Remarkable Efforts

Annual Report 2019-2020



Kuwait Petroleum Corporation
and subsidiaries

مؤسسة البترول الكويتية
وشركاتها



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His Highness the Emir of the State of Kuwait

Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah

May Allah Protect and Bless Him







His Highness the Crown Prince of Kuwait

Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah

May Allah Protect Him



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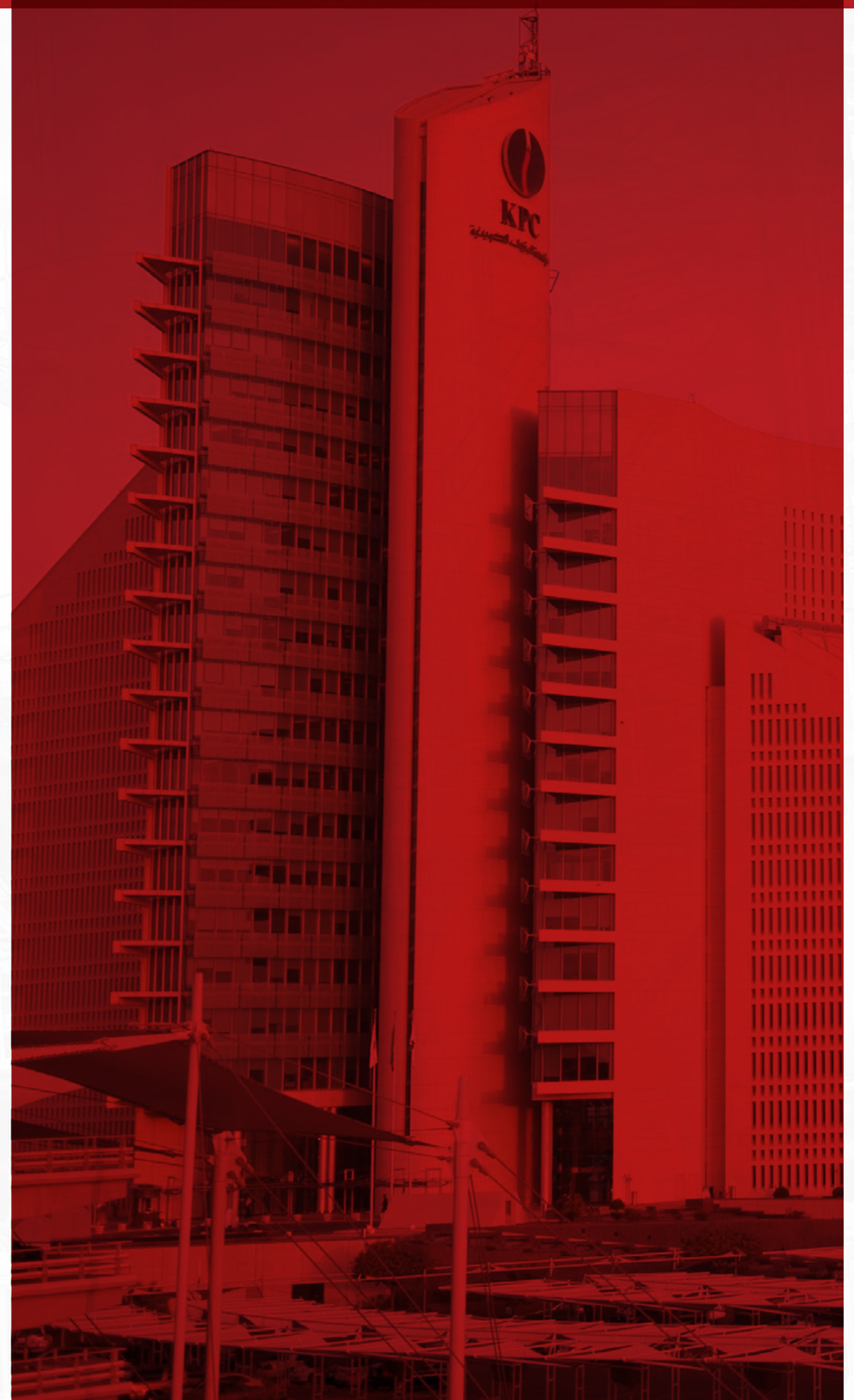
KPC Mission

We are working towards achieving the optimal value of Kuwait's hydrocarbon resources through conducting our operations around the world on a commercial basis in an integrated and sustainable manner, while providing our employees with growth opportunities, as well as contributing to the development of Kuwaiti economy.

KPC Vision

To be a world leader in the integrated oil and gas industry by:

- **Leveraging innovation to maximize profitability.**
- **Achieving excellence in our operations and working with qualified and ambitious cadres.**
- **Acting as a safe and secure supplier.**
- **Delivering objectives in an efficient and effective manner.**
- **Adhering to health, safety and security standards.**
- **Preserving the environment.**



KPC Values

Partnership
Building and sustaining relationships that support growth and enhance operational excellence.

Caring for the human
Creating a culture where people develop and grow, and are positively motivated to contribute to the success of others.

Commitment to HSSE
Respecting the environment, and ensuring safety security, and the promotion of a healthy workplace wherever KPC operates.

Pride
Creating employee satisfaction on an individual level and promoting a sense of loyalty and belonging to KPC.

Integrity
Acting in a trustworthy manner with the highest standards of ethics, respect, and honesty.

Innovation
Developing and embracing new ideas, methods, and approaches to solving challenges that create value.

Excellence
Encouraging high performance, continuous improvement, and a customer focus.

One team
Caring for the interests of KPC and ensuring alignment to achieve corporate and State goals.

KPC Board of Directors



Dr. Khaled Ali Al-Fadhel
Minister of Oil & Chairman of the Board
Minister of Electricity and Water



Hashem Sayed Hashem
Chief Executive Officer
Kuwait Petroleum Corporation



Sami Al-Rushaid
Board Member



Wael Al-Asousi
Board Member



Abdulghafar Al-Awadhi
Board Member



Jamal Al-Nouri
Board Member



Fadhel Safar
Board Member



Dr. Mohammad Al-Fares
Board Member



Abdulaziz Al-Jaber
Board Member

CEOs and Managing Directors of KPC and Subsidiaries



Emad Sultan
Kuwait Oil Company



Waleed Khaled Al-Bader
Kuwait National Petroleum Company



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



Ali Abduljaleel Shehab
Kuwait Oil Tanker Company



Mutlaq Rashid Al-Azmi
Petrochemical Industries Company



Hatem Ibrahim Al-Awadi
Kuwait Integrated Petroleum Industries Company



Abdullah Al-Sumaiti
Kuwait Gulf Oil Company



KPC Chairman's Statement

Kuwait Petroleum Corporation (KPC) is taking steady steps towards a bright future for us and for the coming generations to achieve excellence and leadership and work in a team spirit supported by the efforts and thoughts of its people in all sectors and inspired by the KPC's 2040 Strategic Directions , consistent with Kuwait's comprehensive and sustainable development vision "New Kuwait 2035" led and supported by His Highness the Emir Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah (may Allah protect and bless him).

Proceeding from its mission, vision and values, KPC and subsidiaries have been firmly working to manage and develop oil wealth, maximize its value and develop the capabilities of its labors through its integrated chain of operations, at a steady pace and a flexible vision that keeps up with regional and global developments.

In this context, it is my pleasure, on my own behalf and on behalf of the members of the Board of Directors, to extend my sincere thanks and gratitude to all employees of KPC and its subsidiaries for their determined and strenuous efforts exerted during financial year 2019-2020, which resulted in bringing out significant progress and tangible growth in various oil segments, from exploration and production operations, through export operations, maritime transport and petrochemicals, to serious efforts made to achieve integration between refining and petrochemical industry, despite significant challenges witnessed during the financial year 2019-2020 arising out of the accelerated pace of changes in the oil and gas markets, including increased supply and pressure on oil prices, rapid progress in technology, development of environmental laws and policies for clean fuels, and their impact on the traditional oil industry.

KPC and subsidiaries have conducted many operations, the most important of which are refining 619 KBPD of crude oil and producing 2.8 MBPD and producing 502 MCF/D of free gas. Production of heavy oil commenced with a capacity reaching 23 KBPD of heavy oil, while the marine fleet amounted to 29 tankers operating in various marketing operations for various products. In addition, production of petrochemical products amounted to 6.935 million tons per annum, including investments and partnerships outside the State of Kuwait, while achieving a refining capacity of 275 thousand barrels of Kuwaiti oil in international refineries jointly owned by KPC.

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

Proceeding from the KPC's keenness to employ national cadres, 1,053 Kuwaiti candidates in were appointed at KPC and subsidiaries. Kuwaitization rate in KPC and subsidiaries reached 86.6%, making the oil sector one of the highest among government agencies in applying the national employment rates during the financial year 2019-2020.

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

Furthermore, KPC and subsidiaries have been keen to implement the highest standards of health, safety, security and environment (HSSE) with the aim of keeping pace with global performance levels through the adoption of strict HSSE-related standards and regulations in all locations in which KPC and subsidiaries operate.

KPC and subsidiaries have long been keen to implement various quality initiatives and social projects out of of their corporate social responsibility (CSR), in cooperation with partners of civil society organizations in various sectors of the State of Kuwait. In confirmation of their pioneering role in this field, KPC and subsidiaries have exerted all possible efforts to help various entities in the face of repercussions of Covid-19.

This report is the fruit of a year of hard work, tireless continuous efforts, and unified endeavors of the Kuwaiti oil sector with the purpose of achieving the required production capacity, securing an atmosphere of cooperation with international companies, exchanging experiences across continents, and getting advanced technology, all in order to accomplish the Strategic Directions aimed at attaining a globally pioneering position.

Today, we present this report while realizing that the oil and gas sector is witnessing a very intense competition, but excellence is for the best and for those who know the secrets of success the most important of which is flexibility in addressing various challenges. We cannot secure this excellence except through having capabilities and experiences and following up on the latest technological developments. In order to achieve this, we must have full confidence in our human and material components and creative energies, provide support to creativity and motivation using the best technique, and promote fruitful and constructive cooperation with our partners around the globe, all in order to bring about a future that satisfies our ambitions and steadily pushes us towards peaks of success.

Dr Khaled Ali Al-Fadhel
Minister of Oil
and Minister of Electricity and Water
Chairman of the Board of Directors, Kuwait Petroleum Corporation



KPC CEO's Statement

We at KPC believe that achieving operational excellence and creating opportunities for expansion and growth begins with developing the capabilities of our human cadres and preparing integrated programs of strategic objectives and plans, using a set of the best practices and techniques to enable us to achieve a qualitative transformation in our operations and financial returns and promote KPC's role in support the local economy. Since the oil industry has always been facing various challenges, it is important for us to re-energize our cadres, refine their capabilities, and prepare leaders and managers to take full responsibility at any time, through a basic rule based on consolidated thoughts, mutual understanding and constructive cooperation, to drive development processes forward and towards achieving New Kuwait 2030 vision.

Despite the difficult local, regional and international circumstances witnessed in the fiscal year 2019-2020, in addition to Covid-19 pandemic, which is still casting a shadow on the world, KPC and subsidiaries have accomplished outstanding achievements in various oil sectors, thanks to the efforts of the oil sector labors in various segments from production and exploration to exporting operations, through to refining and petrochemical sectors, while working to achieve leadership in HSSE and striving to take tangible steps in the field of renewable energy.

As we look forward to the future with confidence, it is worth noting that the KPC Strategic Directions have been updated until 2040, the most important direction being gradually increasing the sustainable production capacity of crude oil in the State of Kuwait to reach 4 MBPD in 2035 while maintaining this rate until 2040. In pursuit of this goal, KPC proceeded to produce heavy oil from the Lower Fars reservoir, where the production capacity reached 23 KBPD of heavy oil, thereby positioning Kuwait among the world's heavy oil-producing countries. The key achievements during the financial year include the historic agreement between the State of Kuwait and the sisterly Kingdom of Saudi Arabia regarding the resumption of production from oil fields in the Divided Zone between the two countries, after nearly 5 years of production suspension.

It should also be noted that the most prominent achievements in the oil sector during the financial year 2019-2020 in the refining sector include the noticeable progress accomplished in implementing environmental fuel programs, Al-Zour refinery and permanent facilities for importing liquefied natural gas (LNG), which are expected to be gradually operational during 2020.

As for the expansion in petrochemical industry and the promotion of global investments, a deal has been successfully executed to acquire existing specialized petrochemical plants in Korea, in addition to the commencement of one of the world's largest ethylene glycol production plants in the United States of America in September 2019, implemented by ME-global, a subsidiary of EQUATE. In addition, a deal to enter the North American markets is underway through establishing a partnership with Pembina for the production of polypropylene. The KPC's International Marketing Sector has sought to maximize the value of Kuwaiti hydrocarbons by marketing them in safe, diversified and long-term markets through what has been accomplished during the financial year 2019-2020 and obtain an outstanding marketing experience to compete in increasing the global market shares of Kuwaiti oil, Kuwaiti petroleum products and liquefied gas to achieve the highest revenues for the State of Kuwait while excelling in managing the various KPC operations. It is worth mentioning that the efforts of the International Marketing Sector are centered around increasing the market shares of Kuwaiti oils particularly in Asia, starting with India whose market is considered the fastest growing market in Asia, where a contract was concluded with one of the largest companies to supply them with liquefied petroleum gas (LPG). Operations is also expanding in the Chinese market through concluding Kuwaiti crude oil contracts with major Chinese governmental and private companies and new refineries in China. Furthermore, a new contract was signed with a Korean company for the first time to market Kuwaiti light crude oil. Strategic initiatives are currently being evaluated to raise the KPC level of competition through adhering to best practices, including adopting the best trading technique and building/leasing tanks outside the State of Kuwait.

KPC's International Marketing Sector has been striving to maximize the value of Kuwaiti hydrocarbons by marketing them in safe, diversified and long-term markets during the financial year 2019-2020, in an effort to increase the global market shares of Kuwaiti oil, Kuwaiti petroleum products and liquefied gas to gain the highest revenues for the State of Kuwait, despite the challenges facing economy this year.

As for maritime transport, Kuwait Oil Tanker Company (KOTC) has maintained the size and quality of the marine fleet necessary to meet the needs of long-term strategic cover and marketing needs in line with the targeted production rates within the State of Kuwait during the financial year 2019-2020. Five tankers were launched, three of which are new giant liquefied gas carriers and two are new medium-size petroleum product carriers, bringing the company's fleet to twenty-nine carriers with a total fleet tonnage of nearly 4.34 million metric tons. This annual report sets out in detail the efforts and achievements made for the past year, and the vision of the bright year to come, in a manner inclusive of the various segments of oil and gas industry, in line with the global perspective of this important industry, thereby professionally and efficiently serving the decision-making process.

Given that we are on the brink of new global challenges and projects aimed at promoting oil industry in line with the Strategic Directions updated until 2040, particularly in light of the outbreak of the emerging Covid-19 pandemic, which will greatly change the global map, we had to benefit from our previous experiences and expertise to maintain our leadership in the oil industry.

We hope that next steps of success will be based on well-established grounds and accelerated efforts for the sake of future generations to achieve the public interest and benefit of the State of Kuwait in particular and the oil industry in general.

May Allah guide us all for the good of our beloved country, Kuwait

Hashem Sayed Hashem
Deputy Chairman of the Board of Directors
CEO, Kuwait Petroleum Corporation

KPC at a Glance

Some of the most prominent and key operations were conducted by KPC and subsidiaries during the financial year 2019-2020.

Refining 619.4 KBPD of crude oil within the State of Kuwait

Producing 2.8 MBPD of crude oil

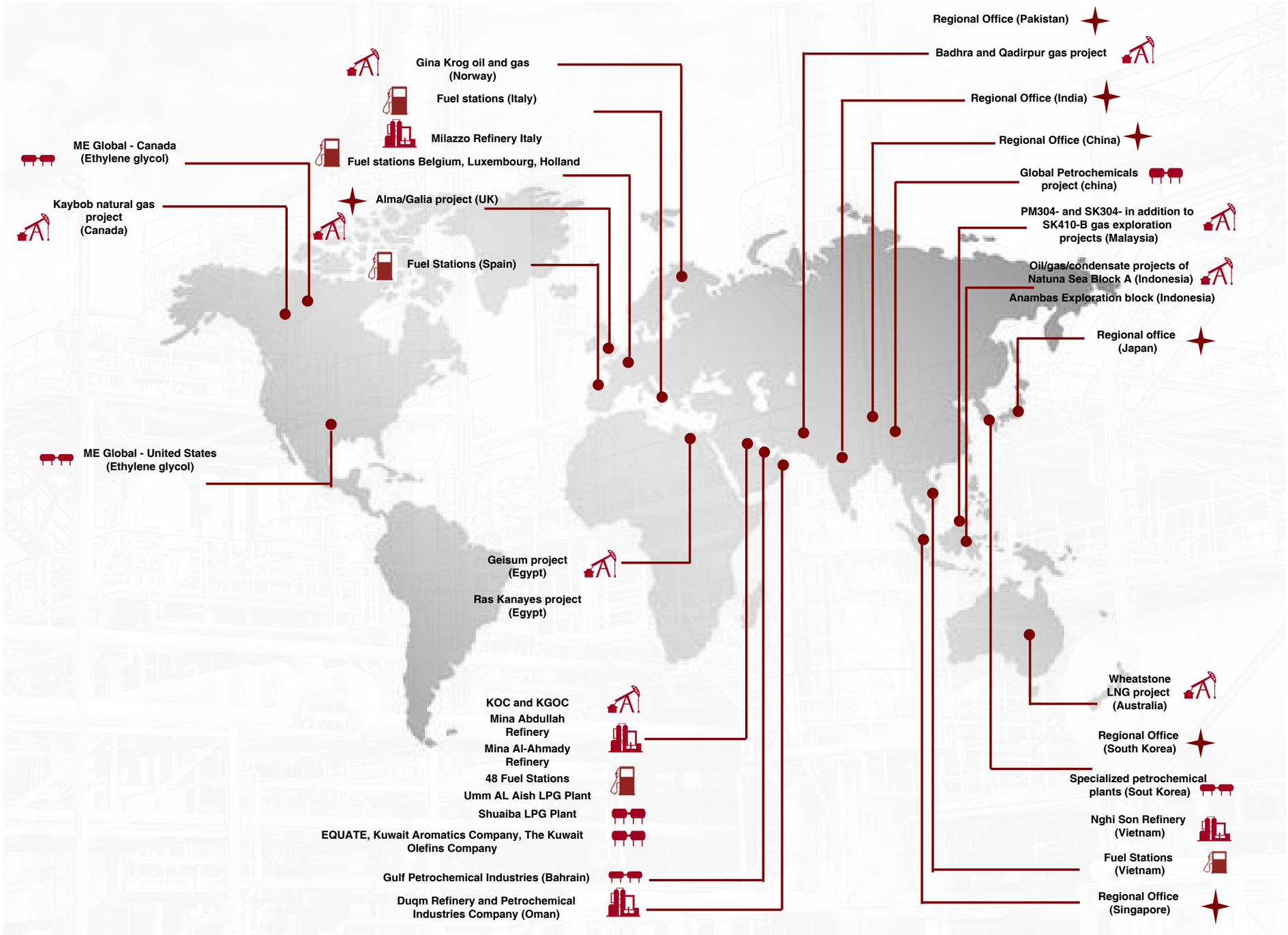
Producing 502 MCFPD of free gas

Maritime Fleet consisting of 29 tankers used for marketing various products

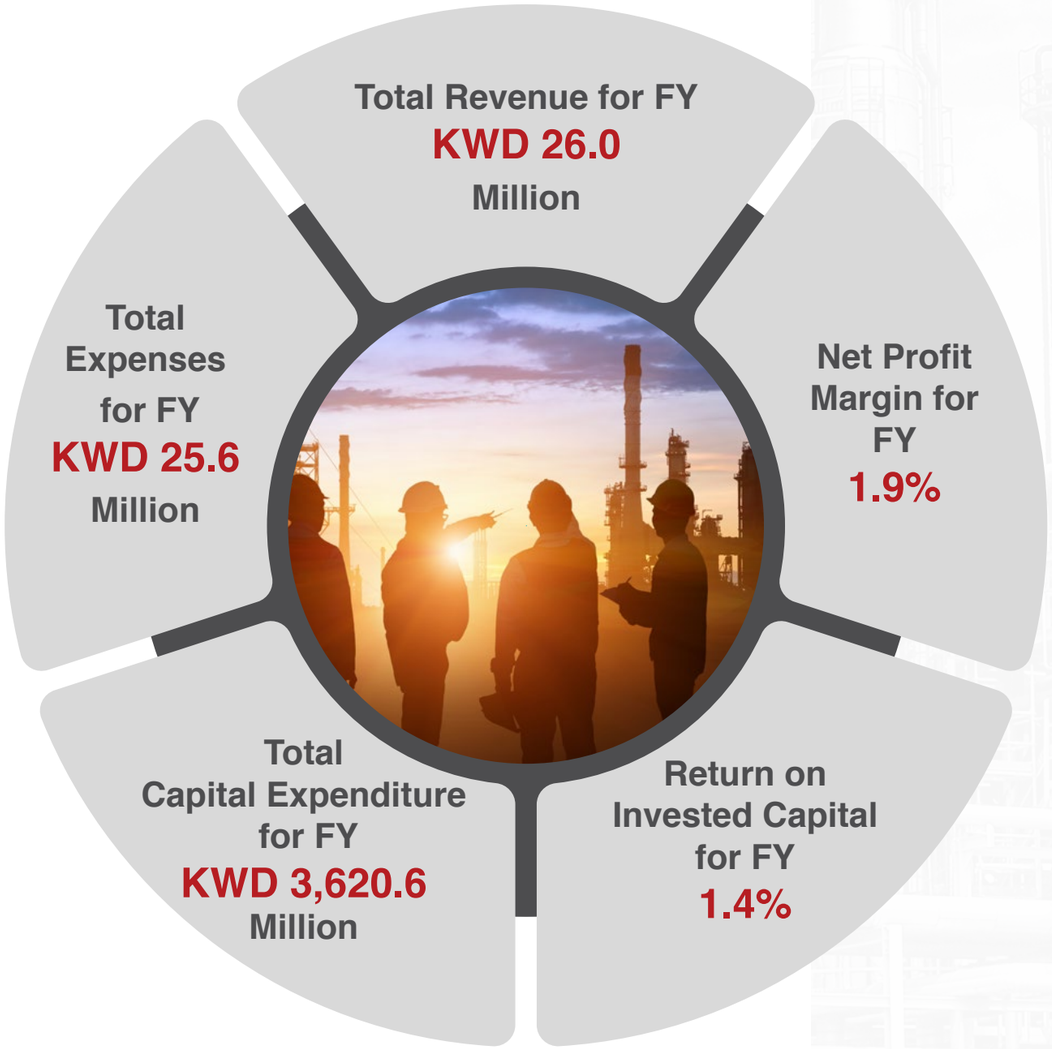
Producing 6.935 million tons per annum of petrochemical products, including investments and JV abroad

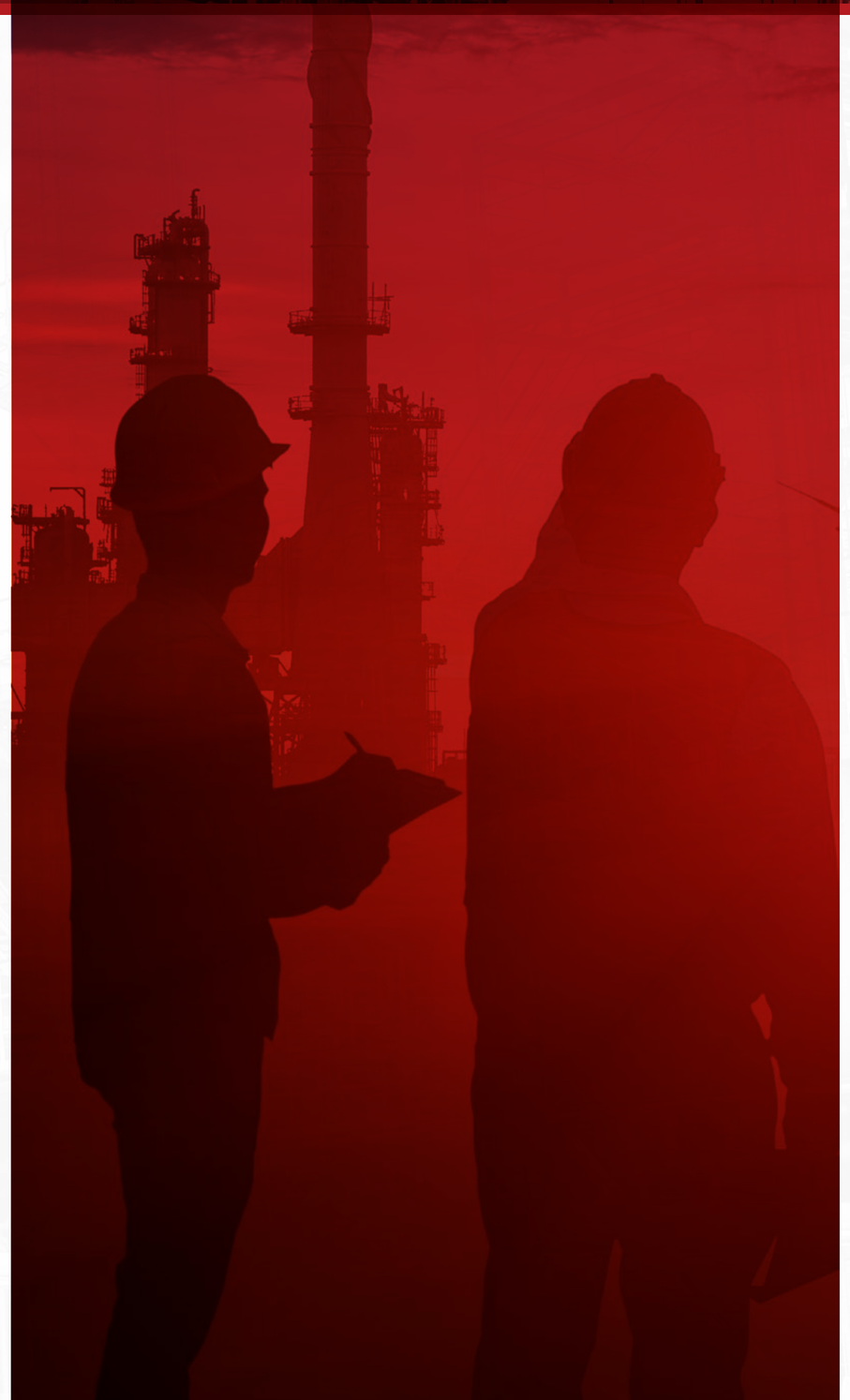
Refining 160.0 thousand barrels of Kuwaiti oil in global refineries jointly owned by KPC

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



The KPC Financial Performance for the Financial Year 2019-2020





The Circumstances and Developments of Global Markets during the Financial Year 2019-2020

The financial year 2019-2020 wa characterized by economic challenges all over the world, including the local economy which was affected by the decline of oil production levels as a result of the State of Kuwait's commitment to reduce its production in accordance with the OPEC Plus agreement, in addition to decrease in the average price of crude oil during the year affected by low levels of global economic activity. The rate of Gross Domestic Product (GDP) amounted to nearly 3%, resulting in an increase in oil demand by about 1 MBPD compared to 2018, bringing the total demand for oil during 2019 to about 99 MBPD. Most of this increase in oil demand came from the Asia region, especially China and India.

As for global oil supplies, in light of the OPEC agreement aimed at maintaining the stability of global oil markets by reducing production, which came into force in 2019, the petroleum products markets continued to be balanced in terms of supply and demand, and prices remained stable throughout 2019 until the first quarter of 2020, i.e. before the outbreak of COVID-19 pandemic, resulting in KPC's maintainance of its market shares of Kuwaiti crude oil in Asian markets with the highest economic returns.

The demand for LPG was good during the financial year 2019-2020. The Asian markets, which had nearly half of the global demand (mainly from China, India, Japan, Indonesia, as well as South Korea), witnessed the largest deficit in global supplies during 2019-2020. In contrast, the main LPG exporting regions were the United States and the Middle East (which together account for nearly half of global production). Accordingly, KPC significantly increased its shares in the growing Asian markets by noticeably expanding in both the Chinese market and the Indian market, in addition to maintaining a presence in traditional markets such as Japan and South Korea. However, LPG prices declined to about $453 per ton (on average) for contracts' reference price based on Aramco's pricing in Asian markets, while the prices reached $440 per ton (on average) according to the Far East Index, representing a decline of 25% from the prices of the financial year 2018-2019.

The global oil markets of naphtha products were stable during the financial year 2019-2020. However, due to the outbreak of the emerging Covid-19 pandemic at the beginning of the current year, the markets witnessed a sharp decline in the demand for oil and its products, causing a drop in prices.

In addition, The Middle East markets of gasoline product witnessed an increase in demand, as quantities were imported from the Asian market to meet the market demand of this product. KPC imports approximately two shipments of gasoline product per month, through spot tendering to obtain the best competitive prices, with the aim of fully securing the local market needs of this product due to the decrease in its local production following the closure of the Shuaiba refinery and the increase in local demands.

During the financial year 2019-2020, the demand for aviation fuel continued to increase at the previous stable annual rates of 3%, which reflected positively on KPC's maintenance of its market share in the most prominent and largest global markets until before the outbreak of Covid-19 pandemic.

On the other hand, 2019 was a year full of challenges for the bunker fuel market due to the change in bunker fuel specifications imposed by the International Maritime Organization (IMO), which entered into effect at the beginning of 2020 by reducing the sulfur percentage to 0.5%. As a result, markets began to change the bunker fuel and use it as per the new specifications since October 2019 to ensure the readiness of ships, which led to a decline in the prices of high-sulfur bunker fuel 380 and an increase in the prices of low-sulfur bunker fuel.

The levels of spot market prices for LNG decreased during the financial year 2019-2020, as a result of the increase of production quantities in the United States, Russia, and Australia, while the rates of global demand for the product did not witness any significant change. At this time, KPC signed a long-term contract with Qatar Petroleum to import LNG at competitive prices.

Imports of fuel oil from global market were also reduced, and the demand of electric power plants was covered using locally produced fuel oil and crude oil as required by national interest, in line with economic, operational and strategic considerations, to promote dependence on local production, and not expose the strategic needs of power plants to changes and fluctuations in global market in these exceptional circumstances.

The petroleum coke prices were stable due to lack of refinery production and the scarcity of the product, in addition to the fact that Chinese refineries were facing an increase in demand for exporting outside China and prices were constantly slowing down due to lack of demand.

It is worth noting that the refining margin during 2019 was about $0.82 per barrel when refining Dubai benchmark crude in Singapore's high-conversion refineries (Hydrocracker), while the refining margin for Brent benchmark crude in Northwest Europe was about $3.7 per barrel of the same quality refineries (Cranking).

In light of the current conditions witnessed in the world due to the outbreak of the emerging COVID-19, the global demand for aviation fuel decreased during the first quarter of 2020 by nearly 60% of the normal rates for the same period in previous years because of the closure of the airspace. However, KPC maintained its marketing contracts with its customers due to the well-established relationship between the two parties. The impact of the Corona crisis on the gas oil product was lower than its impact on aviation fuel, due to the increasing land freight operations to secure consumer and medical supplies, in addition to the harvest season in which demand for gas oil increased. However, the percentage of demand decreased compared to last year for the general isolation measures aimed at stopping the spread of Corona virus, at a time when producers reduced supplies after the decline of demand.

KPC has taken quick measures to change the production pattern of Kuwaiti oil refineries to convert the intermediate derivatives of the refineries from aviation fuel to gas oil to increase profit margin. The Marketing Sector has also relied on the close relations with the KPC's customers to dispose of the surplus quantities of petroleum products (aviation fuel and gas oil) to the KPC's customers, in addition to using many marine tankers as floating tanks, in the hope of resuming global demand for products after the easing of the economic closure and the recovery of demand for oil and other products.

As for global petrochemical markets, the financial year 2019-2020 witnessed a sharp decline in the prices of various petrochemical products, negatively affected by the application of partial and total lockdown policies, which included many ports, road transport sectors and railways related to supply chain operations and logistical support for petrochemical products. This led to a declining demand in all competitive markets and an increasing supply due to the inability to access the sales channels of these petrochemical products applications, resulting in a decrease in the prices of olefins and aromatics products, where the prices of the polypropylene product decreased from the selling price of $1,000 per ton in January 2020 to $730 per ton at this time, as well as in the prices of petrochemical aromatics, where the price of the paraxylene product decreased since the beginning of the year from $850 to $400 per ton as the lowest trading price in the petrochemical aromatics markets. In contrast, the prices of chemical fertilizers of urea product decreased from $235 to $225 per ton, marking a slight decrease in its price, while the demand for chemical fertilizers remains relatively high as a result of its relevance to food security, agricultural activities and crops.

In an effort to face these challenges and reduce the effects of the global crisis, a number of measures have been taken, the most important of which is to maintain the continuity of fulfilling futures and spot contracts over the coming period and until the end of 2020, in order to ensure the safe operation of the aromatics complex to avoid production suspension, as well as the polypropylene plant in Kuwait and Vietnam and the urea and ammonia plants in the Kingdom of Bahrain, while maintaining the shipments of aromatic products vessels (paraxylene) in accordance with the concluded shipping contracts (COA, CVCC) to avoid entering the shipping markets and chartering vessels at this time, due to higher freight charges and risks compared to concluded contracts.

All the above posed double operational challenges to the oil sector, but the efforts exerted by leaders of the oil sector were clear and sufficient to address these challenges. A number of huge oil projects are under commercial operation in 2020. Perhaps the most prominent of these projects that will be addressed later are the Environmental Fuel Project and the Al-Zour Refinery Project.

Operational Performance Exploration and Production within the State of Kuwait

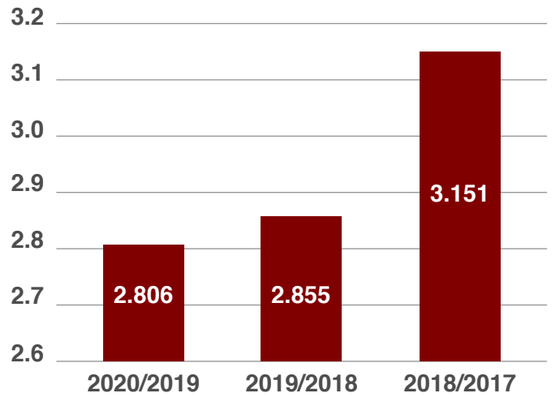
Crude Oil

The production capacity of Kuwait Oil Company (KOC) amounted to 2.806 MBPD of oil during the financial year 2019-2020, with the aim of gradually increasing the sustainable crude oil production capacity in the State of Kuwait (including the Divided Zone) to reach 3.5 MBPD in 2025. The share of KOC is 3.2 MBPD.

In pursuit of the KPC Strategic Directions, KOC has continued its efforts to increase and enhance the production capacity of crude oil, to overcome obstacles and conduct several projects aimed at reaching the target production. These efforts are still being exerted to reach the intended production capacity for the coming years. In this context, the heavy oil central production facility was commissioned to produce heavy oil from the Lower Fars reservoir (Ratqa field) in October 2019. The production capacity of heavy oil reached 23,000 BPD. The injection of water vapor into heavy oil reservoirs started from mid-January 2020, and the first artificial lift pump entered into operation on February 24, 2020. Then, the heavy oil central production facility and associated facilities for crude oil processing operations were commissioned. The heavy oil was also started to be transported to the southern tanks on March 26, 2020, in preparation for its international marketing and sales.

As for enhanced oil recovery, the world's first single-well chemical tracer project for polymer injection technique, as a thickening agent, has been successfully carried out. The water saturation rate in the Lower Fars reservoir has been reduced to 19% after polymer injection. This step will be followed by a multi-well field application to monitor and evaluate the technical and economic feasibility in a more accurate way in preparation for the commercial application of the polymer injection technique.

Average Production Capacity of Crude Oil (million barrels of oil/day)



The second phase of the project of enhanced oil recovery using chemical injection technique was launched in the Sabriya Mawdood reservoir in November 2019, being the first project in the world to use this technique in a carbon reservoir. The second phase of treated water injection comes as an initial step to chemical injection after about two years of the first phase of the project, which is of great strategic importance for the State of Kuwait.

In addition to the above, bunkering operations were resumed on August 1, 2019 (after being suspended for 7 years) through single point moorings 20 and 21 by establishing a link between the 20" and 24" bunker fuel lines. This achievement contributes to improving the efficiency of export operations and increasing oil exporting capacity. The new single point mooring called "Blue Water" was opened in December 2019. It is a deep-water facility used to dock and load giant ships, in addition to pumping oil at high rates. It also serves to bunker visiting ships, which contributes to maintaining export efficiency.

As for the Divided Zone, KPC and subsidiaries's updated 2040 Strategic Directions aim at producing 300 KBPD in 2025, which represents the share of the State of Kuwait in the onshore Divided Zone and offshore Divided Zone between the State of Kuwait and the Kingdom of Saudi Arabia. Perhaps one of the most important achievements during the financial year 2019-2020 is the conclusion of the agreement to resume operations in the Divided Zone between the State of Kuwait and the Kingdom of Saudi Arabia in December 2019 after negotiations that lasted for months. The key features of this agreement include:

- Reaching an agreement as between the State of Kuwait and the Kingdom of Saudi Arabia about the production levels of the onshore Divided Zone and offshore Divided Zone,

- Updating the operating agreements applicable to the Wafra Joint Operations (WJO) and Khafji Joint Operations (KJO), and agreeing on appropriate mechanisms for the future exploitation of the joint wealth from the fields extending beyond the boundaries of the onshore Divided Zone and offshore Divided Zone,

- Making the necessary arrangements for the Kuwait Gulf Oil Company (KGOC) to own a half share of the existing export facilities owned by the Saudi Arabian Chevron Inc. in the Al-Zour region, and

- Accelerating oil production resumption from the onshore Divided Zone and the onshore Divided Zone, and the development and exploitation of the Al-Durra field.

In light of this agreement, production from KJO began after being suspended for more than 5 years. At the end of March 2020, the production capacity amounted to nearly 90 KBPD. The first shipment of Khafji oil amounting to approximately 950 thousand barrels was exported in the first week of April 2020. Preparations are currently underway to resume production from the Wafra field. In the context of the company's preparations to resume operations in the Divided Zone, periodic maintenance has been carried out for more than 1,200 wells in WJO region to ensure the safety and complete readiness of those wells.

Despite the continued suspension of operations in the Divided Zone, KGOC continued its efforts during the production halt to ensure the quick resumption of production and maximize the strategic value of oil production. Therefore, data on the 3D seismic survey of the entire onshore part of the Divided Zone between the State of Kuwait and the Kingdom of Saudi Arabia has been completely considered and analyzed, to qualify KGOC to coordinate with the Saudi partner in the Divided Zone to match this data and determine the activities and projects that will contribute to maximizing the strategic value of the common natural resources. In addition, 95% of the project of drilling, completing and equipping 39 appraisal wells in the Wafra field has been carried out and the entire project is expected to be completed in December 2022. On the other hand, KGOC sought to intensify efforts to complete the project of installing a new oil pipeline to transport Hout crude in the KJO region.

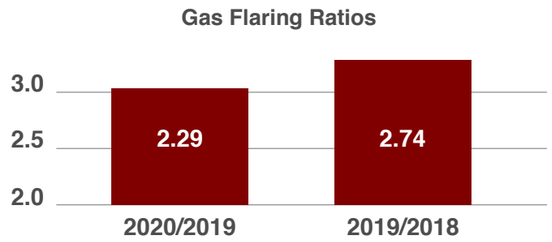
Gas

Proceeding from the belief in our ability to achieve the aspirations of the State of Kuwait to meet the local needs of natural gas for the production of environmentally friendly energy in addition to the current and future petrochemical industries feedstock, the KPC overall 2040 Strategic Directions aim at increasing the production of free (non-associated) gas in the State of Kuwait (including the Divided Zone) to the equivalent of 1,400 MMCFD in 2025, from which the net share of KOC is 900 MMCFD while the share of the State of Kuwait in the onshore and offshore Divided Zone between the State of Kuwait and Saudi Arabia is 500 MMCFD. Following the efforts made to explore and develop free natural gas in the State of Kuwait, free natural gas was discovered in Jurassic reservoirs in 2006, where free natural gas was discovered in the Umm Naqa, Al-Raheya, Mutriba and other fields throughout the State of Kuwait.

In this regard, the rate of free (non-associated) gas production from KOC operations amounted to

Operational Performance Exploration and Production within the State of Kuwait

approximately 502 MMSCFD (on average) during the financial year 2019-2020, an increase of 58 MMSCFD compared to the previous financial year. This is due to several factors, most notably the improvement of the company's enhanced facilities maintenance, which led to an increase in the periods available for production and operation of facilities, thereby increasing their production capacity, in addition to an increase in the number of well maintenance operations, which increased their production rates.



KOC also continued its efforts to reduce the rate of gas flaring in the company's fields, which amounted to 2.29% until the end of this financial year, a decrease of 0.45% compared to the previous financial year, as the company sought to control the rates of gas flaring in the West Kuwait operations area.

As for the optimal utilization of the inherent value of gas in the Divided Zone, a number of projects and studies are being completed and implemented, such as the Hout Associated Gas Project (Ratawi limestone reservoirs in Khafji), which is expected to be completed in December 2020, and the new Gas Pipeline Construction Project from KJO region to the KNPC Mina Al-Ahmadi Refinery.

Furthermore, KGOC completed the program of environmental projects at KJO, aimed to reduce emissions from gas flaring. These projects include the expansion and modification of FDPI the construction of two high gas flares in accordance with international standards for civil aviation, and installation of a flared gas recovery system, which contributes to reducing gas combustion in the region, as per the rates specified by the official environmental authorities. This capital program comes within the KGOC's plan to meet the environmental requirements necessary for resuming production. In addition, KGOC has repeated the FEED studies for the Central Gas Utilization Project in WJO, and options are being evaluated for the optimal exploitation of gas in the region in order to reduce the cost and duration of project implementation.

Exploration

As for compensating the produced hydrocarbon quantities by annually adding quantities of oil and gas proven reserves in line with the KPC overall Strategic Directions, through improving techniques of extraction from currently known hydrocarbon reservoirs, and continuing intensive exploration operations in the onshore and offshore areas to reach targeted production rates, a new reservoir of crude oil was discovered in the upper Burgan Formation in Bahra Field, where 1,045 barrels of API 31.5 oil were produced per day. In addition, the Zubair Reservoir in Southern Kuwait was successfully evaluated, showing promising positive results and the necessary works is currently being conducted to determine the extent of the reservoir and the optimal way to develop it.

In the same context, API 42 crude oil was extracted from the bottom Marrat Formation in the Kahlulah Field, and the presence of oil of this quality was proven in the first Qatnyya Saline Formation in the Sabriya Field, which has a significant impact in achieving the goal of increasing the reserves to reach the 2040 Strategic objective of increasing production.

In addition to the foregoing, field operations for 3D seismic survey projects have been completed in Kuwait Bay, Greater Burqan Field, and Khubrat Ali Field. These surveys are considered very important due to the use of modern, advanced and diverse techniques in recording geophysical survey data, which contributes to improving future exploration operations. The importance of seismic survey projects in general, and the Kuwait Bay project and the surrounding areas in particular lies in increasing the oil reserves that can be discovered through surveys, which enhances Kuwait's economic position among the world's oil countries. These surveys are a way to re-evaluate Kuwait's oil reserves, and the success of this vital project achieves the public interest and delivers a great economic return for the country.

As for the offshore exploration operations, KOC signed a contract with the international company "Halliburton" for Offshore Drilling and Exploration Project aimed at exploring oil and gas inside Kuwaiti territorial waters during July 2019. This project is one of the most important projects implemented within the framework of the KOC 2040 Strategy, as it will involve drilling of six Jurassic-Cretaceous exploration wells in the first phase through offshore drilling rigs. The contract includes drilling support services, logistics for management of port and boats of various categories to transport labor and materials. The period of the project's first phase completion is three years, with a period of one year for preparing and equipping the first drilling rig, followed by a period of one and a half years for preparing and equipping the second drilling rig. Thus, the State of Kuwait will enter a new era in the field of oil and gas production. The responsibilities of each party with regard to facilitating the launch of offshore drilling and the role each will play in cooperation with Halliburton are being discussed.

KGOC continued its efforts to improve exploration and development activities despite the continued suspension of operations during 2019 in the Divided Zone in order to ensure the speedy resumption of production. In this context, an internal study was carried out to assess the impact of halting production in the Khafji Field. Furthermore, efforts were exerted to develop a velocity model for seismic waves, maps of the deep formations structures and the implementation of the seismic transformation stage to know the physical properties of the Southern Fawares formations in the WJO. Work is underway to evaluate all the six fields in the WJO with the aim of determining the chances of their extensions in order to increase production.



Exploration and Production outside the State of Kuwait

A Global presence in oil and gas production to promote the position of the State of Kuwait

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

The KUFPEC average production rate amounted to about 108 MBOE/D during 2019. KUFPEC added new oil reserves estimated at 21.5 MMBOE through the development activities completed during this year. Thus, by the end of the year, the total proven reserves reached approximately 451.8 MMBOE.

It is worth noting that the third development phase of gas production from the Bison, Iguana and Gajah Puteri (BIGP) has started in the Natuna project in Indonesia to support the current production level from the field amounting to about 9.5 MBOE/D. In addition, Utgard gas field in Norway started production in mid-September 2019 with an estimated production rate of approximately 1,300 BOPD, bringing production to 2,432 BOPD by the end of 2019.

The construction of the natural gas production facility dedicated for the sale of LNG in the Australian domestic market under the Wheatstone LNG Progect (Phase 1) was completed in March 2019, with the sale and supply of LNG to six contracted clients already commenced.

In addition to the foregoing, preparations have also started to implement the drilling program for the Julimar field development project (Phase II) in the Wheatstone LNG project, which began in mid-January 2020. Exploratory drilling operations have been completed in the SK-410B project in Malaysia, which resulted in the discovery of huge quantities of potential resources of natural gas, and work is underway to evaluate them and study options for their development. Work is also underway to evaluate exploratory drilling operations in the Geisum project in Egypt, evaluate potential resources, and study development options.

Within the framework of the efforts made to enter into economically feasible investment opportunities, 5 new operated assets have been acquired in the exploration phase: the WA-538-P and WA-539- projects in Australia, the Makhad project in Pakistan, and the Anambas project in Indonesia with an operating share of 100% for each of the four projects. The company also acquired a new exploration project in Australia, WA-536-P project, as a JV in which the company owns 35%.

On the other hand, the company did not renew the exploration licenses related to two projects in Norway (PL046D, PL81), as part of the efforts to dispose of non-feasible assets.



Refining and Manufacturing within the State of Kuwait



Supplying high-quality petroleum products to meet the local market needs, withstand globally fierce competition, and maintain the international markets of the State of Kuwait.

The KPC updated overall Strategic Directions call for expanding refining capacity within the State of Kuwait at the highest manufacturing level, by reaching (a maximum of) 1.6 MBPD in 2025, where the strategic objective of the refining and manufacturing sector within the State of Kuwait will be achieved through operating the Environmental Fuel Project (developing existing refineries) and the Al-Zour Refinery Project during 2020, which also ensure revenue generation for the State of Kuwait by developing existing refineries to produce petroleum products with international high-quality specifications.

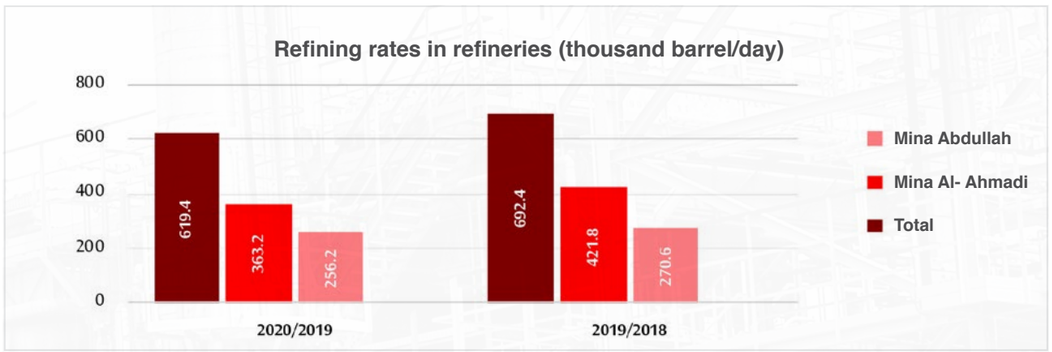
The Environmental Fuel Project aims to develop the Mina Abdullah Refinery and Mina Al-Ahmadi Refinery into an integrated refining complex, with a refining capacity of 800 KBPD of Kuwaiti crude oil, after the closure of the Shuaiba Refinery, while increasing the manufacturing capacity of the two refineries to meet the challenges and future requirements of the global market of oil products with high-quality specifications.

All project works have recently been completed at Mina Al-Ahmadi Refinery after the successful operation of the last two production units within the project, where the first shipment of high-quality diesel has been exported in January 2020, and thus this shipment is considered the first product of the Environmental Fuel Project. Hence, KNPC becomes able to produce high-quality diesel with a low sulfur content of ten parts per million and in line with the strictest international environmental specifications, which is considered one of the most prominent and important objectives behind the implementation of this vital project. Work continues at an accelerated pace to complete the remaining units of the project in the Mina Abdullah Refinery.

The Company's achievement in this project is also one of its kind in the world, as no oil refining company has ever been able to subject its existing refineries to such a huge modernization process while continuing production operations to fulfill its commitments towards its local and international customers. This project will make the State of Kuwait more influential in the global market in light of its increased competitiveness to meet the strict requirements and conditions imposed by the global market, such as reduction of sulfur and other impurities and production of environmentally friendly oil derivatives.

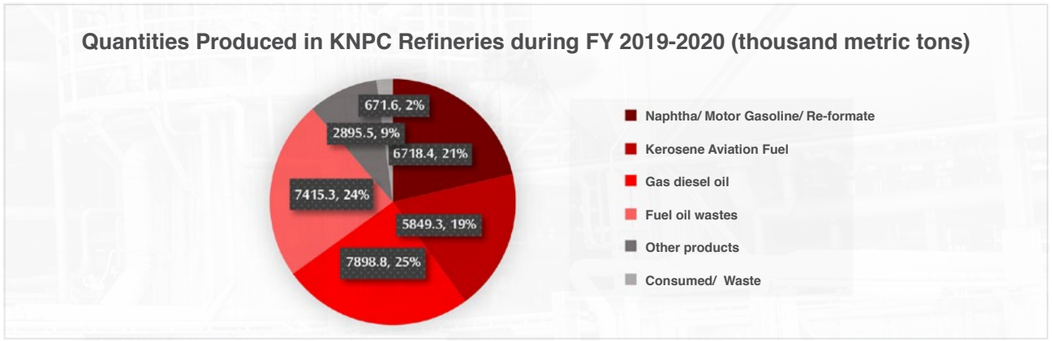
As for the KIPIC Al-Zour Refinery project, it is expected to operate gradually at the end of 2020, with a refining capacity of 615 KBPD (assuming refining Kuwaiti crude oil) to produce high-quality refined oil derivatives with low sulfur content, which will contribute to meeting the future needs of fuel for power plants, and to keep pace with future international specifications for petroleum products, in addition to providing a facility for refining Kuwaiti heavy oil. The project was 95.5% complete by the end of March 2020. The refinery operating program was launched and the operating teams were formed. It is worth noting that the mechanical works of all main refining units have been completed and all 188 prefabricated units in the Republic of China have been received and installed on the site. 42 out of 66 tanks for the Al-Zour Refinery have lso been completed. In addition, the two operation and maintenance (O&M) contracts for the secondary units of Al-Zour Refinery have been signed and the work commenced on November 1, 2019. This contract is the first of its kind in the oil sector and its works is divided into two scopes; the first is related to the services of operating and maintaining sulfur handling units, tanks and marine facilities while the second is related to the services of operating and maintaining industrial wastewater treatment units.

In this regard, the refining rate in the State of Kuwait during the financial year 2019-2020 amounted to about 619.4 KBPD trough operating the current local refineries (Mina Al-Ahmadi Refinery and Mina Abdullah Refinery). Below is a breakdown of the refining rates in the refineries during the previous two financial years:

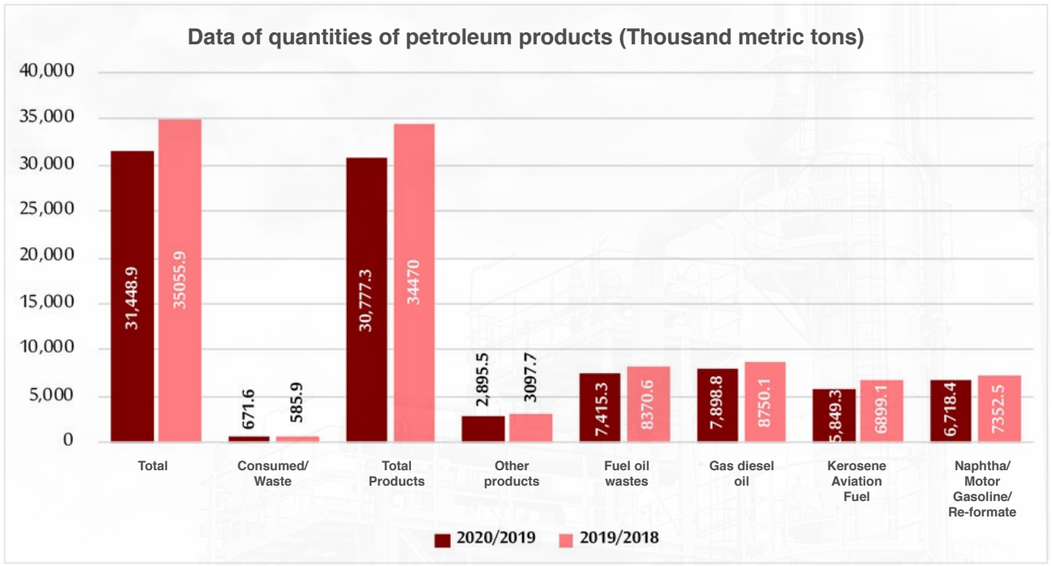


The above graph makes it clear that oil refining rates were lower than last year by 10.5%, due to scheduled maintenance works as per the comprehensive plan for the two refineries operations, in addition to the Distillation Unit No. 3 in the Mina Al-Ahmadi Refinery being out of service from November 27, 2019, coinciding with the Environmental Fuel Project operating plan.

The following data shows the produced quantities of petroleum products for the financial year 2019-2020:



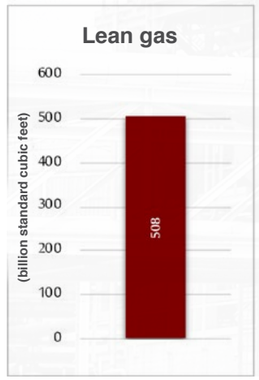
Refining and Manufacturing within the State of Kuwait

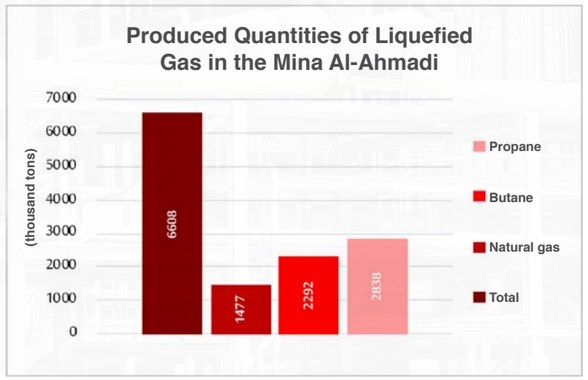


KNPC owns a gas liquefaction plant at Mina Al-Ahmadi Refinery, which currently has 4 production lines with a capacity of 2.458 billion cubic feet of gas per day (BCFGPD). Natural gas delivers several economic and environmental benefits, the most important of which is minimizing gas emissions, especially sulfur oxides, Nitrogen Oxides and carbon dioxide. Other fuels such as crude oil, gas oil and fuel oil is also provided. Gas is used in electric power plants and other industries such as petrochemicals, as well as for the production of liquefied gas for domestic uses.

This plant was opened in 1978, and it consists of four units to extract propane, butane and natural gasoline.

Below is a breakdown of the produced quantities of liquefied gas, including lean gas, in the Mina Al-Ahmadi Refinery:





KNPC is also implementing several capital projects along with the Environmental Fuel Project, perhaps the most prominent of which are:

1- A project for constructing a fifth unit for the production of liquefied petroleum gas at Mina Al-Ahmadi Refinery. This project aims to establish a fifth unit for the production of liquefied petroleum gas in light of the expectations of an increase in gas and condensate production. The project scope includes detailed engineering designs and the procurement, supply and installation of equipment for the construction of the fifth unit with a capacity of 805 MSCFPD of gas and 106 KBPD of condensate, in addition to the construction of a new common unit for the treatment of fuel gas for the fourth and fifth gas liquefaction units This project is expected to be completed in March 2021.

2- In the field of environmental preservation, KNPC carries out a project to build a new acid gas removal plant (AGRP) and rehabilitate the current AGRP at Mina Al-Ahmadi Refinery, in order to be able to treat all quantities of acid gases expected to be produced from KOC and KGOC. The project comes in line with the strategic plans to reduce gas emissions (Gas Flaring) to less than 1%, and thus reduce the percentage of pollution resulting from petroleum operations with the aim of preserving the environment, and the new unit is expected to be operated in June 2020. With regard to modernization of the current unit, a feasibility study was recently completed and the available alternatives for its implementation were considered in light of the future gas quantities expected to be produced locally.

Integration of Refining Operations and Petrochemical Industry

In line with the KPC directions to achieve integration between the refining and petrochemical operations within the State of Kuwait , KIPIC is about to complete front end engineering design (FEED) for the petrochemical complex project (Aromatics II and Olefins III) integrated with Al-Zour Refinery. KIPIC is also in the process of obtaining the necessary approvals for the final investment decision.

It is worth mentioning that approximately 60 opportunities have been identified for integration with Al-Zour Refinery, which may save about $695 million on the project capital cost and approximately $376 million on the annual operating cost.



Refining and Manufacturing outside the State of Kuwait

Seeking to assume a leading global position in refining, manufacturing, marketing and retail operations.

Crude Oil Refining

160 thousand barrels of Kuwaiti oil were being refined per day in the Vietnam Refinery during the financial year 2019-2020, in line with the overall Strategic Directions to dispose of 425 thousand barrels of Kuwaiti hydrocarbon resources per day by 2025 through external refineries. The refining capacity of crude oil in both Vietnam Refinery and Milazzo Refinery reached approximately 275 thousand barrels per day.

For the sake of maintaining the highest refining rates, the full maintenance works of Nghi Son Refinery - Vietnam was completed in December 2019 with the aim of raising the efficiency of the refinery which, after maintenance, reached a refining capacity of 220 KBPD although the original capacity was estimated to be 200 KBPD. It is worth noting that the Nghi Son Refinery was designed to refine 100% of Kuwaiti crude oil. 35.1% of this project is owned by Kuwait Petroleum International (Q8), while 64.9% is owned by other partners: 35.1% owned by Idemitsu, a Japanese company, 25.1% owned by PetroVietnam, and 4.7% owned by Mitsui.

As for the Duqm Refinery in the Sultanate of Oman, the detailed engineering phase of the project has been successfully completed and the integrated project management team has moved to the works implementation site. The EPC phase of the Duqm Refinery project has been 56% completed during the financial year 2019-2020. The project is expected to be completed in the third quarter of the financial year 2021-2022. It should also be noted that the Duqm Refinery has a refining capacity of 230 KBPD, with the ability to refine 100% of Kuwaiti crude oil, but it was agreed that only 65% of crude oil would be refined, with Q8 owning a 50% stake in the refinery.

In addition, the basis of design for the Petrochemical Complex project in the Sultanate of Oman have been completed. The production unit technology licensees were selected, and the front end engineering design (FEED) phase has already commenced in March 2020, with the complex aiming to mainly produce polypropylene, polyethylene and ethylene glycol.

Retail Operations

As for maintaining the competitive position in the European retail market and expanding in promising markets with high growth, KPI has managed to sell 2.2 million cubic meters of petroleum products in Europe through the KPI-owned marketing operations, as the company owns 4,146 retail gas stations mostly located in Italy, Netherlands, Belgium and Luxembourg. In addition, 276 new retail gas stations were opened during the financial year 2019-2020.

As part of the KPI‘s efforts to enhance its competitiveness in Europe, about 75 gas stations were acquired to improve the coverage of the company‘s gas stations network in Belgium, in a region where the company had no previous presence. The procedures to acquire 67 stations in Spain were completed. On the other hand, KPI was keen to accept Q8 Electric cards in more than 25,000 electric power supply stations in Belgium, Netherlands and Luxembourg, and to adopt AVIA cards directly in Netherlands by adding 300 stations to the AVIA approved system in the Tango network. It is worth mentioning that OKQ8 has become the best network of biofuel (HVO) stations in Sweden with 100 stations.

The company has signed anInternational Diesel Services (IDS) card distribution contract with Hellenic Petroleum in the Hellenic Republic, and the network of acceptance cards has been expanded by adding 49 approved sites to the IDS diesel card distribution network in Belgium, Netherlands, France, Germany, Spain, Portugal and Serbia, where International Diesel Services is provided - a network of fully automatic stations available 24 hours a day 7 days a week to supply diesel fuel to 17,500 road transport companies in 21 European countries.

As for lubricating oils, KPI has started the process of blending oils for OKQ8 at its plant in Belgium.

In order to improve the competitiveness of marketing non-petroleum products at gas stations, a new gas station was launched including a car wash station in Italy, in addition to a FOOD STOP-branded restaurant in partnership with Autogrill. This comes within the framework of implementing the strategy of auxiliary Non-Fuel activities by providing restaurant services and food outlets at KPI-owned gas stations in partnership with strategic partners in Italy. In addition, a Starbucks corner was provided in all KPI-owned stations in Sweden, leading to a significant improvement in sales.

As for the high-growth markets in Asia (outside Europe), the fourth IQ8 gas station for was opened to the north of Yong-Yi Province in Vietnam, as part of the expansion plan in Vietnam in cooperation with the KPC International Marketing Sector.

Aviation Fuel Supply

In line with the KPC directions to sell Kuwaiti petroleum products outside the State of Kuwait, Kuwait Petroleum International Aviation (Q8Aviation) signed a contract to renew an agreement with Easy Jet for another 4 years, covering 28 airports. A contract ha been renewed to supply Air France with aviation fuel at the French Charles de Gaulle and Orly airports for another year, in addition to commencing the management of refueling operations at Jeddah International Airport by Jeddah Aircraft Refueling Company, in which KPI owns 30%.



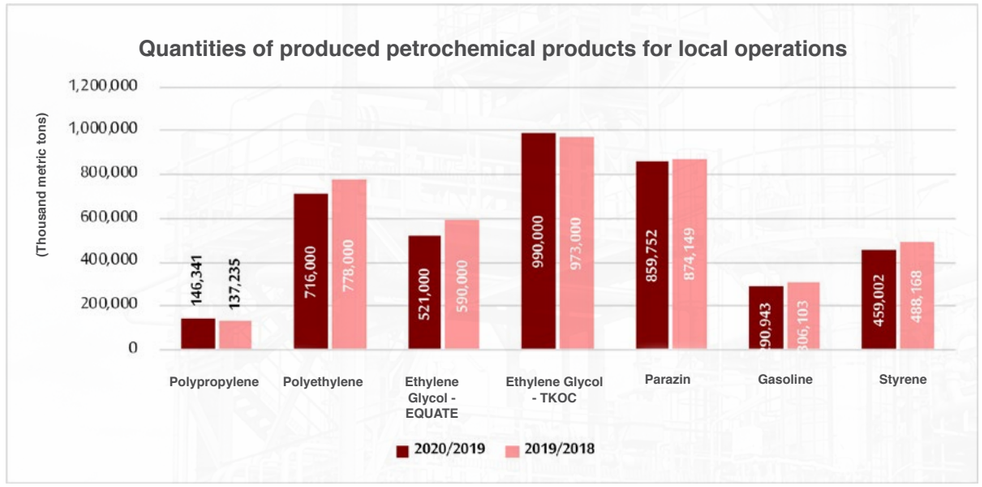
Petrochemicals

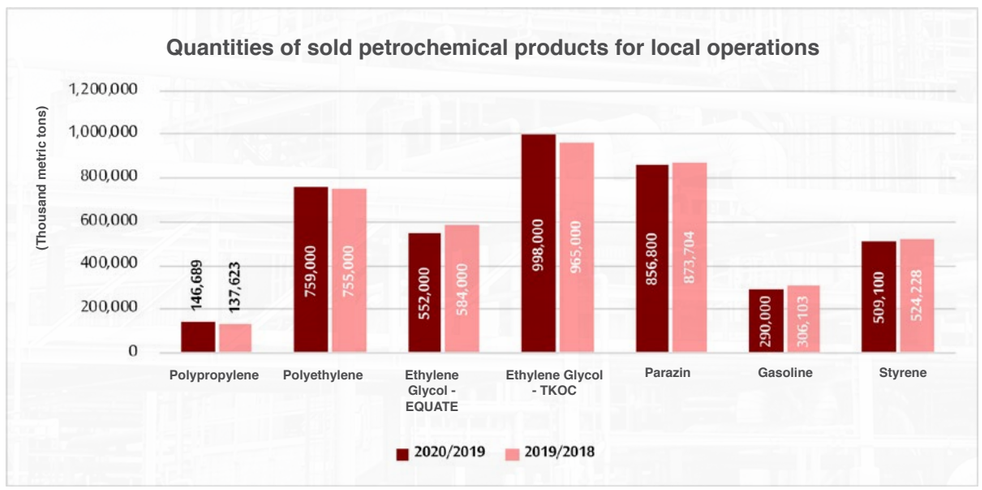
Promoting petrochemical operations within the State of Kuwait and abroad in line with global demand and to protect KPC from fluctuations and changes in oil industry.

Petrochemical Industries Company (PIC) made significant local and global achievements in the field of petrochemicals, downstream industries and specialty chemical products during the financial year 2019-2020, despite the declining prices of these products during same financial year.

Local Operations

The following graphs show the breakdown of the petrochemical quantities produced and sold through local operations during the financial year 2019-2020 compared to the quantities produced and sold during the financial year 2018-2019:





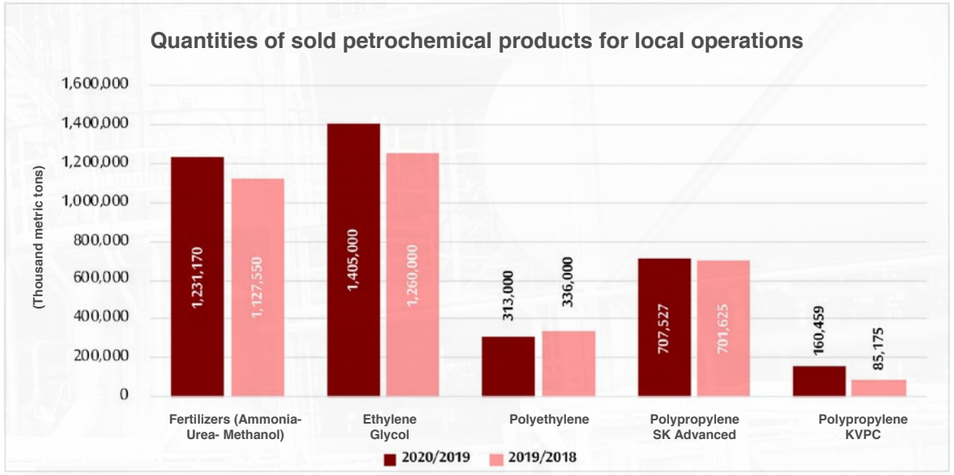
It is worth noting that the reasons for the decrease in the production of paraxylene, benzene and styrene products in the financial year 2019-2020 compared to the previous year are due to periodic maintenance work, while the decrease in the production of polyethylene and ethylene glycol (EQUATE) is due to the fact that the quantities of feedstock gas supplied to the plant were less than planned quantities.

The polypropylene plant was officially handed over to and operated by PIC on January 1, 2020, which had been under the management and operation of EQUATE Petrochemical Company. The process included transferring the plant's operations to its full production capacity as per the approved timelines to ensure the safe transfer of operations while maintaining the efficiency of the plant's operation. This step particularly supports the KPC aspirations to develop its operational capabilities in petrochemical industry.

Global Operations

- A deal was entered into to acquire 49% of existing specialty petrochemical plants on February 29, 2020. In this context, a joint venture was established between PIC and the other party for the production of specialty petrochemicals.
- In September 2019, one of the world's largest plants for the production of ethylene glycol was opened by MEglobal, a subsidiary of EQUATE. The project aims to produce 750,000 tons per year of ethylene glycol.
- As for the 50:50 joint venture aimed at establishing a plant for the production of polypropylene (PP) with a production capacity of 550 thousand tons per year with the Canadian partner, Pembina, approvals were obtained by the KPC board of directors and the partner's board of directors to move forward with the engineering, procurement and construction (EPC) phase. Accordingly, contracts have been signed regarding the two packages of the propane dehydrogenation (PDH) unit and the polypropylene unit. The marketing plan for the initial phase of the project and the relevant marketing budget have been developed.
- In September 2019, an agreement was also signed by the Polymer Marketing Sector with Western Hemisphere and the KGOC office in Houston, Texas to make full use of the existing foreign offices and enhance the presence in the American markets.

The following graph shows the petrochemical quantities produced and sold through global operations during the financial year 2019-2020 compared to the quantities produced and sold during the financial year 2018-2019:



International Marketing

Distinguished marketing experience to compete in increasing the global market shares of Kuwaiti oil, Kuwaiti petroleum products and liquefied gas, thereby achieving the highest revenues for the State of Kuwait while excelling in managing KPC various operations.

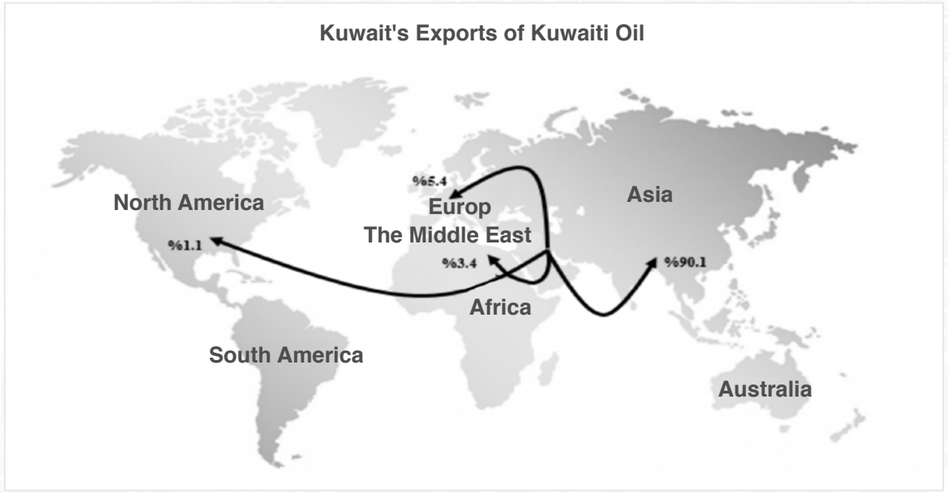


In line with the KPC overall 2040 Strategic Directions in the field of marketing, the KPC International Marketing Sector seeks to maximize the value of Kuwaiti hydrocarbons by marketing them in safe, diversified, long-term outlets. This endeavor was supported by the achievements accomplished during the financial year 2019-2020 as follows:

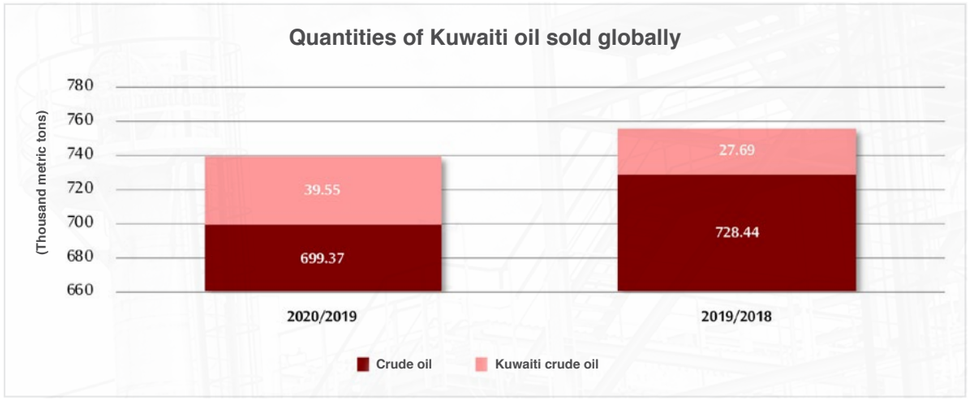
Kuwaiti Oils

A new contract was concluded with Aramco Trading Company to export Kuwaiti crude oil and light oil to Saudi Aramco refineries in Asia (South Korea and Malaysia) as of January 2020. A new contract was concluded with the Chinese company UNIPEC for exporting Kuwaiti crude oil (KEC), and another contract was signed with Egyptian General Petroleum Corporation (EGPC). In addition, an integrated plan wa implemented to market Kuwaiti light crude oil by selling spot shipments to KPC customers. In this context, a spot shipment of Kuwait Super Light Crude (KSLC) was sold to the Korean S-Oil Corporation for the first time in May 2019. Another spot shipment wa sold to Pakistan Refinery Petroleum, marking the first introduction of Kuwaiti crude oil into the Pakistani market.

It is worth mentioning that the KPC's total exports of crude oil amounted to about 738.9 million barrels to various Asian markets, Atlantic markets, the United States, Europe and the Middle East, as shown in the map below.



The Global Marketing Sector also developed new sales contracts in China, Korea and Pakistan during the financial year 2019-2020. It was also keen, and successfully managed, to provide the required quantities of crude oil for the KPI Vietnam Refinery project, despite the numerous operational challenges obstructing the project, which caused many changes in the rates of required shipments and shipping dates.



Gas and Petroleum Products

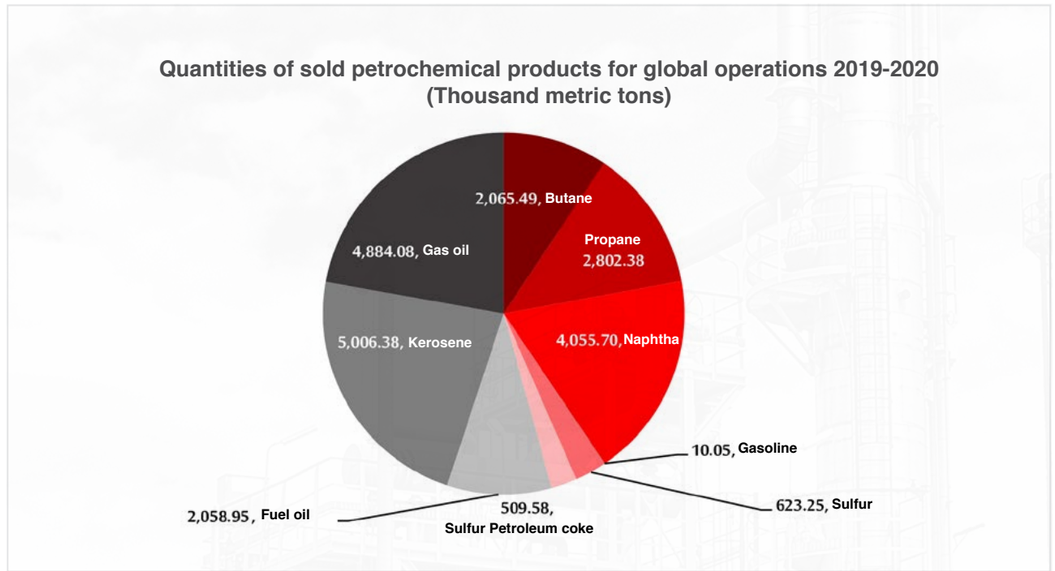
The International Marketing Sector managed to increase the expected revenues of LPG sales contracts by more than two and a half million US dollars, either by raising the pricing margin or by diverting shipments to contracts with higher returns, while maintaining the KPC marketing share of liquefied gas sales in vital markets (e.g. Japan, Korea, India) and growing markets (e.g. Thailand, Vietnam) by renewing long-term contracts, as well as increasing the contractual quantities of the KPC share in the Chinese market and other markets. In this context, contracts were concluded with several Chinese companies, involving quantities amounting to 660 thousand tons per annum (equivalent to 11% of Kuwait's total exports), which led to an increase in the KPC market share in China, the second largest economy in the world, in addition to concluding a contract with the Indian company, Reliance, to export 500 thousand metric tons.

An outlet has been engaged to continuously market the surplus butane product at record prices by concluding a medium-term contract with the Indian company Reliance as of August 2019 until June 2020. This contract is the first of its kind for the last ten years. Another annual contract was concluded with the same company at a standard premium. It is worth noting that contracting with this new client enhances the KPC's presence in the Indian market, classified as one of the largest and most growing markets in the Asian continent.

On the other hand, KPC was keen to maintain its market share of the naphtha product in the Asian markets, especially the significant ones, such as the Japanese and Korean market, through the renewal of the KPC annual contracts. A spot shipment of the light naphtha (28 KT) was sold at a record price (MT $60.08), which is the highest price ever achieved by KPC.

It is worth noting that the Chinese petroleum coke market was successfully tapped by a spot contract entered into in April 2019, as a result of which a long-term contract was concluded for 2020, as the Chinese market is the world's largest exporter and importer of petroleum coke. As for the sulfur product, KPC was committed to supply 1,980 thousand tons in total (contracts/optional quantities), and it increased the volume of shipments from 25 thousand tons to 30 thousand tons in order to help customers reduce the cost of shipments.

International Marketing



As for aviation fuel, a semi-annual sale contract was signed to supply Litasco with gas oil with sulfur content 500 ppm. Another contract was signed with SHELL to supply it with aviation fuel. In addition, two shipments of heavy gas oil with high sulfur content were sold at a premium of approximately $100 per metric ton over the price of fuel oil in the global market, achieving an additional total value of approximately $5 million.

Meeting Local Market Needs

An amount of $67 million was saved during April 2019 through importing LNG to meet the needs of the Ministry of Electricity and Water instead of burning diesel, HFO and oil. It was also agreed to import two shipments of HFO for June 2019 to avoid burning crude oil at the MEW stations, which in turn led to savings of approximately $12,25 million. Additionally, shipments of HFO (up to 150,000 metric tons) were imported to fulfill the power plants' needs of fuel oil and avoid the use of higher-value crude oil, thus achieving financial savings of nearly $11 million.

Within the same context, a long-term contract was signed with Qatar Petroleum (Qatargas) to meet the Kuwait's needs of LNG starting from 2022 for 15 years at competitive prices. Meanwhile, a memorandum of understanding was signed with the Republic of Ethiopia to conclude long-term contracts to cover the country's needs of intermediate derivatives.

On the other hand, a bunker fuel (S 0.5%) purchase contract was concluded to supply the fleet of KOTC with bunkering fuel from the Port of Fujairah in order to get vessels ready to meet the new binding standards of the International Maritime Organization (IMO 2020) using S 0.5% instead of S 3.5% as of January 1, 2020. In thi regard, the first shipment of bunker fuel conforming to the IMO specifications was successfully supplied on January 2, 2020 to the Kuwaiti bunker fuel barge "Sidra 2".

It is worth mentioning that the quantities of ethane gas supplied to EQUATE were increased during October and November 2019, resulting in profits of $18 million.



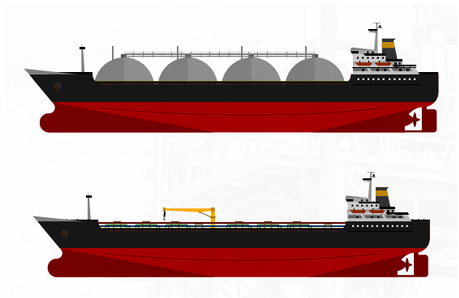
Maritime Transport

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

KOTC seeks to achieve the KPC overall 2040 Strategic Directions in the field of maritime transport, by maintaining the size and quality of the marine fleet necessary to meet the needs of long-term strategic cover and marketing needs in line with the targeted production rates within the State of Kuwait and in accordance with the best economic techniques. In this pursuit, the company achieved the following during the financial year 2019-2020:

Fleet Operations Activity

KOTC currently owns a fleet comprising twenty-nine (29) tankers, i.e. ten giant crude oil tankers, fourteen petroleum product tankers of various sizes, and five giant liquefied gas tankers. This indicates that five new tankers joined the fleet during this financial year as part of the fourth phase of the fleet modernization plan.



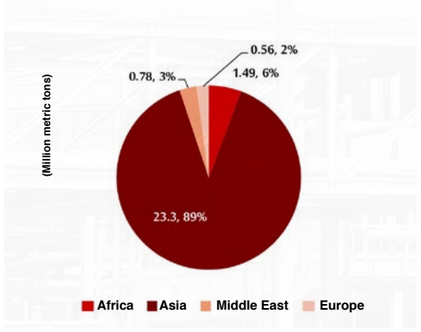
Three New Giant LNG Tankers Al-Mubarakiya, Al-Ahmadiya and Umm Al-Ruwaisat with a capacity of 84 thousand cubic meters each

Two New Petroleum Product Tankers Al-Adailiya and Al-Yamamah with a capacity of 48 thousand metric tons each

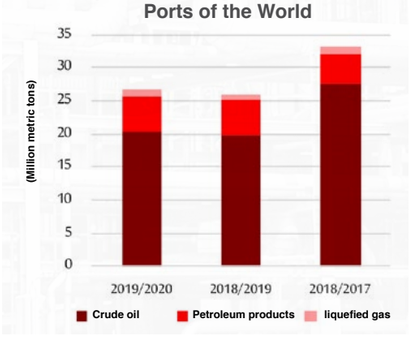
Thus, the fleet total tonnage amounted to about 4.34 million metric tons, an increase of 26,000 metric tons compared to the last year. KOTC charters its entire fleet to KPC on an annual basis.

The KOTC fleet transported 26.869 million metric tons of crude oil, petroleum products and liquefied gas during this financial year, an increase of 3.82% over the last year, and the quantities transported from Kuwait amounted to 20.086 million metric tons. As concerns the operating rate of tankers, it amounted to 95.26% this year, signifying a decrease of 2.81% compared to last year, due to the docking of a number of tankers. It should be noted that the KOTC fleet carried out these operations with high efficiency without causing any marine pollution incidents.

Tonnages by Geographic a Distribution



Shipments Transported to Different Ports of the World





Proceeding from the KOTC's keenness to apply international requirements and standards, the main engine lubrication oil mixing systems (ICOLUB) were installed on board 18 tankers in order to maintain the actual and optimal operation of the main engine in accordance with international requirements (Sulphur CAP 2020) in order to use low-sulfur fuel (0.5%). These requirements have been studied and an optimal solution was reached by using engine lubrication oil mixing equipment, which in turn maintains the efficiency of engine cylinder lubrication and effectively reduces oil consumption, which benefits KOTC while preserving environment.

Ballast water treatment sytems were also installed on 9 of the KOTC tankers, in line with the IMO environment preservation requirements which obliges all tankers to install ballast water treatment equipment to reduce the migration of marine life from one place to another which causes damage to regional waters of different countries.

The company has applied the new MARPOL Annex VI (MEPC Resolution) regulations to all fleet tankers in record time as per a specific plan, in order to improve fuel efficiency. Moreover, it applies the SEEMP principle and urges its employees to reduce fuel consumption, which reduces the amount of emissions to preserve the environment.

In addition, KOTC prepared an organizational plan aimed at reducing waste on board all tankers, which led to a significant difference between the actual waste disposed by tankers and the international requirement, as all hazardous and recyclable waste is safely disposed of once the tanker arrives the port of discharge.

It is worth mentioning that KOTC won the ME Operator of the Year award from The Maritime Standard in October 2019.

In line with the IMO environment preservation requirements, all tankers must install ballast water treatment equipment to minimize the mgration of marine life from one place to another which causes damage to the territorial waters of different countries. Therefore, KOTC is currently in the process of installing these systems on board tankers with gross tonnage (GT) exceeding 5,000 tons. As a result, these systems are being installed on board 9 tankers out of 13 tankers.

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Maritime Transport

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Hence, The Maritime Standard awarded KOTC the ME Operator of the Year award in October 2019.

As for the KOTC's efforts to rationalize operating expenses and enhance operating capacities to promote competitiveness in the market, the Dry Dock contract for docking and maintenance of tankers has been improved by extending the time period from 2.5 years to 5 years, in line with the principles applied in the global maritime transport industry.

Marine Agency Branch

The Marine Agency Branch has been providing various types of maintenance and repair services, providing tankers with supplies and spare parts, transporting inspectors and sailors, as well as providing pilotage services and administrative services to 1,277 tankers from Kuwaiti ports during the financial year 2019-2020; of these tankers, 173 are Kuwaiti and 1,104 are non-Kuwaiti.



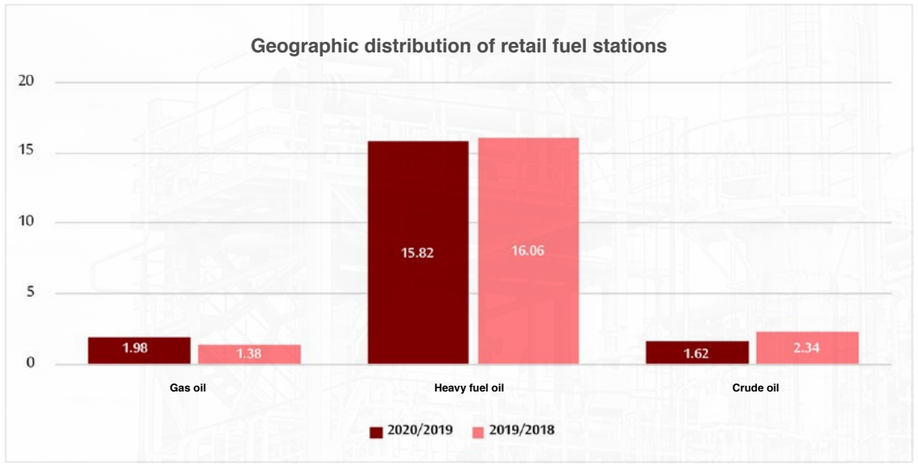
Local Market Supply

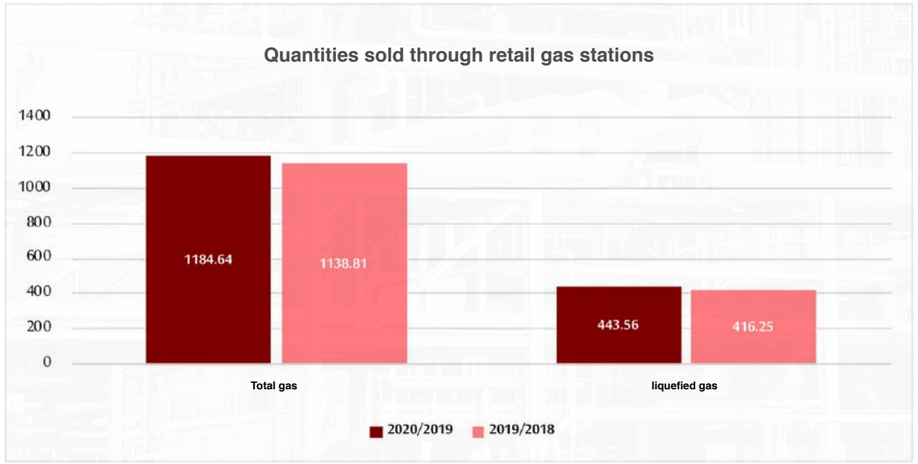
Self-sufficiency in terms of petroleum products to meet the needs of local market now and in the future from local refineries

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

Fuel Supplies to the Ministry of Electricity and Water (MEW)

KPC is the only entity in the country responsible for providing the necessary fuel to meet the needs of the MEW stations to generate electric power. The following data shows the quantities of fuel and gas supplied to MEW during the financial year 2019-2020 compared to the amounts of fuel and gas supplied during financial year 2018-2019:

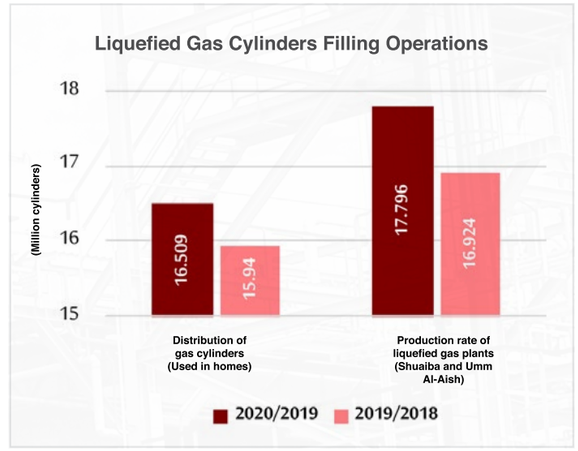




KPC, represented by KIPIC, is currently constructing the project of LNG import permanent facilities in the Al-Zour region with a capacity of 3 billion Btu per day of imported LNG. The project of constructing LNG import facilities is about 96.32% completed by the end of March 2020, as the project's main power plant and its sub-stations were successfully commissioned 6 weeks earlier than the planned date, in addition to successfully submerging the subsea pipelines feeding the project of LNG import permanent facilities.

Liquefied Gas Cylinders Filling Operations

The production of the two liquefied gas plants (Shuaiba and Umm Al-Aish) amounted to approximately 17,796 million cylinders of different sizes for the financial year 2019-2020, an increase of 5.15% compared to last year, in addition to the noticeable increase for this financial year in the ratio of distribution of 12-kg gas cylinders (used in homes)) by 3.46% compared to last year, with a total distribution amounting to 16,509 million cylinders.



New Fuel Stations

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

In this context, five new fuel stations were recently opened in the new cities of Sabah Al Ahmad and Jaber Al Ahmad and northwest of Sulaibikhat as part of the first phase which involves constructing 18 new fuel stations in various locations. The design of the new stations is a quantum leap in its modern appearance and advanced technologies which provide multiple services in an easy and seamless manner. In addition, these stations are environmentally friendly. The construction of these stations coincides with the launch of e-payment service via the e-petrol application. The remaining stations within the first phase are currently being implemented.

A feasibility study and FEED for the construction of 15 new fuel stations have also been finalized, and licenses are being obtained, followed by the required approvals, from government agencies.

A feasibility study and FEED tender was also launched for the third phase, which includes the construction of 25 new fuel stations. The submitted proposals have been evaluated and the required approvals are currently being obtained.

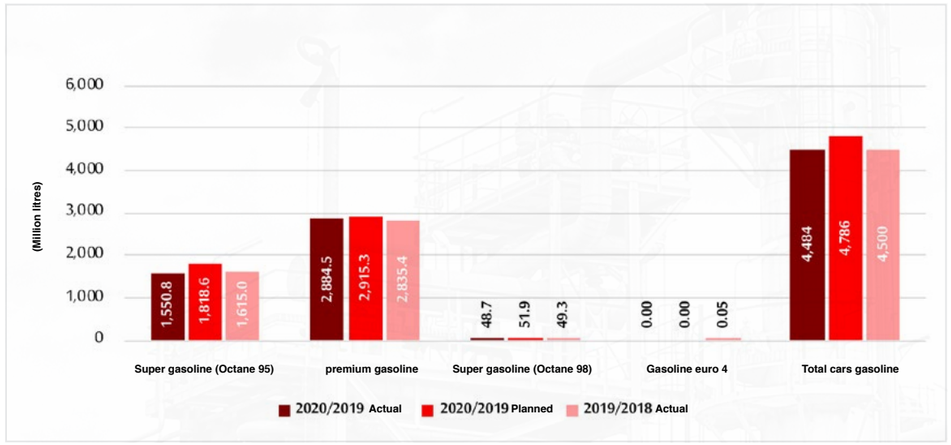
It is worth noting that the total currently operating stations are 48 stations in addition to two mobile fuel stations. The following data shows the breakdown of the local marketing sales of gasoline during the financial year 2019-2020 compared to the planed and actual sales during the financial year 2018-2019:

It is worth noting that despite the decrease in gasoline sales during the financial year 2019-2020 as a result

Local Market Supply

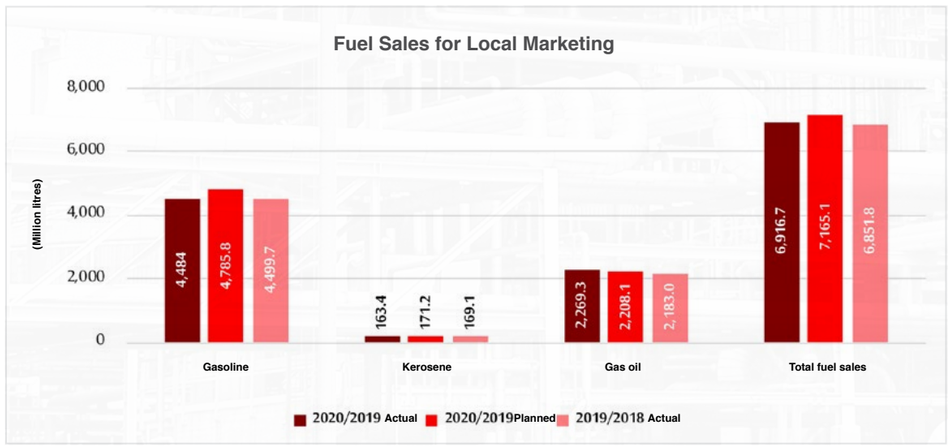
of the precautionary measures taken by the state to limit the spread of the emerging Corona virus starting from March 2020, such as curfews and suspension of air traffic, generally, local market sales increased for the financial year 2019-2020 compared to the previous financial year 2018-2019.

The following data shows the breakdown of local marketing sales during the financial year 2019-2020 compared to the planned and actual sales during the financial year 2018-2019:



Solar Power Generation

In line with the vision of His Highness Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah that 15% of the total energy demand in Kuwait will be met through renewable energy by 2030, KNPC has carried out a project to install solar panels on 10 gas stations at a cost of KWD 700 thousand, thereby generating renewable electric energy equivalent to 30% of the stations' consumption. KNPC will also introduce the concept of renewable (solar) power within its project to construct 100 new fuel stations in various regions of Kuwait.





Health, Safety, Security and Environment

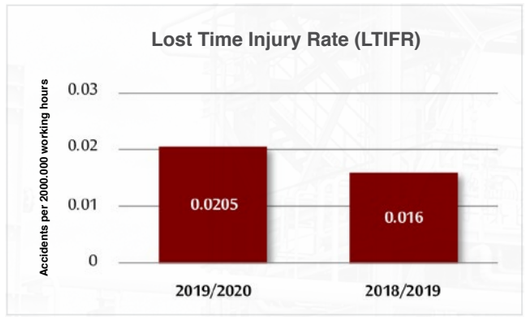
Commitment to health, safety, security and environment (HSSE) standards as the top priorities of the oil sector to achieve a world-class performance level towards creating a safe and healthy environment

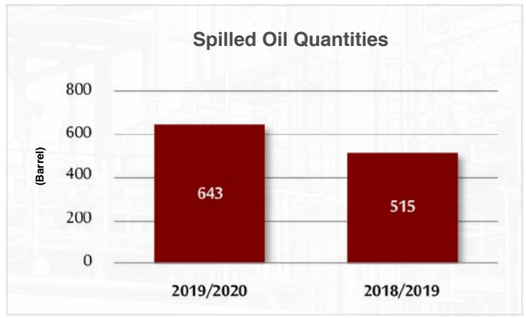
KPC and its subsidiaries implement the highest health and safety standards in all locations in which it operates. KPC also pays special attention to the phenomenon of climate change by focusing its efforts on reducing carbon dioxide and greenhouse gas emissions. In order to achieve this, KPC and its subsidiaries exerted the following efforts:

- A study to establish an energy management system was approved by the Steering Committee for the Implementation of 2040 HSSE Strategic Plan, which aims to identify opportunities to increase energy efficiency and reduce greenhouse gas emissions.

- As part of KPC's keenness to meet its share of the State of Kuwait's commitments in managing greenhouse gas emissions, the update to the greenhouse gas strategy and roadmap was approved by Steering Committee for the Implementation of 2040 HSSE Strategic Plan and circulated to oil affiliates for implementation.

In Addition, KPC and its subsidiaries carry out their operations in accordance with the HSE international best practices in order to ensure the safety and health of employees, contractors, suppliers, customers and the community and to ensure the protection of the environment wherever they operate, with the aim of reducing the environmental cost of its operations and preserving the country's natural resources for future generations. In this pursuit, they sought to reduce the lost time injury frequency rate (LTIFR), reaching 0.0205 accidents per 200,000 working hours till the end of this year, while the total quantities of oil spills amounted to 643 barrels.





Regarding the most prominent achievements of KPC and its subsidiaries in the field of health, they are a follows:

- KOC launched an official website for Al-Ahmadi Hospital, which is the official online portal available around the clock for all patients, employees nad users to easily communicate across all oil companies. Among the services provided by the site is booking/canceling appointments, updating patients' data and opening a new medical file.

- Al-Ahmadi Hospital also achieved a new medical breakthrough by adopting a revolutionary technology to treat uterine fibroids in women without the need to use radiation. This advanced technology is the first Magnetic Resonance-guided Focused Ultrasound (MRgFUS) system in Kuwait and the region. It is a new solution known as "ExAlbate 2000" approved by the US Food and Drug Administration for the treatment of uterine fibroids. In addition, Al-Ahmadi Hospital added another achievement to its series of achievements by performing a surgical operation taking place for the first time in Kuwait, where a shoulder joint was replaced by two high-level specialized Kuwaiti surgeons. What makes this achievement more significant is that it will attract many patients and make it easier for them to undergo this kind of surgical operation, as patients suffering from this condition have been referred abroad for treatment.

- Moreover, KOC successfully carried out the first medical evacuation operation in the history of the Kuwaiti oil sector, using helicopters to evacuate a medical case from the Umm Al-Aish gas cylinders plant affiliated to the associate KOTC.

On the other hand, KPC and its subsidiaries won a number of international awards in the field of health and safety in the financial year 2019-2020, perhaps the most prominent of which are the following:

- KOC has deservedly been awarded the first rank in the New Zealand International Firefighter Challenge in May 2019.

- KNPC also received a high global recognition in the field of HSE by winning the ME Energy Award 2019, awarded for the first time by three international magazines, i,e. Refining and Petrochemical, Utility, and Oil & Gas, during the ceremony held in Dubai in the presence of high-level officials from the largest oil companies from around the world. the company was announced as the winner of the first award after a fierce competition with a large number of companies operating in the energy field in the Middle East. Winning this award resulted from an electronic application presented by the KNPC senior process safety eng. Ahmed Ismail Ahmed, through which he presented a system for electronic monitoring and for evaluating the performance of safety standards in the company's refineries. The benefit of the aforementioned application was demonstrated in improving performance indicators in the field of safety within the KNPC various sites.

- Additionally, KNPC achieved a remarkable achievement by winning prestigious international awards in the field of occupational health and safety through competitions with hundreds of leading companies. Five of the KNPC sites received the International Safety Awards 2019; these are Mina Al-Ahmadi Refinery, Mina Abdullah Refinery, Local Marketing Department, Projects, and the Company's Headquarters). Granted by the British Safety Council, this award is one of the most prestigious globally approved awards in a critically important field, that is occupational health and safety. The Award Committee commended the KNPC efforts and commitment to international standards and requirements in the field, and its keenness to apply health and safety rules in its various projects and operations.



Health, Safety, Security and Environment

- In the same context, KOC received two international environmental awards, the first of which was the Energy Globe Award in February 2020, which came as a recognition of the company's achievement in managing the Kuwaiti Soil Remediation Program which is the largest bioremediation program of its kind in the world. The second award is the International Corporate Social Responsibility Excellence Award received from the Green Organization, a global organization that has promoted environmental best practices for nearly 30 years. The awards ceremony was held in the UK House of Parliament, in which KOC recieved an award for "Sustainability/Emissions Reduction", in recognition of its achievement in reducing gas flaring from 20% during FY 2008-2009 to nearly 0.062% during the first quarter of FY 2015-2016.

- Kuwait Aviation Fuelling Company (KAFCO), a KNPC subsidiary, received the RoSPA Gold Award for Health and Safety and the RoSPA Fleet Safety Award, while KPI won the RoSPA Gold Award for Health and Safety for the ninth time in a row.

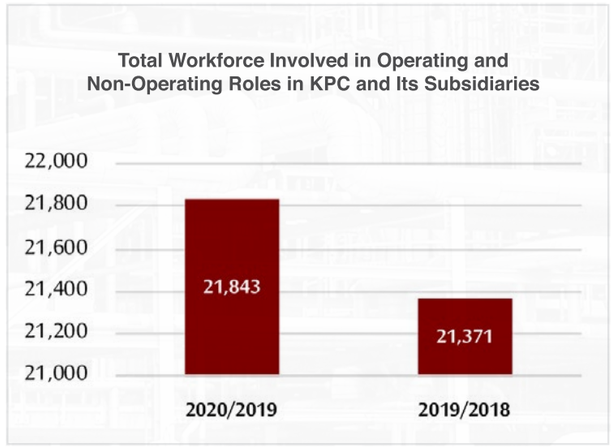
To complement the efforts exerted to preserve and protect the environment, the following achievements were made by KPC and its subsidiaries:

- A working group was formed under the leadership of PIC and the membership of KPC, KNPC, KIPIC, and EQUATE to study the implementation of an important initiative related to plastic waste recycling and conversion into value-added petroleum products. This initiative is considered one of the initiatives aimed at directly serving the environment and supporting the application of sustainability concept adopted by KPC and its subsidiaries.

- KOC also held the "Forum on Kuwait Environmental Remediation Program", in cooperation with the parties involved in the project which is considered the largest soil remediation project in the world. The forum brought together all interested parties wishing to learn more about the program, included the exchange of plans and strategies related to soil remediation, and formed a platform for exchanging information and awareness and providing an opportunity to communicate with contractors and other specialist parties, in addition to creating open communication channels, providing a starting point for communication, and developing and strengthening capabilities of different working groups.

- As for KOTC, its fleet operations are in full compliance with the requirements of International Safety Management Code (ISM) and international standards for quality (ISO 9001: 2015), environmental management (ISO 14001: 2005), and occupational health and safety (OHSAS 18001: 2007), in addition to the continuous compliance by the Marine Agency with the international requirements and standards for quality and environment (ISO9001:2015 & ISO 14001:2015), and its continuous application of the requirements of the quality and environment management system.

It is worth noting that, since the outbreak of the emerging COVID-19 pandemic, KPC has formed a joint committee for the oil sector to deal with developments, prevent the emerging corona virus, monitor the development of the pandemic and take the necessary precautionary measures to ensure the safety and health of its employees and contractors. Electronic awareness campaigns on self-protection from Corona virus have also been launched.

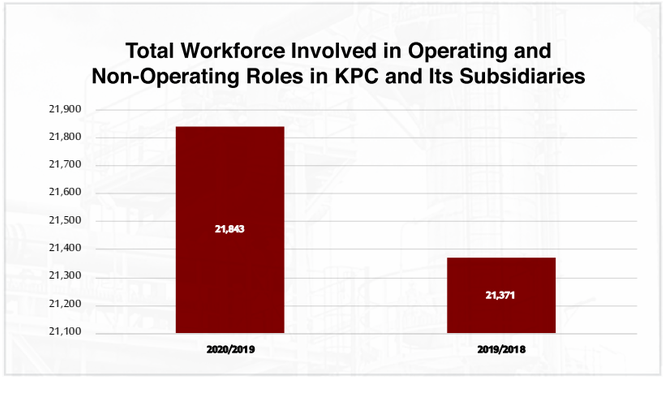




Investing in Human Capital

Believing in the importance of human capital and investing in the development of the competencies and skills of the sector's workforce as this aspect is closely related to the general performance level of KPC and its subsidiaries and the extent of the development and advancement of the local oil industry.

The total workforce involved in operating and non-operating roles of KPC and its subsidiaries are 21,843 employees at the end of the FY 2019-2020. The number of national workforce in the oil sector reached 18,907 Kuwaiti employees, bringing the Kuwaitization rate in KPC and its subsidiaries to nearly 86.6%. During the FY 2019-2020, KPC and its subsidiaries appointed 1,035 Kuwaiti employees compared to 78 non-Kuwaiti employees. These appointments included 180 diploma holders specializing in refinery operations technology to work in KNPC.



In terms of creating job opportunities for Kuwaitis on contractual basis and encouraging the private sector to attract national workers, KOC Kuwaitized approximately 3,780 contract employees, bringing the number of Kuwaiti contract employees in KPC and its subsidiaries to 5,028 employees, which is equivalent to the Kuwaitization percentage in contractor contracts (27.53%).

Emanating from their belief in the importance of the human capital and their efforts to create a high-level group of Kuwaiti technical workers through paying attention to training programs, KPC and its subsidiaries continued to launch many initiatives and programs to develop and train its cadres. The key initiatives and programs include the following:

- KOC developed an advanced program for 60 workers in coordination with the Kaizen Institute in the Netherlands and Germany to instill the company's values in the new employees. This is in addition to the development program designed to pay attention to KOC specialists in various fields, benefit from their expertise and pass it on to the succeeding generations. Also, KOC strived to train and develop leaders in alignment with international modern systems, such as considering the experience of South Korea, Harvard University, and the Japanese management through the KAIZEN program.

- KUFPEC continues to provide training opportunities for oil sector employees as part of its efforts to transfer expertise and technology among exploration and production operations within the State of Kuwait and abroad. Accordingly, 15 KOC and KGOC employees were seconded to the compan's foreign offices during 2019 and 34 KUFPEC employees were seconded to work in the company's foreign offices, while others were seconded to work with partners and operators to gain global expertise in the oil industry.

- In the same context, as part of the Global Mobility HR 2040 initiative under the auspices of KPI, 12 opportunities were identified within the operating units in Europe to develop employees assuming the position of team leader and below in KPC and its subsidiaries.

- KGOC carried out an intensive six-month training program designed specifically for its technical specialists in cooperation with Compagnie Generale Geophysique (CGG), a leading geological data analysis company. It also implemented an intensive training program on PETROMOD software in cooperation with Schlumberger. As for national cadres with technical specialties, an experienced employee from the same team has started providing internal training to them to analyze the performance of wells using the PIPESIM program.

- Concerning the efforts exerted by KIPIC to train and qualify its employees, as part of the diligent preparations for the operation of the Al-Zour Refinery, a technical training program for the Al-Zour Refinery Operations Group has been completed at company's premises in cooperation with the Al-Zour Refinery Operations Support Advisor (SNC Lavalin). The number of participants since the start of the program has reached 160 participants. In addition, KIPIC has got 36 KIPIC firefighters graduated from the National Training Academy in the State of Qatar.

- In addition, the Petroleum Training Center (PTC) held 1,063 internal training programs in various competencies (technical / professional / general), with the participation of 17,742 trainees from across the oil sector. The most prominent of these programs is the Bullet Proof Manager program involving 75 managers to obtain the Cristcom International Certificate. The e-learning program is being implemented using the Harvard Manage Mentor Spark educational tool with the participation of 700 KOC employees starting from December 1, 2019 for one year.

- To ensure the effectiveness of training programs, an awareness program (the importance of training effectiveness and how to apply it) was implemented through the Unified Learning Management System (ULMS), including all oil sector employees. Awareness lectures for the third level (Return on Expectation) were held in some oil companies.

In another context, to create an environment rich in innovating ideas and exchanging opinions, KOC established an association specific to talented personnel within the Harvard Program and an association for the newly appointed talented personnel, in addition forming the Initiatives Committee that encourages employees to communicate with the management in various types of initiatives.

KNPC inaugurated an innovation studio in the company's main building, which is the first of its kind in the oil sector companies. The studio reflects the KNPC's interest in enhancing creativity and innovation, improving performance and raising efficiency and quality of work and aims to promote a culture of innovation by enabling employees to conduct their activities, hold brainstorming sessions, discuss different creative ideas in an appropriate atmosphere, in addition to embracing the innovators and providing a helping hand to implement their ideas in line with the company's strategy.

It is worth noting that KPC launched the 360-degree assessment system for managers in KPC and its subsidiaries based on new competencies (VICAT) in July 2019. Coordination was made with KNPC to develop an automated program aimed at system implementation and create a database of managers in KPC and its subsidiaries to be used in making comparisons for leadership positions.

As part of joint cooperation between KPC and various state sectors, 609 specialization tests were held for applicants for employee opportunities announced by Kuwait Anti-corruption Authority (Nazaha).

As for the provision of training opportunities for Kuwaiti employees working for contractors, 5000 Kuwaiti contractor workers were added to the Unified Learning Management System (ULMS) to benefit from the training programs offered by the oil sector. 896 of them have been trained in many administrative and technical programs. A specialized professional program is currently being prepared to include 262 trainees of Kuwaiti contractor workers in the technical workshop at PTC as an additional program to the annual training plan. Scholarships have also been opened for enrollment for the FY 2020-2021 for 18 academic seats allocated to the oil sector.

In line with the KPC strategy for professional communication with media, the Media Spokesperson program has been carried out for oil leaders in KPC and its subsidiaries.

Research and Development

Building research and technology capacities, capabilities and infrastructures as one of KPC's priorities by establishing a center for research and technology, cooperating with strategic partners in such field, and taking initiatives to adopt and develop modern technology in a manner consistent with business needs.



Benefiting from modern technologies provides primarily new methods for increasing reserves and production, and will in turn lead to the achievement of 2040 Strategic Objectives.

The "UG-0302" well was successfully drilled and oil was extracted from Burgan's third layer using a modern technology (Reservoir Mapping Tool) that maps the earth layers, especially the water stored between the earth layers. Utilizing this tool helps to stay away from water as much as possible in order to increase production and reduce the drilling of pilot wells. In addition, using this method leads to reduced costs by the equivalent of 190,000 dinars and produce the equivalent of 2,340 BOPD, taking into account a 3% water cut of the total production, compared to similar wells that produce an average of 800 BOPD. On the other hand, a new pilot technology was successfully applied (Pressure Relieving Devices) to identify filed radio frequencies (Tracking of PSVs in KOC Facilities), which allows for monitoring and controlling of oil fields. This work was conducted in cooperation with MEOS.

With the aim of sharing knowledge and technology and developing research and development capabilities, KPC and its subsidiaries have undertaken a number of initiatives, including the following:

-- A symposium on blue hydrogen was held in cooperation with Kuwait Foundation for the Advancement of Sciences (KFAS) and Japan Cooperation Center Petroleum (JCCP), in order to raise awareness of the increasing development that the world is witnessing towards relying on clean energy technologies. The symposium aimed at providng an overview of the hydrogen industry and identifying recent developments in the field of its technologies, focusing on the production of blue hydrogen from oil and gas resources, highlighting the technical, financial and regulatory challenges facing the commercialization of hydrogen technologies, and evaluating potential plans for the production of blue and green hydrogen in Kuwait.

- A workshop on "Carbon Capture and Storage" was held in cooperation with KFAS and the British Embassy in Kuwait, to discuss some promising applications in addition to reviewing some of the experiences carried out by major international energy companies in this field.

- In light of the memorandum of understanding signed between KPC and the Russian company, Gazprom Neft, a workshop was held to discuss the proposals submitted by Gazprom in November 2019, in the presence of representatives from the oil sector.

- KOC recently entered into a cooperation agreement in the field of strategic research and development with Kuwait University for a duration of five years. The agreement aims to enrich research cooperation between the two parties in the field of reservoirs, heavy oil and gas

- KUFPEC has worked with a group of universities in Australia, Norway and Canada and their foreign offices to provide the technical solutions and applications required for KOC, and work is underway to test and examine a set of applications that are still under consideration.

- KOTC also signed a memorandum of understanding with the Kuwait Institute for Scientific Research (KISR) on November 26, 2019, which includes KISR's role in applying the latest biotechnologies by researchers at Environment and Life Sciences Research Center and the use of a sustainable environment operation and other modern technologies that have been tested in the Center laboratories on company websites.

- KOTC organized the Seventh Gulf Maritime Transport Companies Forum, out of its concern to exchange experience and knowledge among various activities of the company and similar companies in the region. At this forum, matters related to trading, financial crisis, challenges, opportunities and technical techniques were discussed with the participation of ADNOC company from Abu Dhabi, Bahri from Saudi Arabia, and Oman Shipping Company.

- Al-Zour maintenance group at KIPIC organized the first Kuwait Maintenance and Reliability Symposium in cooperation with the Gulf Society for Maintenance and Reliability (GSMR), and with the participation of more than 200 delegates from local, Gulf and international companies and authorities.

The detailed plan for the Kuwait International Petroleum Research Center (KIPRC) has also been completed, and work is underway to prepare the tender documents and obtain the necessary approvals for the tendering process. The establishment of KIPRC is expected to begin in late 2022 and to be operational in the middle of 2025, to give effect to the desire of His Highness the Emir of the State of Kuwait to establish an entity for excellence in research, development and technology fields in the oil sector and to overcome the technological challenges facing the State of Kuwait in one of its most important sectors, which is the oil sector. Such challenges require KPC to deal with them in the future in order to be able to achieve KPC's long-term strategic directions in the field of technology and research. Moreover, the establishment of KIPRC aims to create a supportive work environment for research and scientific work, build and develop national capabilities and cadres to address technological and technical challenges, and attract global expertise with a great deal of skill and knowledge in research related to the oil industry to work in KIPRC. In addition, the establishment of the center aims to provide the opportunity for cooperation with KPC's strategic partners from international oil companies, petroleum services companies, universities and local and international research centers in implementing KIPRC's research programs. It is worth noting that KIPRC will be built on an area of 250,800 square meters in the northeast of Ahmadi town, and will include 28 technological laboratories and more than 300 modern scientific equipment as well as a conference center, and it will accommodate from 400 to 600 employees.

In another context, KGOC, in cooperation with KOC, has adopted digital rock physics technology in preparation for its application in projects that will be implemented in the area of operations in the future. KGOC has also implemented Knowledge Management System-KMS project.

KNPC also conducted a study to establish a fingerprint database for 12 samples of KNPC products and 14 samples of various types of crude oil produced by KOC to be a reference or guide to determine the source and kind of oil spills leaking in the territorial waters of the State of Kuwait. This achievement is the first of its kind in the oil sector.

In the event of oil spills, a sample is taken and analyzed at Kuwait Petroleum Research and Technology (KPR&T) and compared with the database to determine the source of the sample. If it is found out that this sample is not part of the KNPC and KOC product portfolio, then this anonymous sample can be compared to the Oil Spill Identification network (OSINet) database, which contains a library of more than 2,600 international samples of petroleum origin, including 300 samples of crude oil.

KNPC also established and developed a strategy for managing intellectual property and patent registration in cooperation with the Sabah Al-Ahmad Center for Giftedness and Creativity (SACGC), which is affiliated with KFAS. An agreement was signed in this regard, so that SACGC provides the required support in the effective preparation for intellectual property management and patent registration in line with KNPC's long-term strategic plan 2040 in the field of research and technology.

Kuwait Petroleum International has received a grant from the European Union amounting to 300,000 euros for research and development.

Information Technology

One of KPC's priorities to keep pace with global technological development is to adopt best practices for implementing the highest standards and procedures related to internet security in KPC and its subsidiaries, protecting the sector from hacking attacks, and providing the effective support for operational technology through shared infrastructure and unified policies and procedures.

KPC works to identify future technological challenges, develop appropriate solutions, and manage technology with high efficiency, taking into account environmental protection and ensuring the safety and health of workers in the areas where it operates. The following are the most prominent achievements in the field of information technology during the fiscal year 2019-2020:

In light of the growth and new trends within KPC and its subsidiaries to maintain cyber security, and with the certainty that awareness of information and cyber security risks is the first line of defense for any hacking attack, KPC and its subsidiaries worked during the year to increase the security awareness of its employees. To implement this, the cybersecurity training and awareness platform was equipped, and awareness training was implemented with tests covering critical topics in cybersecurity for all employees at KPC. Moreover, interactive cybersecurity awareness lectures were presented to senior management. In the same context, KOC organized the second annual "Gartner" Cybersecurity Event, which was attended by many officials and employees of the company and the oil sector, as well as a selection of local, regional and international experts. During the event, a series of presentations were delivered by Gartner's Chief Analyst, which addressed "The Latest Cybersecurity Trends and Global Risk Management 2019" and "The Gulf Region's Most Applied Cyber Security Project 2019". The event achieved a tremendous success that exceeded all expectations in terms of communication and participation, as it was attended by more than 250 people from all sectors and bodies.

KOTC has upgraded and developed a DNS Server for cybersecurity, in cooperation with the Communication and Information Technology Regulatory Authority (CITRA). It is worth noting that KOTC is one of the first entities in the State of Kuwait in implementing this information security system.

KIPIC has also launched several electronic systems, including KIPIC's employment system, the emergency operations system for wireless devices to effectively control and monitor emergency telecommunications, and the electronic reporting system for HSSE. In addition, solutions for managing cybersecurity threats and vulnerabilities were implemented, and a virtual computer service was provided via smartphone and tablet, which enables employees to access all KIPIC's authorized applications from any location outside the company.

On the other hand, the KMS application for smart devices was launched to allow the International Marketing Sector employees to conclude contracts in the KMS through their smartphones. The KMS Dashboard was also launched for the International Marketing Sector leaders to track important data in the system such as sales data, for example, formatted by the product, entity or customer.



Local Content

KPC has a footprint and a positive role in the development of the local economy by creating good investment opportunities for the private sector

During the past year, a number of industrial opportunities were presented to local investors for enhancing the private sector participation in the Kuwaiti oil industry. The following is a list of the opportunities that were presented and announced:

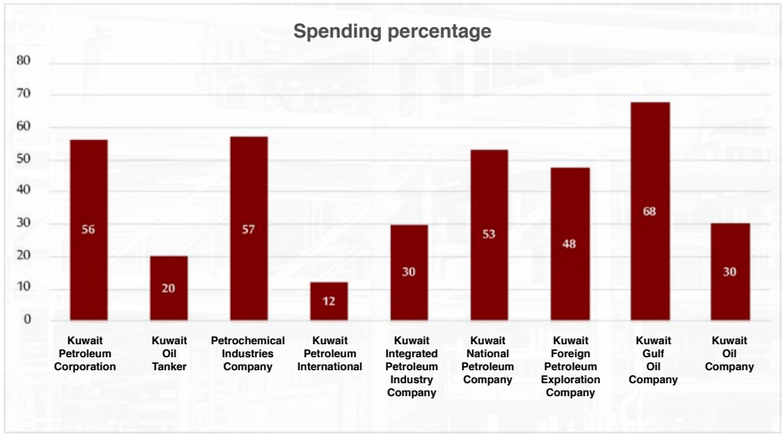
- Converting spent catalysts into metals project
- The opportunity to use carbon dioxide in local industries.
- A project for using crude petroleum coke to produce calcined petroleum coke

A coordination and cooperation mechanism was also signed between KPC and Kuwait Direct Investment Promotion Authority (KDIPA), which aims to enhance institutional cooperation between the two parties, in order to attract global and local investors to create industries complementary to the oil sector activities and operations. Moreover, the roadmap was approved and the KPC's Board of Directors approved the best option for implementing the Petroleum Industrial Zone.

In addition, a working team was formed, under the leadership of the PIC and the membership of each of KPC, KNPC, and KIPIC to implement a KPC's local content strategy initiative, "Develop & Roll Out LC Opportunity Ideation-to-Execution Process", and work is underway to obtain the necessary approvals for the implementation plan and start implementing the plan.

It is worth noting that PIC is in the process of offering a new investment opportunity for the local private sector regarding heavy aromatics products, according to conditions and controls previously agreed upon with KPC.

KPC and its subsidiaries also seek to maximize local spending in the supply of materials and services for oil sector projects. The following is a data breakdown on local spending ratios according to companies until the third quarter of the fiscal year 2019-2020:





Internal Audit

The internal control through KPC's Central Internal Auditing Agency is not limited to financial and accounting matters, but extends to include all operational levels.

The oversight role of the Central Internal Auditing Agency (the Agency) includes following up on all completed operations and decisions to ensure their validity and contribution to achieving KPC's goals. The KPC's Central Internal Auditing Agency issued 78 reports on the operations of KPC and its subsidiaries. Those reports included multiple recommendations, totaling 553 recommendations, which led to enhancing the efficiency, performance and effectiveness of internal control systems and achieving financial savings. Moreover, they contributed to the development of the procedures and systems followed at many departments in KPC and its subsidiaries.

The Institute of Internal Auditors (IIA) evaluated the external quality of the Agency, and the Agency received the highest rating (Generally Conform).

The Agency exchanges visits and holds professional meetings and workshops with the State Audit Bureau in fields of mutual interest, and such works have an effective positive impact on the improvement of the oversight performance in the oil sector. Furthermore, it participated in the panel discussion held by the State Audit Bureau within the Auditor Fingerprint Project (Basmat Riqabi), and cooperated with the Bureau in training and qualifying a number of fresh graduates and providing them with technical and professional skills in the field of internal auditing.

With the aim of developing the professional performance of the internal audit units in the Agency, the internal audit best practices learned from the visits of internal audit departments in some international and Gulf oil companies that took place during the fiscal year 2019-2020 are applied.

In addition, national cadres are developed and qualified by participating in the audit teams with PMT/PMC, in order to review the execution of mega projects, such, Al-Zour Refinery, Clean Fuel Project and Natural Gas Import Facility, as well as auditing external joint ventures.



Corporate Social Responsibility

KPC plays an effective and influential role in community development, in addition to its primary role in supporting the local economy.

KPC has implemented several initiatives to support the social responsibility policy, including the following:

KPC and its subsidiaries offered many donations and sponsorships to a number of public interest entities and associations in the State (such as the Ministry of Health, Kuwait Red Crescent Society, Kuwait Society of Engineers, Kuwait Chemical Society, Kuwait Dive Team and Kuwait University), in order to assist these entities and enable them to implement various activities and events that will benefit the State. Moreover, it donated a mobile vehicle, which is the largest one in the Middle East, to the Ministry of Health's Blood Bank for enhancing the potential of the Ministry regarding donation campaigns. KOC has organized many initiatives and campaigns that serve the company's social responsibility towards society, including sports, entertainment, cultural and awareness activities, in addition to KOC's festival of the National Day and Kuwait's Liberation Anniversary at the Ahmad Al-Jaber Oil & Gas Exhibition. The festival witnessed a huge turnout of audience from all over the State of Kuwait, who enjoyed the entertainment and informative activities that were prepared to be suitable for all age groups, as well as participated in competitions and won many prizes. In addition, visitors were given the opportunity to visit the Exhibition and see the unique interactive experience it offers, which tells the oil story in an innovative method.

In another context, KOC organized the first "Oil and Gas Decathlon" in partnership with the AUK Center for Research in Informatics, Sciences, and Engineering (RISE). In November 2020, this event was held with the participation of 78 students from various universities in Kuwait, who competed to find innovative solutions for the challenges posed by the oil and gas sector works. Moreover, the students collaborated with specialists in KOC and worked under the supervision of trainers to develop their proposed solutions. Furthermore, in cooperation with the Ministry of Education and Ministry of Higher Education, KOC sponsored a competition entitled "Oil and its Derivatives" for high school students, where students participated in an educational program for two weeks, and then developed projects related to the oil industry, to conclude the program by identifying the winning project for competition in an international scientific exhibition in Paris. KNPC signed a sponsorship contract for INJAZ-Kuwait to prepare and qualify Kuwaiti students through special training schemes on leadership and enhance communication and project management skills.

KNPC has formed a social welfare committee concerned with informing foreign workers in its projects of their rights in accordance with the contracts concluded with them, and according to Kuwait Labor Law. This campaign constitutes the first step of its kind in the State of Kuwait and in the Arab Gulf region, as it reflects KNPC's keenness not only to apply Kuwait Labor Law, but also represents an essential part of KNPC's social responsibility and its ongoing efforts to provide a proper and stable work environment. This committee has executed its first round in the clean fuel project, which includes the largest segment of these workers, as there are about 50 thousand workers, working under 40 contracts concluded with contracting companies with which KNPC deals. The committee distributes descriptive publications in eight different languages, in order to ensure that its vision is communicated to the largest possible number of such a workforce. Moreover, the committee conducts periodic audits to ensure the contractors' compliance with Kuwait Labor Law, and with the applicable procedures at KNPC, including workplaces and workers' accommodation.

PIC played a prominent role in social welfare, as it provided a financial support to the campaign Kuwait Red Crescent Society, "Donate for their Education", to educate students and cover their tuition costs and provide the opportunity for workers to contribute to supporting the campaign through a campaign account. In addition, at Boubyan Club, PIC sponsored the annual Women Cancer Survivors Honoring Ceremony in order to instill a spirit of hope in them, in addition to honoring those who supported them to overcome the stage of the disease.

Moreover, teachers were also honored on World Teacher Day in appreciation of their role in educating generations, and open days were held for children of centers for persons with special needs and social welfare homes. In addition to the above, KPC and its subsidiaries have taken the initiative to provide the necessary support to the Ministry of Health and the concerned authorities in the State by establishing and equipping a number of sites to accommodate and treat the Corona virus suspected cases, provided that the Ministry provides these sites with the required medical cadres.



Consolidated Financial Statement And Independent Auditor's Report For The Year Ended 31 March 2020

Kuwait Petroleum Corporation and subsidiaries | مؤسسة البترول الكويتية وشركاتها

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Independent auditor's report

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

Opinion

We have audited the consolidated financial statements of Kuwait Petroleum Corporation ("the Corporation") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 March 2020, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the Law Decree No. 6 of 1980.

Basis for Opinion

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

Emphasis of Matter- COVID-19

We draw attention to Note 42 to the consolidated financial statements, which describes the possible impact and consequences of the COVID-19 on the Group and the environment in which it operates. This note also indicates that uncertainties remain and that currently it is not reasonably possible to estimate the future impact. Our opinion is not modified in respect of this matter.

Emphasis of Matter- reissuance of previously issued audit opinion

We further 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 2020. However, as a result of certain event as explained in Note 1 and Note 25 to the accompanying consolidated financial statements, the previously issued consolidated financial statements and our audit report dated 7 July 2020 for the same period 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 form of assurance conclusion thereon.

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Report on Other Legal and Regulatory Requirements

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the consolidated financial statements include the information required by the Law Decree No.6 of 1980. In our opinion, proper books of account have been kept by the Corporation and the accounting information given in the board of directors' report agrees with the books of accounts. We have not become aware of any contravention, during the year ended 31 March 2020, of the Law Decree No. 6 of 1980 that might have had a material effect on the business of the Group or on its consolidated financial position.

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

Kuwait: 29 November 2020

Kuwait Petroleum Corporation and Subsidiaries
State of Kuwait

مؤسسة البترول الكويتية
Kuwait Petroleum Corporation

Consolidated statement of financial position
as at 31 March 2020

	Notes	2020 KD'000	2019 KD'000
Assets			
Property, plant and equipment	5	30,618,903	27,951,909
Goodwill	6	116,726	113,860
Intangible assets	7	574,902	576,729
Right-of-use assets	8	1,065,739	-
Deferred tax assets	15	164,151	267,262
Other non-current assets	9	196,962	382,758
Financial assets at fair value through other comprehensive income	10	3,504,429	4,216,936
Investments in equity accounted investees	11	994,140	687,939
Non-current assets		37,235,952	34,197,393
Inventories	12	1,008,461	1,140,628
Trade receivables	13	2,878,528	4,135,251
Financial assets at fair value through other comprehensive income	10	1,401,228	1,401,254
Financial assets at fair value through profit or loss	10	201,392	240,911
Other receivables and prepayments	14	1,299,715	1,334,627
Taxes receivable	15	5,847	5,073
Bank balances and cash	16	681,889	2,037,379
Assets held for sale	17	40,886	33,160
Current assets		7,517,946	10,328,283
Total assets		44,753,898	44,525,676
Equity			
Authorised and paid-up share capital		2,500,000	2,500,000
Statutory reserve	18	1,250,000	1,250,000
Capital reserve	19	232,945	232,945
General reserve	20	15,178,266	17,253,435
Reserve for replacement and renewal of property, plant and equipment	21	3,703,691	3,676,691
Remeasurement of defined benefit obligation reserve		(131,708)	(127,897)
Cumulative changes in fair values		503,528	686,053
Foreign currency translation reserve		(288,873)	(285,593)
Equity attributable to equity holder of the Corporation		22,947,849	25,185,634
Non-controlling interest		88,433	78,054
Total equity		23,036,282	25,263,688
Non-current liabilities	22	12,544,518	9,137,147
Trade payables		1,396,138	1,538,811
Other payables and accruals	23	3,338,775	3,179,364
Lease liabilities	8	373,412	-
Taxes payable	15	117,511	159,211
Amounts due to Ministry of Oil	24	2,107,263	2,156,107
Profit available for distribution	25	1,839,999	3,091,348
Current liabilities		9,173,098	10,124,841
Total liabilities		21,717,616	19,261,988
Total equity and liabilities		44,753,898	44,525,676

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

Hashem S. Hashem
Deputy Chairman & CEO

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

Kuwait Petroleum Corporation and Subsidiaries
State of Kuwait

مؤسسة البترول الكويتية
Kuwait Petroleum Corporation

Consolidated statement of profit or loss and other comprehensive income
for the year ended 31 March 2020

	Notes	2020 KD'000	2019 KD'000
Revenues			
Sales of crude oil, gas, refined products and petrochemicals		25,216,954	29,300,740
Revenues from other operations		158,983	175,767
	26	25,375,937	29,476,507
Cost of revenues			
Cost of sales of crude oil, gas, refined products and petrochemicals		(24,269,297)	(27,496,422)
Cost of other operations		(162,277)	(187,763)
		(24,431,574)	(27,684,185)
Gross profit		944,363	1,792,322
Depreciation and amortisation		(391,254)	(343,122)
General and administrative expenses		(459,576)	(546,184)
Provision for impairment loss on property, plant and equipment and goodwill and others		(27,302)	(92,050)
Operating profit		66,231	810,966
Interest income		35,826	24,012
Interest expense		(169,553)	(49,021)
Net interest expense		(133,727)	(25,009)
Investment income	*27*	102,909	151,101
Share of results of equity accounted investees	*11*	(47,459)	85,300
Other income (net)	*28*	505,679	125,190
Directors' remuneration	*29*	(59)	(67)
Profit before provision for income tax		493,574	1,147,481
Income tax	*15*	(63,052)	(154,917)
		430,522	992,564
Provision for replacement and renewal of property, plant and equipment	*21*	(27,000)	(98,000)
Profit for the year		403,522	894,564
Other comprehensive (loss) / income			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit obligations		(3,811)	12,957
Net change in fair value of financial assets at fair value through OCI		(287,143)	126,157
Other comprehensive (loss) / income for the year		(290,954)	139,114
Items that are or may be reclassified subsequently to profit or loss			
Foreign currency translation differences for foreign operations		(3,280)	(33,238)
Net change in fair value of financial assets at fair value through OCI		120,035	(24,423)
Other comprehensive income / (loss) for the year		116,755	(57,661)
Total other comprehensive (loss) / income for the year		(174,199)	81,453
Total comprehensive income for the year		229,323	976,017
Profit attributable to:			
Equity holder of the Corporation		395,511	878,634
Non-controlling interest		8,011	15,930
Profit for the year		403,522	894,564
Total comprehensive income attributable to:			
Equity holder of the Corporation		221,312	960,087
Non-controlling interest		8,011	15,930
Total comprehensive income for the year		229,323	976,017

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

Kuwait Petroleum Corporation and Subsidiaries
State of Kuwait

مؤسسة البترول الكويتية
Kuwait Petroleum Corporation

Consolidated statement of changes in equity
for the year ended 31 March 2020

	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*	*Reserve for replacement and renewal of property, plant and equipment KD'000*	*Remeasurement of defined benefit obligation reserve KD'000*	*Cumulative changes in fair values KD'000*	*Foreign currency translation reserve KD'000*	*Total KD'000*	*Non-controlling interest KD'000*	*Total equity KD'000*
Balance at 31 March 2018	2,500,000	1,250,000	232,945	17,955,264	3,578,691	(140,854)	506,809	(252,355)	25,720,500	76,322	25,796,822
Total comprehensive income	-	-	-	878,634	-	-	-	-	878,634	15,930	894,564
Profit for the year	-	-	-	878,634	-	-	-	-	878,634	15,930	894,564
Other comprehensive income / (loss)	-	-	-	-	-	12,957	-	(33,238)	(20,281)	-	(20,281)
Total comprehensive income / (loss)	-	-	-	878,634	-	12,957	-	(33,238)	858,353	15,930	874,283
Reserve for replacement and renewal of property, plant and equipment (Note 21)	-	-	-	-	98,000	-	-	-	98,000	-	98,000
Realised gain transferred to general reserve	-	-	-	12,490	-	-	(12,490)	-	-	-	-
Profit to be distributed (Note 25)	-	-	-	(1,791,349)	-	-	-	-	(1,791,349)	-	(1,791,349)
Discounting for profit to be distributed (Note 25)	-	-	-	198,396	-	-	-	-	198,396	-	198,396
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	(14,198)	(14,198)
Balance at 31 March 2019	2,500,000	1,250,000	232,945	17,253,435	3,676,691	(127,897)	686,053	(285,593)	25,185,634	78,054	25,263,688

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

Kuwait Petroleum Corporation and Subsidiaries
State of Kuwait

Consolidated statement of changes in equity
for the year ended 31 March 2020

مؤسسة البترول الكويتية
Kuwait Petroleum Corporation

	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*	*Reserve for replacement and renewal of property, plant and equipment KD'000*	*Remeasurement of defined benefit obligation reserve KD'000*	*Cumulative changes in fair values KD'000*	*Foreign currency translation reserve KD'000*	*Total KD'000*	*Non-controlling interest KD'000*	*Total equity KD'000*
Balance at 31 March 2019	2,500,000	1,250,000	232,945	17,253,435	3,676,691	(127,897)	686,053	(285,593)	25,185,634	78,054	25,263,688
Total comprehensive income / (loss)											
Profit for the year	-	-	-	395,511	-	-	-	-	395,511	8,011	403,522
Other comprehensive income / (loss)	-	-	-	-	-	(3,811)	(167,108)	(3,260)	(174,199)	-	(174,199)
Total comprehensive income / (loss)	-	-	-	395,511	-	(3,811)	(167,108)	(3,260)	221,312	8,011	229,323
Realised gain transfered to general reserve	-	-	-	15,417	-	-	(15,417)	-	-	-	-
Reserve for replacement and renewal of property, plant and equipment (Note 21)	-	-	-	-	27,000	-	-	-	27,000	-	27,000
Profit to be distributed (Note 25)	-	-	-	(2,486,097)	-	-	-	-	(2,486,097)	-	(2,486,097)
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	2,368	2,368
Balance at 31 March 2020	2,500,000	1,250,000	232,945	15,178,266	3,703,691	(131,708)	503,528	(288,873)	22,947,849	88,433	23,036,282

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

Kuwait Petroleum Corporation and Subsidiaries
State of Kuwait

Consolidated statement of cash flows
for the year ended 31 March 2020

مؤسسة البترول الكويتية
Kuwait Petroleum Corporation

	Notes	2020 KD'000	2019 KD'000
Cash flows from operating activities			
Profit for the year		403,522	894,564
Adjustments for:			
Depreciation and amortisation		391,254	343,122
Provision for replacement and renewal of property, plant and equipment	*21*	27,000	98,000
Provision for impairment loss on property, plant and equipment and goodwill and others		27,302	92,050
Write off of unsuccessful exploration	*7*	9,108	28,899
Provision for employees' terminal benefits and pensions		73,011	437,353
Loss on disposal of property, plant and equipment		16,881	2,338
Share of results of equity accounted investees	*11*	47,459	(85,300)
Interest income		(35,826)	(24,012)
Provisions, net		11,304	29,097
Interest expense		169,553	49,021
Income tax	*15*	63,052	154,917
Investment income		(102,902)	(151,101)
		1,100,718	1,868,948
Changes in:			
- inventories		123,397	14,179
- trade receivables		1,252,256	(176,406)
- other receivables and prepayments		29,401	16,579
- non-current liabilities		(111,074)	(464,357)
- trade payables		(142,673)	315,073
- other payables, accruals and other credit balances		(204,364)	758,831
- change in amounts due to Ministry of Oil		651,931	588,451
Cash generated from operations		2,699,592	2,921,298
Interest paid		(61,786)	(49,021)
Taxes paid (net)		(18,355)	(19,263)
Net cash from operating activities		2,619,451	2,853,014
Cash flows from investing activities			
Purchase of property, plant and equipment	*5*	(3,330,154)	(4,105,072)
Change in deposits maturing after three months		(16,404)	178,450
Change in financial assets at FVOCI		672,932	745,435
Change in financial assets at FVTPL		14,315	-
Net movement in equity accounted investees		(242,988)	140,789
Additions to intangible assets	*7*	(54,719)	(16,724)
Change in other non-current assets		65,921	(148,265)
Proceeds from disposal of property, plant and equipment		8,800	25,802
Interest received		35,826	24,012
Net cash used in investing activities		(2,846,471)	(3,155,573)
Cash flows from financing activities			
Net change in long term loans and borrowings		56,974	1,812,791
Payment of lease liabilities		(303,822)	-
Net change in lease liabilities		2,822	-
Dividend paid	*25*	(900,000)	(500,000)
Change in non-controlling interest		2,368	(14,198)
Net cash (used in) / from financing activities		(1,141,658)	1,298,593
Net effect of foreign currency translation adjustments		(3,216)	15,858
Net (decrease) / increase in cash and cash equivalents		(1,371,894)	1,011,892
Cash and cash equivalents at beginning of the year		1,880,840	767,819
Impact of adoption of IFRS 9		-	101,129
Cash and cash equivalents at end of the year	*16*	508,946	1,880,840
Short-term deposits maturing after three months from the date of placement	*16*	172,943	156,539
Bank balances and cash at end of the year	*16*	681,889	2,037,379

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 Australia.

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

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

The consolidated financial statements of the Group for the year ended 31 March 2020 were previously authorised for issue by the Executive Committee on 6 July 2020. The Board of Directors in their meeting dated 19 April 2020 resolution no. 2020/25, vested their powers to the Executive Committee for authorization of previously issued consolidated financial statements. Subsequently as a result of certain events as disclosed in Note 25, these consolidated financial statements were reissued on 29 November 2020. These consolidated financial statements are subject to approval of the Supreme Council for Petroleum.

2. Basis of preparation

a) Statement of compliance

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

This is the first set of the Group's annual consolidated financial statements in which IFRS 16- *Leases* ("IFRS 16") has been applied. Changes to significant accounting policies are described in Note 2 (e).

b) Basis of measurement

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

c) Functional and presentation currency

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

d) Use of estimates and judgements

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

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

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

e) Changes in accounting policies

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

IFRS 16 Leases

The Group applied IFRS 16 using the modified retrospective approach and hence the comparative information presented for 2019 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information

(i) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the definition of a lease. On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

(ii) As a lessee

As a lessee, the Group leases many assets including land, plants, equipment and vehicles. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet. At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

Leases classified as operating leases under IAS 17

Previously, the Group classified various leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Company:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- Excluding initial direct cost for the measurement of the right of use of assets at the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets value items; and
- used hindsight when determining the lease term where the contract contains options or lease termination.

(iii) As a lessor

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. The Group concluded that such leases are not significant to the consolidated financial statements.

(iv) Impact on transition

On transition to IFRS 16, the Group recognised right-of-use assets and lease liabilities. The impact on transition as at 1 April 2019 is as follows:

	KD'000
Assets	
Right-of-use assets	899,146
	899,146
Liabilities	
Lease liabilities	893,230
	893,230

When measuring lease liabilities for leases that were classified as operating leases, the Group discount lease payments using its incremental borrowing rate at 1 April 2019.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset). The amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the year.

IFRIC- Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

Whether an entity considers uncertain tax treatments separately

- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions. The Group determined, based on its tax compliance, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Group.

Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.
The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

These amendments had no significant impact on the consolidated financial statements of the Group.

3. Significant accounting policies

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

a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Corporation and its significant subsidiaries. Details of the principal consolidated subsidiaries are included in Note 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 is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

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

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

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

Kuwait Petroleum Corporation and subsidiaries
State of Kuwait

Notes to the consolidated financial statements
for the year ended 31 March 2020

مؤسسة البترول الكويتية
Kuwait Petroleum Corporation

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 2019 to 31 March 2020. The financial year of the Corporation's significant subsidiaries is the same as that of the Corporation with the exception of Kuwait Foreign Petroleum Exploration Company K.S.C., Kuwait Gulf Oil Company K.S.C. (Closed), KPC Energy Ventures, Inc. and Kuwait Aromatics Company K.S.C.C., whose financial years were from 1 January 2019 to 31 December 2019. Where such subsidiaries do not prepare financial statements up to the same date as that of the Group, adjustments are made for the effects of any significant events or transactions which have occurred in the months following the year end of these subsidiaries.

b) Property, plant and equipment

i. Oil and gas properties

Exploratory wells

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

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

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

Development wells

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

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

ii. Other property, plant and equipment

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

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

Subsequent costs

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

Gain or loss on disposal

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

iii. Other assets under construction

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

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

iv. Depreciation

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

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

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

Asset category	Depreciation 2019 - 2020 Years	Depreciation 2018 - 2019 Years
Oil and gas		
Oil and gas properties	Unit of production	Unit of 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
Other property and equipment		
Land, buildings and roads	25	25
Furniture, tools and computers	5 - 10	5 - 10
Vehicles, ships and marine craft	5 - 13	5 - 13

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

c) Goodwill

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

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

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

d) Intangible assets

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

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

Pre-license costs

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

License and property acquisition costs

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

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

Exploration and evaluation costs

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

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

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

Gain or loss on disposal

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

Amortisation

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

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

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

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

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

e) Financial instruments

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

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

i) Financial assets

Initial recognition and measurement

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

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

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

Subsequent measurement

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

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

Financial assets at amortised cost (debt instruments)

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

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

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

Business model assessment

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and

- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

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

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

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

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

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

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

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

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

Equity investments at FVOCI

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

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

Debt instruments at FVOCI

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

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

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

Financial asset at FVTPL

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

Reclassification of financial assets

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

Derecognition

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

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ii) Impairment of financial assets

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

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

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

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

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

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

Stage 1: 12 months ECL

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

Stage 2: Lifetime ECL – not credit impaired

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

Stage 3: Lifetime ECL – credit impaired

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

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

Significant increase in credit risk

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

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

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

Definition of default

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

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

- A breach of contract by the counterparty.

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

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Measurement of ECLs

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

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

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

iii) Financial liabilities

Initial recognition and measurement

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

Subsequent measurement

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

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

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

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

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

Derecognition

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

Offsetting

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

f) Investments in equity accounted investees

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

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

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

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

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

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

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

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

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

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

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

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

g) Interests in joint operations

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

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

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

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

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

h) Inventories

i) Crude oil and petroleum products

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

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

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

ii) Other

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

i) Deferred expenses

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

j) Impairment of non-financial assets

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

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.

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

k) Bank borrowings

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

l) Borrowing costs

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

m) Foreign currency transactions

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

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

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

n) Fair values of financial instruments

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

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

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

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

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

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

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

o) Taxes on income

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

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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.

p) Derivatives

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

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

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

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

q) Provisions

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

r) Offsetting

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

s) Revenue recognition

Sale of goods

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

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

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

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

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

Local marketing and distribution network operation

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

Other Services

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

Take or pay and under/over lifts

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

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

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

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

Pipeline tariff

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

Time charter of vessels

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

Voyage charter

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

Interest income

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

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

t) Leases

Policy applicable from 1 April 2019

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

Group as a lessee

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

i. Right-of-use assets

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

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

ii. Lease liabilities

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

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

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

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

Group as a lessor

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

Policy applicable before 1 April 2019

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

Group as a lessee

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

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

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

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

Group as a lessor

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

u) Provision for employees' indemnity

Defined benefit and contribution scheme – Parent and local subsidiaries

Provision is made for employees' indemnity in accordance with the Kuwait Labour Law based on employees' salaries and accumulated periods of service or on the basis of employment contracts, where such contracts provide extra benefits. The provision, which is unfunded, is determined as the amount payable to employees as a result of involuntary termination of employment at the reporting date.
Pensions and other social benefits for Kuwaiti employees are covered by The Public Institution for Social Security Scheme, to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Group's share of contributions to this scheme, which is a defined contribution scheme, is charged to the consolidated statements profit or loss and other comprehensive income in the year to which they relate. The difference between Oil Sector Law and Labor Law is also accrued for Kuwaiti employees.

Defined benefit scheme – Foreign subsidiaries

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

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

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

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.

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Termination allowances

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

v) Emissions rights

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

w) Assets held for sale

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

x) New standards and interpretations not yet adopted

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

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

4. Significant accounting judgement and estimates

Critical judgements in applying the Group's accounting policies

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

Recognition of provisions

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

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

Further details of amounts for which either provision or disclosure was deemed to be required are given in Notes 22 and 36 respectively.

Joint arrangements

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

Performance obligations

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

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

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

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

Key sources of estimation uncertainty

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

Measurement of provisions

Having concluded that a provision is required for a potential exposure (see above), the amount to be recognised shall be the best estimate of the expenditure required to settle the present obligation at the reporting date, taking into consideration any relevant risks and uncertainties and the time value of money. This requires management to make its best estimates of the likely future outflows, the expected timing of such outflows and the discount rate to be applied to such outflows, taking into account the risks specific to the particular exposure. Further details of the nature of provisions recorded by the Group are provided in Note 22. The majority of these exposures are expected to be settled over a relatively limited number of years which limits the uncertainty in respect of the time value of money.

Reserve and resource estimates

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

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

- The carrying value of exploration and evaluation assets, oil and gas properties, property, other fixed assets and goodwill may be affected due to changes in estimated future cash flows.

- Depreciation, depletion and amortisation charges in consolidated statement of income may change where such charges are determined using the units UOP method, or where the useful life of the related assets change.

- Provisions for decommissioning may change - where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities.

- The recognition and carrying value of deferred income tax assets may change due to changes in the judgments regarding the existence of such assets and in estimates of the likely recovery of such assets.

Exploration and evaluation expenditures

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

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

Units of production depreciation of oil and gas properties

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

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

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

Impairment of oil and gas properties

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

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

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

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

Impairment of investment in equity accounted investees

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

Remeasurement gains and losses

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

Recovery of deferred tax assets

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

Decommissioning costs

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

Measurement of ECLs

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

Leases - Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the stand-alone credit rating).

5. Property, plant and equipment

	Oil and gas						*Other property and equipment*				
	Oil and gas properties KD'000	*Plant and machinery KD'000*	*Tankage, pipelines and jetties KD'000*	*Wells and surveys KD'000*	*Service plant and drilling equipment KD'000*	*Vessels KD'000*	*Land, buildings and roads KD'000*	*Furniture, tools and equipment KD'000*	*Vehicles, ships and marine craft KD'000*	*Assets under construction KD'000*	*Total KD'000*
Balance at 1 April 2019, net of accumulated depreciation	2,283,069	3,510,779	1,738,602	3,387,546	17,324	400,882	977,311	17,958	65,861	15,552,577	27,951,909
Additions	154,155	17,586	192	6	-	-	14,775	4,297	616	3,428,931	3,620,558
Disposals and write offs	-	(11,810)	(3)	(1,865)	(25)	(64)	(2,567)	(5)	(157)	(385)	(16,881)
Change in estimate	(41,766)	-	-	-	-	-	-	-	-	-	(41,766)
Transfers	25,351	105,076	103,703	316,604	7,153	85,844	56,807	41,657	8,564	(728,396)	22,363
Internal transfer	-	(12,203)	11,046	-	1,368	-	(211)	-	-	-	-
Foreign currency translation adjustment	(1,584)	4,242	(311)	(2,168)	2	-	(2,524)	(1,073)	(6)	(1,334)	(4,756)
Depreciation for the year	(203,327)	(220,106)	(120,363)	(240,251)	(10,572)	(19,078)	(56,403)	(9,633)	(8,019)	-	(887,752)
Impairment loss	(4,747)	-	-	-	-	(20,025)	-	-	-	-	(24,772)
At 31 March 2020	2,211,151	3,393,564	1,732,866	3,459,872	15,250	447,559	987,188	53,201	66,859	18,251,393	30,618,903
Property, plant and equipment											
At cost	4,115,753	7,939,295	3,570,610	6,368,387	73,917	783,340	1,758,505	150,157	163,478	18,251,393	43,174,835
Accumulated depreciation and impairment losses	(1,904,602)	(4,545,731)	(1,837,744)	(2,908,515)	(58,667)	(335,781)	(771,317)	(96,956)	(96,619)	-	(12,555,932)
Net carrying amount at 31 March 2020	2,211,151	3,393,564	1,732,866	3,459,872	15,250	447,559	987,188	53,201	66,859	18,251,393	30,618,903

The depreciation charged to profit or loss is reduced by KD 509 million (2019: KD 463 million) being the amount charged to the Ministry of Oil in respect of the operations of local wholly owned subsidiaries engaged in exploration activities. Included in assets under construction are amounts of KD 5,053,864 thousand and KD 4,286,717 thousand (2019: KD 4,079,467 thousand and KD 3,986,162 thousand) relating to the Group's new refinery i.e. Al-Zour Refinery Project and Clean Fuels Project ("CFP") respectively.

"Land, buildings and roads" and "Plant and machinery" includes certain building, plant and machinery constructed on land leased from the Government of Kuwait for a renewable period of twenty-five years maturing on 25 June 2023 and 2031. During the year, borrowing costs of KD 107 million (2019: KD 8 million) were capitalised in oil and gas properties and assets under construction. Land, buildings and roads includes land amounted to KD 66 million (2019: KD 63 million). Certain "Property, plant and equipment" are secured against borrowing facilities (Note 22).

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	*Land, buildings and roads* KD'000	*Furniture, tools and equipment* KD'000	*Vessels* KD'000
Balance at 1 April 2018, net of accumulated depreciation	2,331,662	3,428,802	1,695,368	2,989,642	26,782	985,687	23,166	426,214
Additions	159,075	5,781	930	2,008	-	4,702	150	-
Disposals	-	(3,066)	(14)	-	-	(467)	(224)	(14,701)
Change in estimate	(14,542)	-	-	-	-	-	-	-
Transfers	27,239	338,952	147,704	615,415	981	55,982	2,824	6,440
Transfer to other assets	-	-	-	-	-	-	-	-
Foreign currency translation adjustment	13,612	(18,987)	(3,007)	2,314	-	(11,471)	17	-
Depreciation for the year	(189,359)	(216,656)	(102,319)	(221,833)	(10,439)	(57,122)	(7,510)	(18,589)
Impairment (loss) / reversal	(44,618)	(24,047)	-	-	-	-	(465)	1,518
At 31 March 2019	2,283,069	3,510,779	1,738,602	3,387,546	17,324	977,311	17,958	400,882
Property, plant and equipment								
At cost	3,981,991	7,863,212	3,455,016	6,078,752	78,382	1,694,411	117,437	698,878
Accumulated depreciation and impairment losses	(1,698,922)	(4,352,433)	(1,716,414)	(2,691,206)	(61,058)	(717,100)	(99,479)	(297,996)
Net carrying amount at 31 March 2019	2,283,069	3,510,779	1,738,602	3,387,546	17,324	977,311	17,958	400,882

During the year, the Group carried out the impairment assessment of property, plant and equipment and concluded that the carrying value of certain assets included oil and gas properties and plant and machinery exceeded its recoverable amount. The recoverable amount is determined based on the higher of fair value less costs to sell and value in use Accordingly, the Group's subsidiaries recognised an impairment loss of KD 4,747 thousand (2019: KD 44,168 thousand) and KD 20,025 thousand (2019: KD 24,047 thousand) in oil and gas properties and plant and machinery respectively.

6. Goodwill

	2020 KD'000	2019 KD'000
Balance at beginning of the year	113,860	122,831
Acquisitions	4,442	189
Impairment	(130)	-
Foreign currency translation effects	(1,446)	(9,160)
Balance at end of the year	116,726	113,860

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of recoverable amount of the CGU to which goodwill is allocated. The recoverable amount is determined based on the higher of fair value less costs to sell and value in use. The calculations use pre-tax cash flow projections based on five year plans approved by the subsidiary's management. The cash flows are discounted at a pre-tax discount rate ranges from 7% to 10% (2019: 7.5% to 10%) per annum. The value in use of the cash-generating units to which goodwill has been allocated, as estimated by the subsidiary's management, indicates that there has been no impairment during the year ended 31 March 2020.

7. Intangible assets

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

	2020 KD'000	2019 KD'000
Balance at beginning of the year	576,729	639,964
Additions during the year	54,719	16,724
Transfer from assets under construction	80	23
Transfer to oil and gas properties (Note 5)	(25,351)	(27,239)
Amortisation	(21,321)	(21,947)
Write-off of unsuccessful exploration cost	(9,108)	(28,899)
Impairment loss	-	(2,338)
Foreign currency translation effects	(846)	441
Balance at end of the year	574,902	576,729

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 369 million (2019: KD 381 million) of exploration and evaluation assets.

8. Right-of-use assets

	Right-of-use of assets					Lease liabilities
	Rigs KD'000	Land and Building KD'000	Vehicles* KD'000	Property and equipment KD'000	Others KD'000	Total KD'000	KD'000
Balance at 1 April 2019	655,737	177,044	41,091	14,638	10,636	899,146	893,230
Additions	526,101	6,697	13,933	3,195	416	550,342	555,385
Depreciation charge for the year	(76,486)	(27,579)	(15,436)	(5,619)	(3,278)	(128,398)	-
Depreciation capitalised in asscts under construction	(264,317)	-	-	-	-	(264,317)	-
Other changes	-	7,112	(632)	(500)	638	6,618	4,397
Foreign currency translation adjustment	-	2,222	(28)	75	79	2,348	(52)
Interest expense	-	-	-	-	-	-	11,121
Interest expense capitalised in assets under construction	-	-	-	-	-	-	26,087
Payment of lease liability	-	-	-	-	-	-	(303,822)
Balance at 31 March 2020	841,035	165,496	38,928	11,789	8,491	1,065,739	1,186,346

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

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

9. Other non-current assets

	2020 KD'000	2019 KD'000
Loans to joint ventures	136,989	234,818
Deferred expenses	13,616	14,220
Term deposits	-	91,260
Others	46,357	42,460
	196,962	382,758

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$ 406 million (2019: US$ 732 million) and is fully repayable on 27 May 2029. Due to its nature, the Group considered the loan as part of the investment in NSRP. During the year, the loan amount is reduced with the Group's share in NSRP losses of US$ 389 million (Note 11).

Furthermore, the Group also advanced long term loans denominated in Swedish Krona to OK-Q8, which carries 6 month Stibor rate plus 0.5% per annum till 31 December 2018 and thereafter, 3 months Stibor rate plus 1% till maturity. At the reporting date, the outstanding loan balance receivable from OK-Q8 amounts to US$ 30 million (2019: US$ 32 million) and is fully repayable on 1 January 2024 respectively.

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

10. Investments

	2020 KD'000	2019 KD'000
Financial assets at fair value through other comprehensive income		
Non-current assets		
Equity securities	1,073,246	1,256,516
Bonds	2,431,183	2,960,420
	3,504,429	4,216,936
Current assets		
Bonds	1,401,228	1,401,254
Financial assets at fair value through profit or loss		
Funds	201,392	240,890
Bonds	-	21
	201,392	240,911

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

11. Investment in equity accounted investees

	2020	2019
	KD'000	KD'000
Carrying values of equity accounted investees		
Significant equity accounted investees	713,015	612,083
In-significant equity accounted investees	281,125	75,856
	994,140	687,939
Share of profit of equity accounted investees		
Share of (loss) / profit of significant equity accounted investees	(63,141)	76,893
Share of profit of in-significant equity accounted investees	15,682	8,407
	(47,459)	85,300

11 Investments in equity accounted investees (continued)

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

2020	Ownership	Total assets KD'000	Total liabilities KD'000	Net assets/ (liabilities) KD'000	Group's share of net assets/ carrying value** KD'000	Revenues KD'000	Expenses KD'000	Profit/ (loss) KD'000	Group's share of results KD'000
Associates									
EQUATE	42.5%	2,339,849	2,050,133	289,716	123,129	1,066,703	955,439	111,264	47,287
TKOC	42.5%	297,848	43,192	254,656	108,229	194,261	112,683	81,578	34,671
GPIC	33.33%	166,217	9,065	157,152	52,379	94,695	83,876	10,819	3,606
KDC	49%	398,180	302,466	95,714	46,900	122,611	120,307	2,304	1,129
OULA	24%	121,285	53,860	67,425	16,182	159,060	155,193	3,867	928
SOUR	24%	93,414	27,716	65,698	15,768	164,869	161,412	3,457	830
Joint Ventures									
TKSC	57.5%	131,825	36,800	95,025	54,639	165,227	135,743	29,484	16,953
OKQ8	50%	410,776	229,089	181,687	90,843	868,345	854,572	13,773	6,887
NSRP**	35.1%	2,651,385	2,679,644	(28,259)	-	1,173,099	1,662,353	(489,254)	(171,728)
DRPIC L.L.C.**	50%	1,072,060	708,256	363,804	204,946	166	7,574	(7,408)	(3,704)
		7,682,839	6,140,221	1,542,618	713,015	4,009,036	4,249,152	(240,116)	(63,141)

On 29 February 2020, PIC acquired 49% equity interest of SK PIC Global Ltd (SKPIC) valued at KD 141 million, equivalent to US$ 465 million, the consideration was based on an enterprise value performed by an external expert and adjusted by net debt based on best estimate at the transaction date. At the reporting date, the Group has not yet finalised the relevant purchase price allocation, which might result in further adjustments.

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. ("DRPIC L.L.C").

In 2019, the Group carried out the impairment assessment of its investment in NSRP and concluded that due to changes in the outlook especially related to forecasted refinery margins, the investment in NSRP is impaired by US$ 378 million, equivalent to KD 115 million. The impairment loss is included in the Group's share of net income in NSRP. For the calculation of value in use, a discount rate of 14% was applied.

** This represents certain adjustments and contributions made by the Group in relation to it's investment in NSRP and DRPIC L.L.C of KD 10 million and KD 23 million respectively.

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

The Group's share in the contingent liabilities and contractual commitments of equity accounted investees was KD 818 million (2019: KD 107 million) and KD 49.5 million (2019: nil). During the year, the Group received cash dividend of KD 44,751 thousand from equity accounted investees (2019: cash dividend of KD 234,538 thousand). Equate and TKOC are jointly and severally a guarantor for the credit facilities undertaken by Equate.

In February 2020, a joint venture in which PIC owned 50% equity interest, entered into a long-term loan agreement with a consortium of banks. The long-term loan consisted of US$ 1.7 billion, equivalent to KD 529 million, amortizing term facility and US$ 150 million, equivalent to KD 47 million, revolving credit facility and are equally guaranteed by the partners of the joint venture on a completion of construction basis. The final maturity date of the term facility and revolving credit facility is 27 February 2027.

At the reporting date, the fair value of listed equity accounted investees amounted to KD 20,199 thousand (2019: KD 22,724 thousand) and the valuation input categorized under level 1 of fair value hierarchy.

12. Inventories

	2020 KD'000	2019 KD'000
Refined petroleum products	398,556	556,893
Crude oil	53,277	81,515
Liquefied petroleum gas	13,294	27,093
Finished petrochemical products	508	646
Spare parts, materials and supplies	542,826	474,481
	1,008,461	1,140,628

13. Trade receivables

94% (2019: 95%) of trade receivables relates to the Corporation and one of its major subsidiary who deal mainly with state owned and international oil companies. The subsidiary is operating mainly in Europe contributes approximately 12% (2019: 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 64% of outstanding trade receivables at 31 March 2020 (2019: 78%).

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

Trade receivables include KD 350 million (2019: KD 517 million) receivable from Ministry of Electricity and Water.

14. Other receivables and prepayments

	2020 KD'000	2019 KD'000
Advances to contractors	644,206	586,703
Receivable from exchange and concession partners	78,344	132,558
Marine sub-charter	33,039	34,568
Prepaid expenses	25,715	58,508
Refundable deposits	22,498	15,986
Employee receivables	48,631	51,621
Other	447,282	454,683
	1,299,715	1,334,627

15. Deferred tax assets and liabilities

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

a. Income taxes

	2020 KD'000	2019 KD'000
Statement of profit or loss		
Current year expense	23,992	12,289
Deferred tax expense	39,060	142,628
	63,052	154,917
Statement of financial position		
Deferred tax assets	164,151	267,262
Deferred tax liabilities (Note 22)	(93,034)	(151,368)
	71,117	115,894

b. Taxes receivable/ (payable)

Taxes receivable	5,847	5,073
Taxes payable	(117,511)	(159,211)
	(111,664)	(154,138)

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

16. Bank balances and cash

	2020 KD'000	2019 KD'000
Cash and current accounts at banks	352,016	1,411,126
Short-term bank deposits maturing within three months	156,930	469,714
Cash and cash equivalents	508,946	1,880,840
Short-term bank deposits maturing after three months	172,943	156,539
	681,889	2,037,379

Bank balances and cash include Pound Sterling 149 thousand, equivalent to KD 57 thousand (2019: Pound Sterling 147 thousand, equivalent to KD 59 thousand) recovered from former employees against whom the Corporation has initiated legal proceedings for financial irregularities (Note 36).

The corresponding amount of KD 57 thousand (2019: KD 59 thousand) is reported under other credit balances (Notes 23).

The interest rate on short-term deposits ranges from 1.7% to 2.7% (2019: interest rate ranges from 0.01% to 2.15%) per annum.

17. Assets held for sale

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

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

	2020 KD'000	2019 KD'000
Balance at beginning of the year	33,160	47,606
Reclassification from property, plant and equipment (Note 5)	3,700	-
Disposals	-	(9,524)
Reclassification from / (to) inventories	4,026	(4,922)
	40,886	33,160

18. Statutory reserve

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

19. Capital reserve

The capital reserve mainly represents the difference between the Corporation's cost of acquisition of its original subsidiaries, which were transferred by the Government of the State of Kuwait, and their net asset values at 31 December 1979. No transfer to capital reserve has been made for the current year (2019: KD Nil).

20. General reserve

In accordance with Article 12 of Law Decree No. 6 of 1980, 10% of the profit for the year attributable to equity holders of the Corporation is to be transferred to the general reserve, the percentage of which may be changed in accordance with a resolution of the Supreme Council for Petroleum (Note 25).

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

Article 10 of Law Decree No. 6 of 1980 states that the Corporation may provide part from its profits to meet the costs of replacement and renewal of the Corporation's and its subsidiaries' property, plant and equipment, after approval of the Supreme Council for Petroleum. The reserve is based on the difference between depreciation, calculated on the historical cost of the property, plant and equipment of the Corporation and its Kuwaiti subsidiaries, and depreciation calculated on the replacement cost of assets using their insured (generally replacement) values. The management has proposed to transfer KD 27 million to the reserve as at 31 March 2020 (2019: KD 98 million), which is subject to approval of the Supreme Council for Petroleum.

22. Non-current liabilities

	2020 KD'000	2019 KD'000
Profit available for distribution (Note 25)	6,224,605	3,274,401
Employees' terminal benefits (Note 22.1)	1,461,957	1,370,112
Pension fund liabilities (Note 22.1)	33,753	40,789
Long-term loans (Note 22.2)	3,593,949	3,912,191
Deferred tax liabilities (Note 15a)	93,034	151,368
Provisions (Note 22.3)	54,095	60,322
Lease liabilities (Note 8)	812,934	-
Others (Note 22.4)	270,191	327,964
	12,544,518	9,137,147

22.1. Employees' terminal benefits and Pension fund liabilities

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

The latest actuarial valuations took place on 31 March 2020, 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 2.3% (2019: 1.75% to 3.1%) per annum, an annual salary increase ranging from 0% to 3.8% (2019: 0% to 4.7%) per annum, a discount rate ranges from 1.4% to 2.3% (2019: 1.2% to 2%) per annum and inflation rate assumed ranging from 2% to 2.3% (2019: 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 2020 would not have any significant effect on the pension fund liabilities as of that date.

22.2. Long-term loans

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

KARO

On 17 May 2007, KARO's subsidiary signed a US$ 1,400 million term debt facility agreement with a consortium of banks which includes commercial facilities of US$ 1,053 million and an Islamic loan facility of US$ 347 million. The term loan is repayable over a period of 11 years in biannual instalments starting from 15 December 2010 and maturing on 15 June 2021. The coupon rate on this facility is LIBOR + 0.4% till the completion of the project, LIBOR + 0.45% till 7th anniversary of the project, LIBOR +0.6% till 10th anniversary of the project and LIBOR + 0.7% till the maturity date. The effective interest rate on the outstanding loan was 2.82% (2018: 2.26%) per annum. The facility contain certain financial covenants which are being met by KARO Group. The facility is secured by a charge over the property, plant and equipment of KARO (Note 5).

KPC-Aruba

The long term loans to KPC-Aruba are denominated in Euro and bear various interest rates. In 2014, Kuwait Petroleum Italia S.P.a, a subsidiary of KPC-Aruba, secured a Euro 450 million long term loan, equivalent to US$ 484 million, the proceeds of which were used for the acquisition of certain entities. In prior years, the subsidiary renegotiated the above long-term loan facility. 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% (2019: interest rate at 6 monthly EURIBOR plus 0.85%). The facility contain certain financial covenants which are met by KPC-Aruba. At the reporting date, KPC-Aruba repaid 80% of loan amount.

During the year, Kuwait Petroleum Espana, a subsidiary of KPC-Aruba, secured a long-term loan facility of Euro 43 million. The loan carries an interest rate at 6 monthly EURIBOR plus 1.05% and is expected to be fully repaid in seven years. At the reporting date, the subsidiary drew dawn Euro 29 million.

Further, Kuwait Petroleum Belgium, a subsidiary of KPC-Aruba, secured long-term loan facility of Euro 70 million. The loan carries an interest rate 1.2% and repayment will start after a grace period of 2 years and expected to be fully repaid by 2028. At the reporting date, the subsidiary drew dawn Euro 55 million.

In prior years, a long-term loan facility has been secured by Milazzo Refinery, a joint operation. The Group's share of the amount outstanding is US$ 62 million (2019: US$ 77 million). The loan carries an interest rate at 6 monthly EURIBOR plus 0.85% (2019: interest rate at 6 monthly EURIBOR plus 0.85%) and is expected to be fully repaid in 2022-2023.

KUFPEC

As of 31 December 2019, KUFPEC had an unsecured loan facility with principal amount of US$ 1,100 million, equivalent to KD 334 million. The average interest rate during 2019 was 3.11% (2018: 2.98%) per annum. The loan facility is repayable in 7 half yearly instalments of US$ 157 million, equivalent to KD 47.6 million, starting from 2020 and will be fully repaid in year 2023.

KNPC

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

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

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

KOTC

On 15 March 2018, KOTC entered into a murabaha agreement ("Murabaha Financing") with three participating local banks to finance the construction of 8 new vessels comprising of 3 gas tankers, 4 product tankers and 1 oil tanker. The total approved facility is KD 140 million comprising of Tranche A and Tranche B amounting to KD 28 million and KD 112 million respectively. As per the agreement, Tranche A is given 6 months and Tranche B is given 45 days to drawdown the approved facility amount starting from 15 March 2018 and 15 September 2019 respectively. As at 31 March 2020, KOTC had drawdown KD 112 million (2019: KD 28 million from Tranche A) from Tranche B. Murabaha Financing carries a profit rate of 2.20% (2019: 3.75%) per annum and is repayable in equal semi-annual instalments of KD 9,324 thousand starting from 15 March 2021 to 15 September 2027 with a final instalment amounting to KD 9,464 thousand payable on 15 March 2028.

KIPIC

On 11 June 2018, KIPIC entered into long term loan agreement ("Long-term loans") of KD 390 million with a consortium of local banks. The Long-term loans consists of both conventional and Islamic financing and principal is repayable in 20 semiannual instalments of KD 19.5 million each from the date falling 36 months after the agreement signing date, and maturing is expected by 2031. The interest on these loans is payable on biannual basis and carries variable interest rate of 0.750% per annum over and above the Central Bank of Kuwait discount rate. At the reporting date, KIPIC fully drew down the long-term loans.

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

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

22.3. Provisions

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

	2020 KD'000	2019 KD'000
Environmental (Note i)	53,186	59,366
Restructuring and others (Note ii & iii)	909	956
	54,095	60,322

i. Environmental

The Group has accrued for costs associated with environmental clean-up, principally relating to Belgium and Italy. In Belgium, costs are expected to be incurred in the next one to three years and which has now started, progresses. Costs related to clean up of depot facilities at Naples have been adjusted for inflation and discounted at 9.67% (2019: 8.2%) as these are not expected to be incurred until at least 2027. Remediation costs to logistics facilities at Silone in Italy were to be incurred following the closure of the facility but the decision on closure has been deferred. There is a related non-current government receivable which relates to a fiscal reimbursement in Italy. In Belgium, costs are expected to be incurred in the next one to three years and have not been discounted as the net effect of interest and inflation is not considered to be material.

ii. Restructuring

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

iii. Other

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

22.4. Others

As at 31 March 2020, non-current liabilities include an amount of KD 241,482 thousand (2018: KD 283,615 thousand) which represents provision for decommissioning costs related to KUFPEC.

KUFPEC makes full provision for the future cost of decommissioning oil producing facilities and pipelines on a discounted basis on the installation of those facilities. The decommissioning provision represents the present value of decommissioning costs relating to oil and gas properties, which are expected to be incurred when the producing oil and gas properties are expected to cease operations. These provisions have been estimated based on the KUPEC's internal estimates using operators estimates where applicable. The discount rate used in the calculation of the provision ranges from 3.5% to 4.5% (2018: 3.5%).

23. Other payables and accruals

	2020 KD'000	2019 KD'000
Borrowings	1,416,160	1,049,358
Provision for annual leave and accrued compensation	186,678	133,977
Payable to contractors	415,031	514,632
Accruals	246,282	227,449
Retention payable	363,490	345,128
Payable to exchange partners	44,685	46,661
Other credit balances	666,449	862,159
	3,338,775	3,179,364

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 22.2). On 7 February 2019, KPC-Aruba entered in a revolving credit facility with the National Bank of Kuwait. This facility is maximum of US$ 500 million without repayment schedule. The interest paid on the amount borrowed is Libor +1% and for the unused facility a commitment fee of 0.35% is charged.

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

Further, on 12 December 2019, the Corporation entered into an agreement for a US Dollar revolving credit facility of US$ 1 billion with a consortium of global banks. The facility is a conventional, 5-year unsecured facility. The facility carries an interest rate comprised of the aggregate of the facility margin and 6 month LIBOR rate payable semi-annually. The proceeds of the facility will be used for general corporate purposes. At the reporting date, the unutilised amount under this facility amounts to US$ 900 million.

Other credit balances include funds recovered from former employees, against whom one of the subsidiary companies has initiated legal proceedings for financial irregularities, together with accumulated interest (Notes 16 and 36).

24. Amounts due to Ministry of Oil

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

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

25. Profit available for distribution

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

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

On 25 July 2019, the National Assembly issued Law No. 99 approved dividend distribution of for the year ended 31 March 2018 amounted to KD 1,791,349 thousand.

On 14 February 2019, KPC signed an agreement with the Ministry of Finance with respect to payment of profit available for distribution amounted to KD 4,772,796 thousand. As per terms of the agreement, the above said amount will be paid in 10 different instalments by 2023. As a result of this arrangement, KPC determined this transaction as transaction with shareholder of the Corporation, and recorded the difference between the carrying value and present value of KD 198,396 thousand in the consolidated statement of changes in equity for the year ended 31 March 2019.

In reference to Supreme Council for Petroleum resolution no. 1/122 (2/2019) dated 16 July 2019, the Supreme Council for Petroleum resolution decided to retain profit attributable to shareholders of the Corporation amounted to KD 878,634 thousand for the year ended 31 March 2019.

For the year ended 31 March 2020, the Board of Directors proposed to retain the profit amounting to KD 395,511 thousand for the year ended 31 March 2020, which was subject to the approval of the Supreme Council for Petroleum in the annual general meeting.

Subsequent to above, the National Assembly approved the consolidated financial statements of the Corporation for year ended 31 March 2019 and 31 March 2020 and issued Law No.51/2020 dated 5 October 2020 and Law No. 52/2020 dated 5 October 2020. The Law No. 51/2020 superseded the Supreme Council for Petroleum's approval to allow the Corporation to retain profit for the year ended 31 March 2019 and approved the distribution of profit amounted to KD 790,771 thousand. Further, the Law No. 52/2020 superseded the Board of Directors proposal to retain profit for the year ended 31 March 2020 and approved the distribution of profit amounted to KD 355,960 thousand. Accordingly, the Corporation adjusted its consolidated financial statements for the year ended 31 March 2020 by debiting and crediting general reserve and profit available for distribution amounted to KD 790,771 thousand and KD 355,950 thousand for the year ended 31 March 2019 and 31 March 2020 respectively. The above did not have any impact on profit for the year or cash flows.

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

	2020 KD'000	2019 KD'000
Current portion	1,839,999	3,091,348
Non-current portion (Note 22)	6,224,605	3,274,401
	8,064,604	6,365,749

26. Revenues

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

	2020 KD'000	2019 KD'000
Crude oil	14,100,386	16,063,719
Refined petroleum products	8,788,806	10,488,359
LPG and lean gases	1,895,827	2,246,581
Petrochemical products	431,934	502,081
Revenue from marketing and distribution activities	98,986	117,011
Marine	28,964	14,685
Other revenue	31,034	44,071
	25,375,937	29,476,507
Point in time		
Crude oil	14,039,608	16,019,407
Refined petroleum products	8,755,986	10,452,641
LPG and lean gases	1,891,162	2,242,612
Petrochemical products	431,934	490,529
Other revenue	31,034	44,071
	25,149,724	29,249,260
Over the time		
Revenue from marketing and distribution activities	98,986	117,011
Marine	28,964	14,685
Shipping and handling services	98,263	95,551
	226,213	227,247
	25,375,937	29,476,507

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

27. Investment income

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

28. Other income (net)

	2020 KD'000	2019 KD'000
Recovery of financial cost	478,032	-
Foreign currency exchange gain / (loss)	(23,922)	22,518
UN compensation received (Note 31)	5,953	2,172
Miscellaneous income- net	45,616	100,500
	505,679	125,190

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

29. Directors' remuneration

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

30. Staff costs

Total staff costs for the year amounting to KD 1,629,729 thousand (2019: KD 1,887,286 thousand) are included in cost of revenues and general and administrative expenses shown on the consolidated statement of profit or loss. Of the staff costs for the year, KD 1,272,994 thousand (2019: KD 1,392,810 thousand) has been included in cost of revenues and KD 356,735 thousand (2019: KD 494,475 thousand) has been included in general and administrative expenses.

Staff costs consist of the following:

	2020 KD'000	2019 KD'000
Salaries, wages and other benefits	1,607,256	1,834,968
Pension and other retirement benefit expenses:		
- defined contribution	8,578	8,437
- defined benefit	4,186	32,059
Compensation of key management personnel (Note 33):		
- short-term benefits	6,315	6,467
- termination benefits	3,394	5,355
	1,629,729	1,887,286

31. 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 2020, the Corporation received USD 12,939 million, equivalent to KD 3,908 million (2019: USD 12,937 million, equivalent to KD 3,902 million).

During the year, the Corporation received compensation claims from the United Nations KD 5,953 thousand (2019: KD 2,172 thousand) (Note 28).

32. Fair value information

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

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

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

	2020 USD'000	2019 USD'000	2020 KD'000	2019 KD'000
Foreign exchange contracts	493,945	936,077	152,209	284,755

The net fair value of these contracts was asset of KD 1,695 thousand (2019: KD 1,679 thousand), level 2 inputs. The above amount is included in foreign currency exchange gain in the consolidated statement of profit or loss and other comprehensive income.

Determination of fair value and fair value hierarchy:

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

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

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

	Level 1 KD'000	Level 2 KD'000	Level 3 KD'000	Total KD'000
2020				
Financial assets at fair value through other comprehensive income	4,899,551	6,106	-	4,905,657
Financial assets at fair value through profit or loss	-	201,392	-	201,392

2019				
Financial assets at fair value through other comprehensive income	5,604,963	13,227	-	5,618,190
Financial assets at fair value through profit or loss	-	240,911	-	240,911

There have been no transfers between fair value levels during the year ended 31 March 2020.

33. Related parties

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

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

	Associates and joint ventures KD'000	Other related parties KD'000	Total 2020 KD'000	Total 2019 KD'000
Purchases	2,604	-	2,604	2,956
Sales	1,264,185	-	1,264,185	1,234,166
Cost of production	41,171	-	41,171	34,505
Marketing fees received	1,847	-	1,847	1,601
Compensation of key management personnel (Note 30)	-	9,710	9,710	11,822

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 2020 KD'000	Total 2019 KD'000
Non-current receivables from joint venture	136,989	-	136,989	234,818
Due from related parties	20,377	904	21,281	17,555
Trade receivables and prepayments	432,002	-	432,002	180,297
Due to related parties	3,633	1,876	5,509	16,071

34. 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 64% (2019: 78%) of the Group's outstanding trade receivables is attributable to 12 customers (Note 13). 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.

Exposure to credit risk

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

	2020 KD'000	2019 KD'000
Other non-current assets (other than deferred expenses)	183,346	250,087
Financial assets fair value through other comprehensive income	3,832,411	4,361,695
Trade and other receivables	4,152,528	4,598,308
Bank balances and cash	681,889	1,969,609
	8,850,174	11,179,699

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:

	2020 KD'000	2019 KD'000
Middle East	979,997	785,115
Europe (other than United Kingdom)	344,785	700,661
United Kingdom	53,340	126,375
Other regions	1,683,752	2,781,176
	3,061,874	4,393,327

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:

	2020 KD'000	2019 KD'000
Government	1,203,709	1,448,191
Private sector	1,858,165	2,945,136
	3,061,874	4,393,327

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

	2020 KD'000	2019 KD'000
Not past due	2,440,528	3,662,994
Past due not more than one year	409,710	435,795
Past due more than one year	64,327	64,743
	2,914,565	4,163,532

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

	2020 KD'000	2019 KD'000
Balance at 1 April	38,266	20,860
Provision for expected credit losses	5,207	21,997
Other changes	(7,436)	(4,591)
Balance at 31 March	36,037	38,266

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

Expected credit losses

Trade receivables and other receivables

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

Due from related parties balances

Transactions with related parties are carried out on a negotiated contract basis. The related parties are with high credit rating and repute in the market. Impairment on the due from a related party have been measured on the basis of lifetime expected credit losses. The Group considers that these have low credit risk based on historical experiences, available press information and experienced credit judgment. As on 31 March 2020, these are neither impaired nor due. The lifetime ECL computed on due from related parties are not significant.

Bank balances and cash

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

Investments

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

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

Liquidity risk

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

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

2020

	Carrying amount KD'000	Contractual maturities KD'000	Within 1 year KD'000	1 - 2 years KD'000	2 - 5 years KD'000	More than 5 years KD'000
Long term loans and borrowings	5,010,109	5,086,091	1,432,564	5,143	2,223,808	1,424,576
Trade payables	1,396,138	1,396,138	1,396,138	-	-	-
Other payables and accruals	1,922,615	1,922,615	1,922,615	-	-	-
Leases	1,186,346	1,208,931	375,224	429,113	249,341	155,253
Amounts due to Ministry of Oil	2,107,263	2,107,263	2,107,263	-	-	-
Profit available for distribution	8,064,604	7,999,197	1,839,999	5,583,944	575,254	-
	19,687,075	19,720,235	9,073,803	6,018,200	3,048,403	1,579,829

2019

	Carrying amount KD'000	Contractual maturities KD'000	Within 1 year KD'000	1 - 2 years KD'000	2 - 5 years KD'000	More than 5 years KD'000
Long term loans and borrowings	5,626,228	5,683,882	1,250,749	35,254	2,385,067	2,012,812
Trade payables	1,538,812	1,538,812	1,538,812	-		-
Other payables and accruals	2,130,006	2,130,006	1,983,278	-	143,852	2,876
Amounts due to Ministry of Oil	2,156,106	2,156,106	2,156,106	-		-
Profit available for distribution	6,365,749	6,564,145	3,091,348	1,396,850	2,075,947	-
	17,816,901	18,072,951	10,020,293	1,432,104	4,604,866	2,015,688

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, 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.

	2020 Equivalent position long/(short) KD'000	2019 Equivalent position long/(short) KD'000
EURO	64,725	(46,438)
USD	4,478,768	4,949,054
GBP	35,525	43,171
JPY	59,102	109,138
BHD	(1,704)	4,194
Others	450,545	638,445

Sensitivity analysis

A five percent strengthening of the KD against the following currencies at 31 March 2020 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 2019.

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

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

Interest rate risk

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

	2020 KD'000	2019 KD'000
Variable rate instruments		
Financial assets	3,940,584	5,161,746
Financial liabilities	(5,010,109)	(4,960,465)
Net exposure	(1,069,525)	201,281

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 10,695 thousand (2019: KD 2,013 thousand).

Other market price risk

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

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

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

Sensitivity analysis

For the majority of the Group's equity investments, quoted market prices are readily available. For such financial assets carried at FVOCI, a 3% increase or decrease in stock prices at the reporting date would have increased or decreased equity by KD 32,197 thousand (2019: an increase or decrease of KD 88,813 thousand). The analysis is performed on the same basis for the year ended 31 March 2019.

Capital management

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

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

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

35. Expenditure commitments

a) Operating lease commitments

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

	2020 KD'000	2019 KD'000
Future minimum lease payments:		
Within 1 year	-	69,791
Between 1 and 5 years	-	135,607
After 5 years	-	122,463
	-	327,861

b) Other commitments

	2020 KD'000	2019 KD'000
Estimated contracted capital expenditure	2,486,628	4,274,374
Supply commitments	387,181	432,879

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.

36. 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).

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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 Minster 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 Minster of Oil by proxy submitted a grievance complaint from the suspension decision to the court of ministers and on 27 December 2007 the attorney of the subsidiary submitted another grievance complaint. The judgment was challenged before the court of Cessation. On 17 February 2009, the court ruled to dismiss the appeal.

In parallel steps, the subsidiary has initiated civil cases in the United Kingdom, Switzerland, and other countries, and with the efforts of those working on the case, it won the case filed in the United Kingdom and obtained a judgment against three of the defendants for an amount of US Dollars 136,000 thousand excluding interest. In addition to this, the case ended with the rejection by the UK House of Lords on 10 December 2000 of the appeal submitted by Abdul Fatah Al-Bader. An amount of US Dollars 85,351 thousand has been collected till 7 May 2006. This collected amount was invested in deposits. The collected amounts along with interest till 7 May 2006 amounted to US Dollars 92,757 thousand (which has been subsequently distributed) plus an amount of US Dollars 6,200 thousand transferred by the Public Prosecution from the accused Hassan Qabazard and received by the subsidiary in Kuwait, which was invested in a deposit renewable with its interest thereon pending a decision on crime No. 275/93. The deposit of USD 6,200 thousand along with accumulated interest reached US Dollars 13,157 thousand till 31 March 2016 (31 March 2015: US Dollars 13,157 thousand). Legal measures are being carried out to collect the remaining balance. However, the uncollected amounts of US Dollars 151,709 thousand pending in the liability of the accused parties comprise of the balance remaining from the total amounts awarded in favour of the subsidiary according to the verdict from London, and inclusive of interest till August 2005 amounting to US Dollars 123,559 thousand plus such amounts, being the difference between the amounts claimed before London Court and those mentioned in the Public Prosecution Charge Report in connection with crime No.275/93 amounting to US Dollars 25,000 thousand, for which a civil case was filed where a final and conclusive verdict was announced in the session dated 7 March 2011 by rejecting the appeal, plus an amount of US Dollars 3,150 thousand (Chesapeake- selling debris of Surf City Vessel) for which a case was filed where a final and inclusive verdict was announced in hearing dated on 18 February 2014 in the appeal No. 9/commercial 2000/976 by rejecting the appeal. In 18 March 2014, appeal in cassation was filed against the rule and no hearing scheduled.

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

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

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

Then the both verdicts was appealed at the Court of Cassation by the heirs of the late Abdul Fatah Al Bader No. 2011/166 and No. 2012/603 cassation v/2 to appeal the verdict issued by Court of Appeals No. 2012/271 commercial /4 at the session dated 28/05/2012 the court has sentenced to refuse a request to cease the enforcement of the verdict. In the hearing dated 24 November 2014, the court verdict first to accept the appeal 166/2011 in terms of formalities and with respect to the subject matter the court rejected it then obligated the appellant to settle the expenses plus KD 20 as attorney fees. Secondly, the court accepted the appeal in cassation No. 2012/603 civil 2 in terms of formalities, with respect to the subject matter the court partially cancelled the verdict appealed in cassation. For the appeal No. 271/2012 civil to the extent of petition of appeal in cassation to amend the appealed verdict to jointly obligate the appellants to settle the compensation each one according to his share of inheritance succession and otherwise affirm the judgment.
The court obligated the appellees to settle appropriate expenses plus KD 10 for the attorney fees. An amount of Sterling Pounds 120 thousand was received on 11 October 2006, and invested in a deposit renewable with interest thereon. This amount plus interest amounted to Sterling Pounds 143 thousand (KD 64 thousand) at 31 March 2016 (2015: Sterling Pounds 142 thousand (KD 67 thousand), and will be distributed later according to the above agreed distribution share.

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

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

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

A hearing session was scheduled on 8 March 2012 as the first hearing for the appealled 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$ 27.5 million, equivalent to KD 8.5 million (2019: US$ 32.44 million, equivalent to KD 9.9 million). These principally relate to a variety of tax, legal and regulatory disputes, all of which are being vigorously contested by one of the subsidiaries of the Group.

During 2013-2015, there was an accusation in Italy that a subsidiary and its management failed to comply with environmental laws and regulations. As a precaution the local Public Prosecutor has ordered the seizure of certain company assets which may not be disposed pending resolution of the case. Management believes that it has always complied with the laws and regulations and will defend itself from these charges both in the investigative phase and before the Court through the most appropriate legal actions. Evidence and other defence arguments will be presented to the Court but the timing of such proceedings remains unknown. Next hearing of the trial is scheduled in May 2020. At this early stage it is not possible to reliably estimate the potential liabilities.

There is a long outstanding claim for compensation relating to sale of assets and equipment of the former Naples refinery. A legal ruling, subject to appeal, states that the buyers have to reimburse the Group. Buyers appealed against the ruling and the next hearing has been scheduled in early 2020.

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 was received in May 2018, completely dismissing the buyers claim and even condemning the buyer to pay a compensation for legal costs incurred in the defense of the claim.

The buyer decided to appeal the ruling and filed an appeal, in which the claim was reduced significantly and other legal arguments were introduced to claim damages. This appeal was strongly rejected by the Group and a statement of defense was filed. A hearing was held at the Amsterdam Court of Appeal on 12th of February 2020. A court decision is expected by mid-May 2020. The Company believes that the claim has very limited options to succeed and is confident that the Court of appeal will maintain the first instance ruling.

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

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

The precise value of the monetary claims made by NSRP and the Contractor may change in the arbitration. The Contractor is currently scheduled to file its full statement of reply and defence to counterclaim on 24 May 2020, but a three-four weeks extension is likely to be requested. Previously, on 7 March 2019, NSRP filed a response to the amended notice of arbitration in which it denied each of the allegations made against it and made counterclaims against the Contractor.

On the 14th May 2019 the Company and some of its subsidiaries have received a pre claim letter from the lawyers of The State of The Netherlands, announcing its intention to claim the amount of 62 Million Euro for alleged damages suffered as a consequence of the existence of a Bitumen Cartel, as evidenced by the Decision of the European Commission of 13 September 2006. This pre claim is made jointly and severally to all the Bitumen Cartel members. The Company has been given a 3-month period to respond, acknowledge or reject, otherwise the State of The Netherlands reserves its right to file the claim at Court. This pre claim letter and the accompanying report are now being analysed by external and internal legal counsels of the company. At this stage it is too early to make a proper assessment of the level of risk involved for the Company arising from this pre claim. There is a risk that the Company could finally be sued at Court by The State of The Netherlands and face to pay damages and then initiate proceedings to apportion the damages amongst all other Cartel Members.

37. 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 2019 KD'000	31 December 2018 KD'000	31 December 2019 KD'000	31 December 2018 KD'000
Statement of financial position				
Total assets	889,817	889,493	287,892	319,402
Total liabilities	(224,020)	(184,994)	(69,971)	(64,376)
Net assets	665,797	704,499	217,921	255,026
Proportionate share in joint operation capital commitment	8,170	125,434	-	3

Proportionate share in joint operating lease commitments

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

	31 December 2019 KD'000	31 December 2018 KD'000
Not later than one year	11,301	9,471
Later than one years and not later than five year	9,247	2,436
Later than five years	3,793	725
	24,341	12,632

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. Crude oil production at WJO was stopped effective from 11 May 2015 to carry out maintenance activities. In December 2019, the State of Kuwait and Kingdom of Saudi Arabia signed a Memorandum of Understanding on procedures to restate the production at KJO and WJO. The production is expected to resume in the first quarter of 2020.

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 2020, 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.

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

	2019 (mmboe)	2018 (mmboe)
Proved and probable reserves at beginning of year		
-Fields in production	460.25	480.86
-Projects under development	9.24	9.18
	469.49	490.04
Changes during the year		
-Revision of previous estimates	21.52	13.33
-Production (from on-going projects)	(39.24)	(33.88)
	(17.72)	(20.55)
Proved and probable reserves at end of year		
-Fields in production	445.30	460.25
-Projects under development	6.47	9.24
	451.77	469.49

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:

Directly held

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

Indirectly held

Name of company	Proportion held	Principal activities
Kuwait Aramotics 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.

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

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

c) Principal associates

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

d) Principal joint ventures

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

c) **Principal joint operations**

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

41. Subsequent events

On 7 April 2020, Government of Pakistan signed and executed assignment agreement according to which KUCPEC's subsidiary- Khirtar Pakistan B.V., assigned 2.5% working interest of Makhad Block to Government Holdings (Private) Limited.

Subsequent to year ended 31 December 2019, KUFPEC via its subsidiary, KUFPEC (Tunisia) Limited, signed sale and purchase agreement dated 19 April 2020 in respect of sale of certain interest in the Sidi El Kilan concession and its completion is subject to Tunisian Government and other relevant approvals.

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

42. Significant event- COVID 19

During March 2020, the World Health Organization declared the global outbreak of novel coronavirus ("COVID-19") a global pandemic. The COVID-19 pandemic and related economic repercussions have created significant volatility, uncertainty and turmoil in the oil and gas industry. This outbreak and the related responses of governmental authorities to limit the spread of the virus have significantly reduced global economic activity, resulting in an unprecedented decline in the demand for oil and gas commodities. This supply-and-demand imbalance coincided with decisions of various global oil producers to increase the production levels, putting severe downward pressure on commodity prices. These factors caused a swift and material deterioration in commodity prices in early March 2020. The oil producing nations agreed in April 2020 to cut production which resulted in upward movement in oil and gas prices as of the date of approval of these consolidated financial statements.

The risks to the Group of the ongoing COVID-19 pandemic include health and safety of employees; a slowdown or temporary suspension of operations in certain geographic locations in which the Group operates; delays in the completion, or deferral, of Group's growth and expansion projects; and supply chain disruptions, all or any of which could materially impact the Group's business operations and financial results. The full extent and impact of the COVID-19 pandemic is unknown at this time and the degree to which it may impact the Group's business operations and financial results will depend on future developments, which are highly uncertain and cannot be predicted with any degree of confidence, including: the duration, severity and geographic spread of the COVID-19 virus.




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