,677	-	192,677	127,435
Due from related parties	4,324	9,879	14,203	4,798
Trade receivables and prepayments	20,830	-	20,830	43,197
Due to related parties	21,912	5,726	27,638	4,471

### 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 56% (2017: 56%) of the Group's outstanding trade receivables is attributable to 12 customers (Notes 8 and 12). However, geographically there is no significant concentration of credit risk.

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

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

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

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

#### *Exposure to credit risk*

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

	<b>2018</b>	<b>2017</b>
	<b>KD'000</b>	<b>KD'000</b>
Other non-current assets (other than deferred expenses)	209,221	220,877
Available-for-sale investments	4,797,084	3,712,976
Trade and other receivables	4,273,276	3,541,513
Bank balances and cash	1,102,808	2,687,031
	<u>10,382,389</u>	<u>10,162,397</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:

	<b>2018</b>	<b>2017</b>
	<b>KD'000</b>	<b>KD'000</b>
Middle East	1,123,348	1,152,369
Europe (other than United Kingdom)	535,206	705,532
United Kingdom	176,578	97,955
Other regions	2,145,711	1,522,807
	<u>3,980,843</u>	<u>3,478,663</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:

	<b>2018</b> <b>KD'000</b>	<b>2017</b> <b>KD'000</b>
Government	1,305,066	1,129,728
Private sector	2,675,776	2,348,935
	<u>3,980,842</u>	<u>3,478,663</u>

#### *Impairment losses*

The aging of trade receivables at the reporting date was:

	<b>Gross</b> <b>2018</b> <b>KD'000</b>	<b>Impairment</b> <b>2018</b> <b>KD'000</b>	<b>Gross</b> <b>2017</b> <b>KD'000</b>	<b>Impairment</b> <b>2017</b> <b>KD'000</b>
Not past due	3,452,462	-	2,751,642	-
Past due not more than one year	457,155	-	413,630	-
Past due more than one year	92,085	(20,860)	117,347	(21,289)
	<u>4,001,702</u>	<u>(20,860)</u>	<u>3,282,619</u>	<u>(21,289)</u>

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

	<b>2018</b> <b>KD'000</b>	<b>2017</b> <b>KD'000</b>
Balance at 1 April	21,289	23,443
Provision recognised	3,804	618
Provision no longer required	(4,233)	(2,772)
Balance at 31 March	<u>20,860</u>	<u>21,289</u>

#### *Investments*

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

#### *Liquidity risk*

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

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

## 2018

	Carrying amount KD'000	6 months or less KD'000	6 to 12 months KD'000	1 - 2 years KD'000	2 - 5 years KD'000	More than 5 years KD'000
<b>Non-derivative financial liabilities</b>						
Long term loans and borrowings	3,294,558	45,018	457,428	-	1,629,018	1,163,094
Trade payables	1,223,738	-	1,223,738	-	-	-
Other payables and accruals	1,798,594	-	1,798,594	-	-	-
Taxes payable	179,034	24,251	154,783	-	-	-
Amounts due to Ministry of Oil	1,908,755	1,908,755	-	-	-	-
	<u>7,435,102</u>	<u>1,978,024</u>	<u>3,634,543</u>	<u>-</u>	<u>1,629,018</u>	<u>1,163,094</u>

## 2017

	Carrying amount KD'000	6 months or less KD'000	6 to 12 months KD'000	1 - 2 years KD'000	2 - 5 years KD'000	More than 5 years KD'000
<b>Non-derivative financial liabilities</b>						
Long term loans and borrowings	2,469,659	22,774	526,885	83,334	1,219,666	617,000
Trade payables	1,168,884	-	1,168,884	-	-	-
Other payables and accruals	1,502,562	-	1,502,562	-	-	-
Taxes payable	177,526	20,617	156,909	-	-	-
Amounts due to Ministry of Oil	1,990,838	1,990,838	-	-	-	-
	<u>7,309,469</u>	<u>2,034,229</u>	<u>3,355,240</u>	<u>83,334</u>	<u>1,219,666</u>	<u>617,000</u>

### **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.

	<b>2018</b>	<b>2017</b>
	<b>Equivalent</b>	<b>Equivalent</b>
	<b>position</b>	<b>position</b>
	<b>long/(short)</b>	<b>long/(short)</b>
	<b>KD'000</b>	<b>KD'000</b>
EURO	79,492	239,750
USD	7,383,848	8,728,080
GBP	41,197	131,112
AUD	-	101
JPY	70,505	200,757
BHD	(46)	(638)
Others	773,859	3,415,974

### **Sensitivity analysis**

A five percent strengthening of the KD against the following currencies at 31 March 2018 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 2017.

<b>Effect in thousands of Kuwaiti Dinars</b>		<b>Profit or</b>
	<b>Equity</b>	<b>(loss)</b>
<b>2018</b>		
EURO	(3,980)	(3,980)
USD	(389,686)	(368,235)
GBP	(2,063)	(2,063)
AUD	-	-
JPY	(6,526)	(6,526)
BHD	2	2
Others	(38,698)	(38,698)
	<u>(440,951)</u>	<u>(419,500)</u>

<i>Effect in thousands of Kuwaiti Dinars</i>	<b>Equity</b>	<b>Profit or (loss)</b>
<b>2017</b>		
EURO	(11,988)	(11,988)
USD	(436,404)	(101,277)
GBP	(6,556)	(6,556)
AUD	(5)	(5)
JPY	(10,038)	(10,038)
BHD	32	32
Others	(170,799)	(170,799)
	<u>(635,758)</u>	<u>(300,631)</u>

*Interest rate risk*

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

	<b>2018 KD'000</b>	<b>2017 KD'000</b>
<i>Variable rate instruments</i>		
Financial assets	5,360,176	5,213,434
Financial liabilities	<u>(3,148,758)</u>	<u>(2,469,659)</u>
Net exposure	<u>2,211,418</u>	<u>2,743,775</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 22,114 thousand (2017: KD 27,438 thousand).

*Other market price risk*

Equity price risk arises from available-for-sale equity securities. Management of the Group monitors the mix of debt and equity securities in its investment portfolio based on market indices.

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

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

*Sensitivity analysis*

For the majority of the Group's equity investments, quoted market prices are readily available. For such investments classified as available-for-sale, a 3% increase or decrease in stock prices at the reporting date would have increased or decreased equity by KD 39,340 thousand (2017: an increase or decrease of KD 85,702 thousand). The analysis is performed on the same basis for the year ended 31 March 2017.

### **Capital management**

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

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

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

### **34. Expenditure commitments**

#### *a) Operating lease commitments*

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

	<b>2018</b>	<b>2017</b>
	<b>KD'000</b>	<b>KD'000</b>
Future minimum lease payments:		
Within 1 year	36,199	35,951
Between 1 and 5 years	105,545	99,476
After 5 years	105,883	92,745
	<u>247,627</u>	<u>228,172</u>

#### *b) Other commitments*

	<b>2018</b>	<b>2017</b>
	<b>KD'000</b>	<b>KD'000</b>
Estimated contracted capital expenditure	3,865,031	3,026,894
Supply commitments	779,141	377,527
Share capital commitment	-	1,350,000

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

### **35. Contingent assets/ liabilities**

#### **Contingent assets**

##### *Legal case*

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

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

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

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

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

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

In parallel steps, the subsidiary has initiated civil cases in the United Kingdom, Switzerland, and other countries, and with the efforts of those working on the case, it won the case filed in the United Kingdom and obtained a judgment against three of the defendants for an amount of US Dollars 136,000 thousand excluding interest. In addition to this, the case ended with the rejection by the UK House of Lords on 10 December 2000 of the appeal submitted by Abdul Fatah Al-Bader. An amount of US Dollars 85,351 thousand has been collected till 7 May 2006. This collected amount was invested in deposits. The collected amounts along with interest till 7 May 2006 amounted to US Dollars 92,757 thousand (which has been subsequently distributed) plus an amount of US Dollars 6,200 thousand transferred by the Public Prosecution from the accused Hassan Qabazard and received by the subsidiary in Kuwait, which was invested in a deposit renewable with its interest thereon pending a decision on crime No. 275193. The deposit of USD 6,200 thousand along with accumulated interest reached US Dollars 13,157 thousand till 31 March 2016 (31 March 2015: US Dollars 13,157 thousand). Legal measures are being carried out to collect the remaining balance. However, the uncollected amounts of US Dollars 151,709 thousand pending in the liability of the accused parties

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

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

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

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

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

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

By virtue of the award of the Court of Appeal for the case No. 2228/2003 (commercial/total), filed by the subsidiary and the Parent Company against Ms. Noura Ali Al Muzaini and Mr. Abdul Fattah Sulaiman Khaled Al-Bader, based on the judgment of the Court of Appeal dated 31/3/2015 that the defendants shall pay the subsidiary and its Parent Company USD 1,000,000 equals to KD 352,001. The Parent company received its share amounting KD 151,834, and the same was deposited in its account on 9 January 2017. Regarding the amount due to the subsidiary as a result of the same judgment, the formalities are being process for creating a power of attorney to the subsidiary's lawyer to be able to receive the amount of KD 151,834 as per the said judgment.

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

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

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

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

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

*b. Dry Cargo (358/94 crimes)*

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

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

***Contingent liabilities***

- a. At the reporting date, the Group had contingent liabilities of approximately US\$ 35.9 million, equivalent to KD 10.76 million (2017: US\$ 70 million, equivalent to KD 21.4 million). These principally relate to a variety of tax, legal and regulatory disputes, all of which are being vigorously contested by one of the subsidiaries of the Group.

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

On 21 January 2013, Alitalia in temporary receivership summoned Kuwait Petroleum Italia S.p.a. and other oil companies before the Court of Rome for generic damages due to anti-competitive activities related to the supply of jet fuel. The Group's legal counsel confirms

the likelihood and existence of a contingent liability is possible. Because the amount requested is exorbitant and disclosure of potential loss could seriously prejudice the position of the Group, only the general nature of the dispute has been described. No amounts have been accrued in the consolidated financial statements. The most recent legal hearing was in March 2018 at which the judge formally appointed the expert.

There is a long outstanding claim for compensation relating to the sale of assets and equipment of the former Naples refinery. A legal ruling is expected to be in the second quarter of 2018.

Subsequent to the sale of Europoort refinery in 2016, the buyer has filed a legal claim for compensation relating to the price agreement. The case is being strongly defended. A hearing took place on 13 December 2017, in which the Court rejected all claims filed by the buyer. Formal ruling is expected to be in May 2018. Based on the nature of the claim and positive outcome of the hearing, no provision is recorded in the consolidated financial statements.

- b. In 2010, KOC, a subsidiary of the Corporation, signed a contract with a contractor with a value of KD 405 million for construction of a capital project. In 2015, the contractor completed the project. Subsequently, the contractor submitted a claim to KOC amounting to KD 750 million allegedly claiming price differences in certain materials used in the project. KOC's management had initiated necessary steps to resolve the dispute with contractor through the KOC's Dispute Resolution Committee ("DRC"), however, the contractor did not accept the proposed solutions by DRC. Consequently, the contractor commenced an arbitration proceeding in London Court of International Arbitration ("the LCIA") seeking payment of claimed amount. Currently, the case is pending before LCIA for hearings and discovery proceedings. In the opinion of the KOC's external legal consultant, the ultimate outcome of the matter cannot presently be determined and the claim is extremely weak, accordingly, no provision for any adverse financial effects on the Group, that may result, has been made in its consolidated financial statements.

Subsequently, on 17 August 2018 LCIA released its judgement on the above case and rejected claim amount of KD 750 million lodged by the contractor against KOC. Additionally, LCIA instructed the parties to settle the related costs.

### **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 2017 KD'000	31 December 2016 KD'000	31 December 2017 KD'000	31 December 2016 KD'000
<b>Statement of financial position</b>				
Total assets	880,290	932,717	354,658	387,480
Total liabilities	(149,078)	(161,076)	(60,725)	(50,696)
<b>Net assets</b>	<b>731,212</b>	<b>771,641</b>	<b>293,933</b>	<b>336,784</b>
Proportionate share in joint operation capital commitment	93,375	87,756	13,288	13,425

*Proportionate share in joint operating lease commitments*

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

	31 December 2017 KD'000	31 December 2016 KD'000
Not later than one year	11,465	12,371
Later than one years and not later than five year	5,642	24,985
Later than five years	1,038	1,475
	<b>18,145</b>	<b>38,831</b>

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

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

***Raffineria di Milazzo S.p.A.***

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

The investment in Raffineria di Milazzo S.p.A is accounted for using the proportional consolidation method. As at 31 March 2018, 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. Asset acquisition

#### *Current year acquisition*

In August 2017, KUFPEC acquired through its wholly-owned subsidiary KUFPEC Norway AS additional interest in Gina Krog field from Total E&P Norge AS for a base consideration of USD 317 million with effect from 1 January 2017. Consequently, KUFPEC's participation interest in Gina Krog fields increased to 30%. The acquisition was settled through cash consideration of USD 393 million, equivalent to KD 118,658 thousand and accounted for as an asset acquisition. The acquisition was completed in November 2017.

Detail of net assets acquired are as follows:

	<b>2018</b> <b>KD'000</b>
Property, plant and equipment	100,030
Working capital	5,437
Deferred tax assets	25,441
Decommissioning provision	(12,250)
Net assets	<u>118,658</u>

#### *Prior year acquisition*

In December 2016, the KUFPEC, through its wholly owned subsidiary KUFPEC Norway AS, acquired interests in a package of licenses on the Norwegian Continental Shelf. The licenses involved are the Sleipner licenses (producing - 9-10% share), Gina Krog (under development- 15% share), and Utgard (under development - 6% share) together with other exploration blocks - PL813, PL046B, PL046D and Eirin. The acquisition was settled in cash amounting to USD 396 million (equivalent in KD 121,691 thousand), and accounted for as an asset acquisition.

Detail of net assets acquired are as follows:

	<b>2017</b> <b>KD'000</b>
Property, plant and equipment	117,267
Trade and other receivables	5,810
Inventories	2,645
Deferred tax assets	41,524
Decommissioning provision	(36,818)
Trade and other payables	(8,737)
Net assets	<u>121,691</u>

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

	<b>2017</b> <b>(mmboe)</b>	<b>2016</b> <b>(mmboe)</b>
<b>Proved and probable reserves at beginning of year</b>		
- Fields in production	182.62	132.51
- Projects under development	322.74	323.45
	<u>505.36</u>	<u>455.96</u>
<b>Changes during the year</b>		
- Discoveries	18.87	13.88
- Revision of previous estimates	11.27	(38.14)
- Additions associated with acquisitions	33.61	113.46
- Production associated with acquisitions	(1.35)	(17.51)
- Production (from on-going projects)	(24.11)	(22.29)
- Reserves removed upon cancellation of acquisition	(53.61)	-
	<u>(15.32)</u>	<u>49.40</u>
<b>Proved and probable reserves at end of year</b>		
- Fields in production	480.86	182.62
- Projects under development	9.18	322.74
	<u>490.04</u>	<u>505.36</u>

Proven reserves are the quantities of crude oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Probable reserves are those additional reserves which are not yet proven but together with proven reserves are estimated to have a 50% or better chance of being technically and economically producible. Oil reserves include the oil equivalent of natural gas. Oil and gas reserves cannot be measured exactly since estimation of reserves involves subjective judgment and arbitrary determinations. Therefore, all estimates are subject to periodic revision. The above oil and gas reserves belong to one of the group companies and relate to the Group's reserves outside Kuwait.

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

**39. 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.

**40. Subsidiaries, associates and joint ventures****a) Principal subsidiaries registered in the State of Kuwait:**

<i>Directly held</i>		
<b>Name of company</b>	<b>Proportion held</b>	<b>Principal activities</b>
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) ("KGO")	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.
<i>Indirectly held</i>		
<b>Name of company</b>	<b>Proportion held</b>	<b>Principal activities</b>
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:**

<b>Name of company</b>	<b>Country of incorporation</b>	<b>Principal activities</b>
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**

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

**d) Principal joint ventures**

<b>Name of company</b>	<b>Country of incorporation</b>	<b>Effective equity interest as at 31 March 2018</b>
The Kuwait Styrene Company K.S.C.C. ("TKSC")	Kuwait	57.5%
OKQ8 AB ("OKQ8")	Sweden	50%
Nghi Son Refinery Product ("NSRP")	Vietnam	35.1%
Duqm Refinery and Petrochemical Industries Company L.L.C. ("DRPIC")	Oman	50%

**e) Principal joint operations**

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

**41. Subsequent events**

On 11 June 2018, KIPIC, a wholly owned subsidiary of KPC, entered into long term loan agreement (“Facility”) of KD 390 million with a consortium of banks. The Facility consists of both commercial and Islamic financing and is repayable in variable instalments by 2031. This facility is unsecured and carries interest rate of 0.750% per annum above Central Bank of Kuwait discount rate. Additionally, KIPIC drew down entire funding amounted to KD 390 million.

On 26 July 2018, KUFPEC, a wholly owned subsidiary of KPC, entered into a five-year unsecured term loan agreement with 2 years grace period amounting to USD 1.1 billion with a consortium of banks. This conventional financing is repayable in seven equal semi-annual instalments starting from 24 months after the facility date. Additionally, KUFPEC drew down entire funding amount of USD1.1 billion, which carries nominal interest rate of LIBOR plus 0.75% per annum.



