شركة نفط الكويت

Kuwait Oil Company

إحدى شركات مؤسسة البترول الكويتية

A Subsidiary of Kuwait Petroleum Corporation

Annual Report

2011 - 2012

إحدى شركات مؤسسة البترول الكويتية
A Subsidiary of Kuwait Petroleum Corporation

ANNUAL REPORT
2011 2012

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H.H Sheikh
SABAH AL-AHMED AL-JABER AL-SABAH
AMIR OF KUWAIT

H.H Sheikh
NAWAF AL-AHMED AL-JABER AL-SABAH
CROWN PRINCE

1 - Sami Al-Rushaid
Chairman

2 - Mohammed Hussain
Deputy Chairman

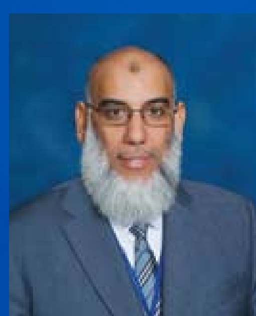
3 - Bader Al-Khashti
Board Member

4 - Jamal Al-Noori
Board Member

5 - Fahad Al-Ajmi
Board Member

6 - Dr. Waleed Bu Hamra
Board Member

7 - Nawal Al- Fuzaie
Board Member



Mazen Dawood Al-Sardi

Deputy Chairman & Deputy Managing Director Technical Services

Khaled Madhi Al-Khamees

Deputy Managing Director Administration & Finance

vacant

Deputy Managing Director Planning & Gas

Sami Fahed Al-Rushaid

Chairman & Managing Director

Emad Ahmed Othman Al-Omair

General Counsel & Manager, Legal Affairs

Jassem Ali Al-Shatti

Manager, Management Support Group

Abdul Khaleq Mostafa Ali

Manager, Public Relations & Information Group

Khalid Ali Al-Sumaiti

Deputy Managing Director Exploration & Production Development

Hosnia Sayed Hashem

Deputy Managing Director North Kuwait

Hashem Sayed Hashem

Deputy Managing Director South & East Kuwait

Ahmad Mohd. Al-Rasheed

Deputy Managing Director West Kuwait

Khaled Sulaiman Al-Fouzan
Manager
Industrial Services Group

Manager
Security & Fire Group

Essam Nasser Al-Houti
Manager
Major Projects Group I

Adnan Darweesh Al-Aradi
Manager
Major Projects Group II

Yousef Ahmad Ali
Manager
Engineering Group

Sami Juhaim Al-Juhaim
Manager
Human Resources Group

Abdul Aziz Mansour Al-Mansour
Manager
Financial Services Group

Mustafa Jaafar Bu-Magdad
Manager
Ahmadi Services Group

Saad Rashed Al-Azmi
Manager
Training & Career Development Group

Dr. Emad Dawood Al-Awad
Manager
Medical Group

Menahi Saeed Al-Anzi
Manager
Gas Development Group

Mohd. Fahed Al-Otaibi
Manager
Gas Management Group

Mohd Abdul Wahab Al-Fodari
Manager
Health, Safety & Environment Group

Jasser Mutlaq Al-Jasser
Manager
Commercial Affairs Group

Shafeeqa Idrees Mubarak
Manager
Planning Group

Yousef Mohd. Abdul Rahman
Manager
Technical Support Group

Mohd. Jassim Al- Saeedi
Manager
Deep Drilling Group

Ayad Mohd. Al-Kandari
Manager
Development Drilling Group

Saeed Mohd. Al-Shaheen
Manager
Well Surveillance Group

Ahmad Jaber AL-Eidan
Manager
Exploration Group

Hesham Abdul Malik Al-Nouri
Manager
Corporate Information Technology Group

Dr. Adel Essa Al-Abbasi
Manager
Research & Technology Group

Abdulla Ali Al-Sumaiti
Manager
Operations Group (North Kuwait)

Saeed Yousef Hamadah
Manager
Support Services Group (North Kuwait)

Hamed Yousef Al-Anezi
Manager
Fields Development Group (North Kuwait)

Badria Hussein Farhad
Manager
Heavy Oil Development Group (North Kuwait)

Emad Mahmoud Sultan
Manager
Operations Group (East Kuwait)

Shaker Abdul Hamid Faras
Manager
Operations Group (South Kuwait)

Badria Abdul Rahman Ali
Manager
Fields Development Group (South & East Kuwait)

Waleed Mohd Shuaib
Manager
Support Services Group (South & East Kuwait)

Abdulla Mohd. Nasser Al-Awadhi
Manager
Operation Support Group

Ali Hussain Al-Kandari
Manager
Operations Group (West Kuwait)

Hasan Ali Bunain
Manager
Fields Development Group (West Kuwait)

Ismail Abdulla Ali
Manager
Support Services Group (West Kuwait)

Fadil Majid Buresli
Manager
Export & Marine Operations Group

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SK

Message for the Chairman and Managing Directer

The past Fiscal Year has been marked by a host of achievements and initiatives, as the Company steadily marches toward the attainment of its strategic objectives under the umbrella of the Kuwait Petroleum Corporation (KPC).
I feel obliged to, first and foremost, commend the tremendous efforts exerted by our employees across the Company, which constituted the basis for our achievements and progress.

Since its founding in 1934, KOC has always acted in accordance with a carefully studied and clear-cut approach , which has made it an effective and major partner in social development. As a matter of fact, the Company has maintained this role and held on to it at all stages, and has never abandoned it under any circumstances.
In parallel with the duties it carries out in the domain of oil industry, upon which our national economy heavily depend, the Company has been firmly committed to its responsibility toward the society, through a set of activities and contributions aimed at developing the community and meeting the aspirations of its members for a better future.
Even though our social responsibility is a continuous process that has been synonymous with the Company's history since its early beginnings, we remain hopeful that more and more can be achieved to make our lives better and to avail the community of better opportunities for further development and optimal utilization of its resources.
In light of this trend, the 2011-2012 Fiscal Year clearly demonstrated the Company's care for the community and engagement with the issues concerning its members. In fact, we endeavored hard to enhance this role on the ground wherever need arose; our projects and activities varied accordingly to include the most prominent of these issues. This was a serious attempt to make a positive and significant difference in the best interest of all.
It is not an exaggeration that Social Responsibility accounted for the bulk of the Company's plans during the past Fiscal Year, in the sense that we have not overlooked any issue affecting the people; rather we were at the forefront in contributing to such matters. The issues which we effectively and diligently sought to address included traffic congestion, housing, curriculum review and raising awareness about Health, Safety, Security and Environment (HSSE), in conjunction with various relevant authorities.
As the Company stands today on the threshold of another phase of our Social Responsibility, we look back to take stock of our achievements, and look forward to formulating our programs and plans in tandem with our future aspirations.
KOC will continue to perform its role as a pioneering Company while fully recognizing the magnitude of responsibilities with which it is entrusted.

Sami .F. Al-Rushaid

KOC Annual Report for 2011/12

The report encapsulates KOC's major achievements for the fiscal year 2011/2012 in line with its strategic objectives:

1- Social Responsibility

"As the Company discharges its duties pertaining to the oil industry, it seeks to fulfill its commitment toward the community and spares no effort in acknowledging the issues that concern them."

Environment:

Reduction of Gas Flaring

- Gas emissions constitute a major challenge for the Company which is making relentless efforts to reduce it. With the passage of time, the Company was able to make outstanding achievements in terms of reducing the rate of gas flaring in oilfields through wide ranging procedures and carefully studied measures.
- The Company successfully reduced the rate of gas flaring to 1.32% by the end of the 2011-2012 fiscal year compared to the annual target of 1.8%. Beside the environmental benefits, these efforts contributed to the saving of millions of dinars for the State of Kuwait which used to be wasted in the past.

Nature Reserves

- In line with the series of nature reserves that have been set up by the Company over the past years across its operation areas, KOC inaugurated the Abdaliya Environmental Project situated at WK Operations Area. The project was completed within 100 days during which 1.2 million square meters of waste were cleared. In addition, 18,000 trees and desert plants from the Kuwaiti landscape have been grown. The Company laid the foundation stone for the Um Al-Aish Oasis Development Project in North Kuwait. Besides, the Company has continued to preserve and develop other wild and marine reserves, which contributed to ecological variation, the growth of marine creatures and the preservation of many types of wild plants, animals and birds as well as safeguarding them against extinction.

Awareness Campaigns:

In recognition of the importance of raising public awareness and keeping them informed of various vital social issues, KOC organized, during the previous fiscal year, four awareness campaigns at the State level, with the aim of highlighting key issues concerning the society, including:

- The Reduction of Gas Flaring

While performing its duties, the Company is extremely keen to prevent any potential harmful effects on the environment as a result of its operations, whether they are in oilfields or Gathering Centers. In this regard, the Company conducted a special campaign during which it made a detailed presentation about its efforts geared toward reducing gas flaring in its oilfields, in line with its efforts to preserve the environment.

- Back Pain Prevention

This Campaign was titled: "33 Preventive Measures for Back Pain." The campaign, which included sets of advice to prevent these pains, was aimed at raising awareness amongst various segments of the society and age groups about the importance of this issue. This is in the framework of the Company's keenness on the health and safety of its employees and members of the society. The campaign equally included messages and instructions in the media, presentations for schoolchildren and special exhibitions in a number of malls. A medical team was also present in those exhibitions to advise the general public and conduct primary checkups for those interested.

- Safe Driving and Children's Safety

This particular campaign mainly focused on ensuring the safety and security for children in vehicles due to the potential risks that they may face in accidents or as a result of a certain stop for any reason. KOC has endeavored during this campaign to focus on this vital issue, particularly since it concerns children, their safety, and safeguarding their lives. The activities of the campaign also included several messages in order to raise awareness among the employees and the general public about the various aspects of this issue, such as the provision of safety means in vehicles for children, the role of the parents, the measures and precautions that need to be taken by them as well as the best way to protect children with special needs in addition to the standards and specifications of suitable seats in order to ensure child safety in vehicles.

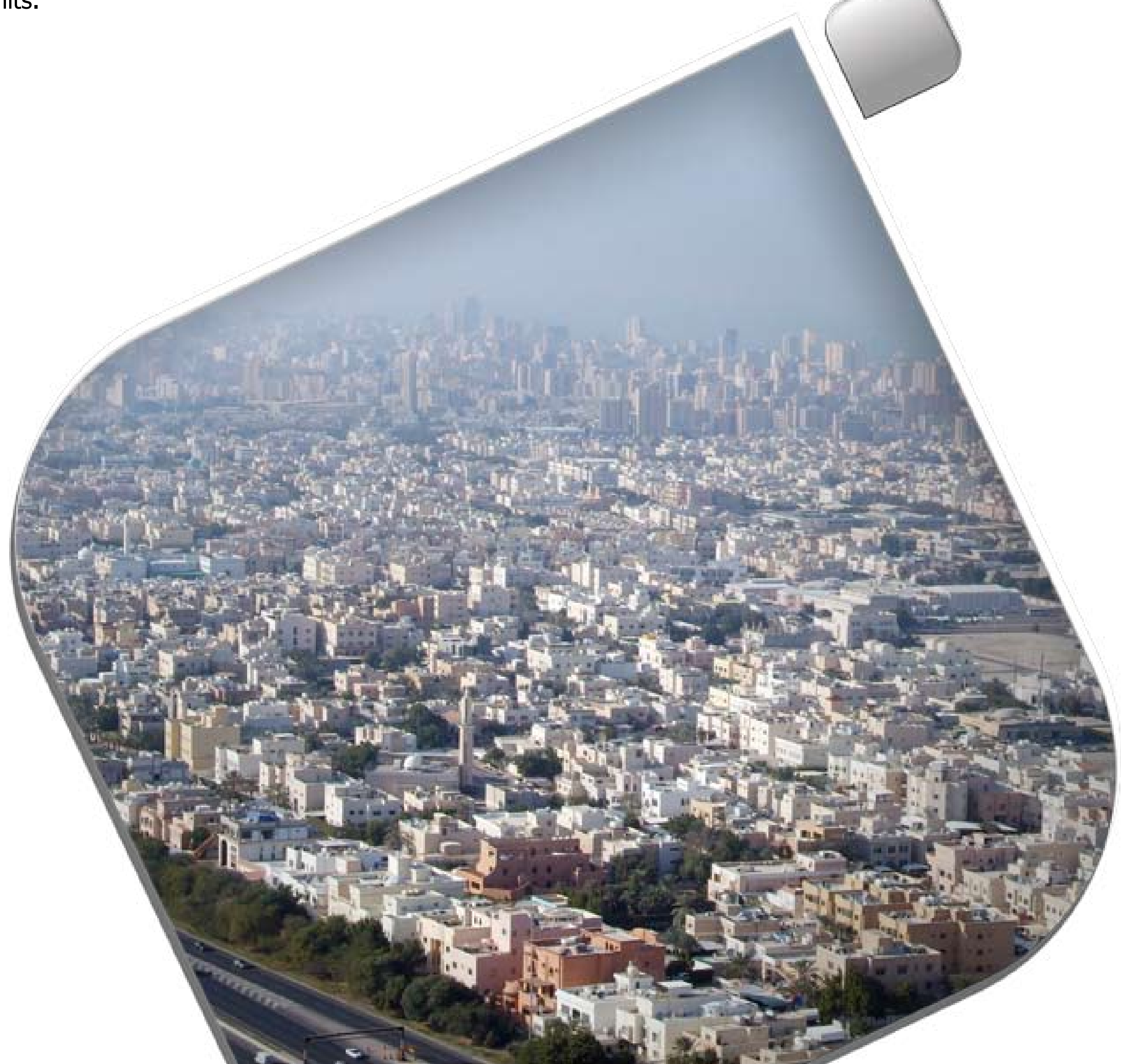
- Waste Recycling in Ahmadi Township

This campaign is to continue for years to come as the company seeks to enforce it more and more over the coming period in order to maximize its effects and to engage people with the campaign at all levels. The campaign, which included specialized workshops, awareness visits, the distribution of instructional and education material, targeted all members of the society, including housewives in particular. It also targeted company employees and schoolchildren, considering the fact that this segment is the cornerstone for a better future.

Community Service:

- In line with the State policy of qualifying the Kuwaiti youth in order to prepare them for acquiring jobs in the oil sector, the Company, in full cooperation with the Ministry of Education, reviewed Geology curriculum to make it more suited to Kuwait's geological structure. In this regard, regular meetings were held with the concerned authorities. Awareness sessions were also organized for the ministry's representatives about geology and its applications in the State of Kuwait.
- The Company has reviewed and analyzed 27 applications from various state institutions such as the Public Authority for Housing Welfare and the Kuwait Municipality, among others, concerning lands owned by the Company but needed for other purposes of public interest. This includes giving up a vast section of land opposite the Seventh Ring Road to set up 6,000 housing units.
- KOC has taken measures to ensure traffic safety on roads by enhancing the level of coordination with the Traffic General Directorate to find optimal solutions to the exacerbating traffic problem. In this regard, the Company organized a brainstorming session involving the Traffic General Directorate to discuss means of tackling traffic problems in the State of Kuwait. The session led to 52 effective proposals.
- On the occasion of World Blood Donation Day, the Central Blood Bank recognized Kuwait Oil Company's Ahmadi Hospital as among the top ten regular donors for more than 10 years and as a company which sponsored blood donation campaigns over the past year. The Company continues to organize blood donation campaigns throughout the year, which has always drawn significant participation from the employees.
- Ahmadi Hospital organized a series of awareness activities for members of society, particularly schoolchildren, in order to raise awareness about common health issues and the proper means of handling them.
- KOC is responsible for managing Kuwait's oil resources and preserving them. Additionally, it is responsible for ensuring that the lands are void of oil resources before releasing them to the concerned state authorities, which is a process that can take a significant amount of time. In performing its duties, KOC has always been keen on the optimal utilization of this wealth on

one hand and supporting state development plans and overcoming the hurdles it may face on the other. Over the past few years, the Company has released vast patches of land all over the country which totals some 4,200 square kilometers since 1999 until today. These stages are divided into five separate stages, where the total of the first release amounted to 317 square kilometers, while in the second and third stages, a total of 3,603 square kilometers were released. In the fourth stage, 56 square kilometers, and in the fifth, 70 square kilometers. With regard to individual applications, 154 kilometers were released. The Company has been keen to see that the lands released include all areas in Kuwait in order to meet development projects. Besides, future plans are in place to implement other stages and release lands in new areas. Since it started its work in 2006, the Land Concession Committee of KOC accomplished the fifth stage under which 70 square kilometers were released. The Company committee also finalized individual applications in which it released 154 square kilometers for different government institutions, and it is proceeding with its tasks by considering all the applications it receives. Thus, the Company examined more than 50 applications beyond the areas it has released and approved after the previous stages. During the last fiscal year, 27 applications from various state institutions were reviewed and scrutinized, including the Public Authority for Housing Affairs, the Kuwait Municipality and other government institutions regarding lands that can be released for different development purposes in the public interest, like releasing a vast patch of land next to the Seventh Ring Road sufficient for constructing 6,000 housing units.



2- Maximize the Strategic Value from Oil

“The Company has successfully drilled 529 new wells against a targeted number of 460 wells.”

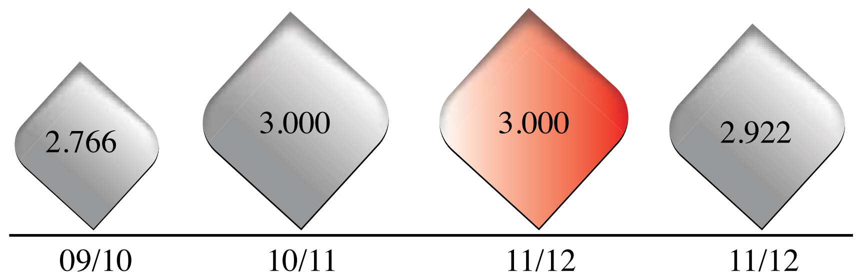

Kuwait Oil Company

Production Capacity

- Since the beginning of the fiscal year, Kuwait Oil Company has maintained the required production rate by KPC, which is responsible for marketing.

- In accordance with the 2030 Strategy, KOC is exerting a great deal of effort to increase the production capacity of oil to achieve a total capacity of 4 MMBOPD. Over the last year, crude oil production capacity levels amounted to 2.922 MMBOPD due to the fact that the Early Production Facility (120) has not reached its maximum capacity coupled with the closure of Early Production Facility (50) as a result of a glitch in Gas Distribution Control Unit. In addition, turbines and automatic stop valves failed at fluctuated periods in various areas.

Crude Oil Production Capacity (MMBOPD)

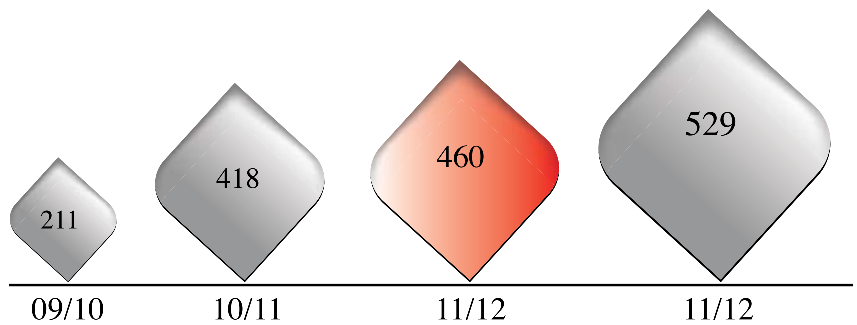


- The Wara Reservoirs Preservation Project contract was signed in September 2011 to help maintain the production capacity of the South and East fields in the coming future.

Drilling and Workover

- 529 new wells were successfully drilled in fields throughout Kuwait against a targeted number of 460 wells.

Wells Drilled



The number of wells drilled for crude oil production amounted to 504 wells where the total number of rigs used for development wells reached 27. The table below explains the type of wells drilled in the fiscal year 2011/2012.

Well category	Target	Actual
Drilling Cretaceous development wells	183	205
Heavy oil wells	260	298
Exploratory Cretaceous wells	6	1
Total	449	504

About 508,000 barrels of oil were added daily through drilling and workovers as well as Electrical Submersible Pumps (ESPs) in order to maintain production rates and capacities, where the total number of rigs used for maintenance and workover reached 20 throughout the Company's fields.

Support Studies

A contract for a new "Drilling Decision Center" was signed in December. The proposed center will provide sufficient information about on-site drilling activities in order for proper decisions to be made at the right time.

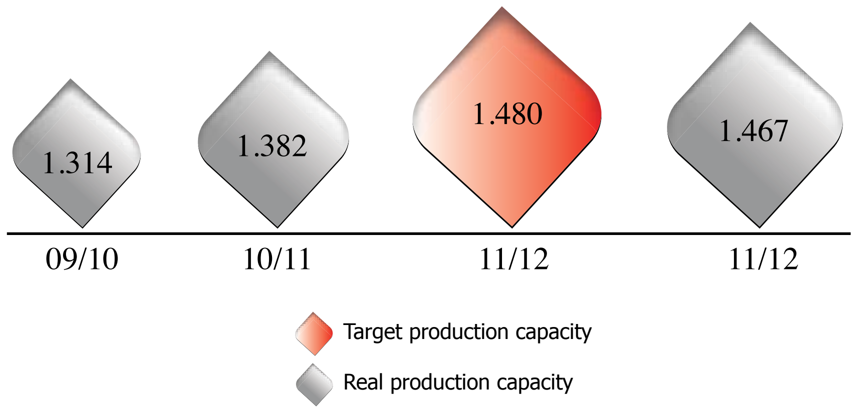
3- Realize the Potential of Gas

> "Booster Station - 160 has been constructed and commissioned, which will increase gas flow rates to about 500 MCFD from the South and East fields."

Production Capacity

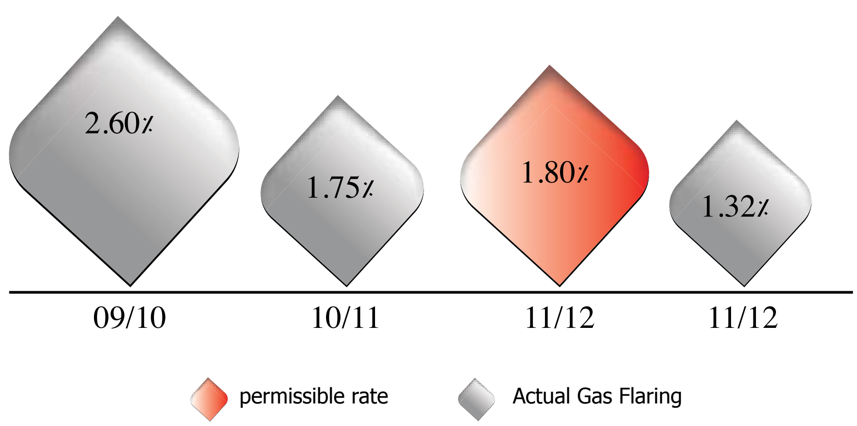
- Total associated and non-associated gas production over the last year stood at 1.467 BSCFD against a target of 1.480 BSCFD.

Total Associated and Non-Associated Gas Production (BSCFD)



- The 40” gas pipeline was successfully commissioned from BS-131 to the liquefied gas facility in Mina Al-Ahmadi in September 2011. A new Slug Catcher was also commissioned in BS-140 during the first week of the same month, which will lead to the reduction of gas flaring and provision of higher gas flow.
- BS-160 was constructed and commissioned in February 2012 at the total cost of 179 million Kuwaiti Dinars, which will increase gas flow rates by 500 MSCFD from South and East Kuwait fields to Mina Al-Ahmadi. The project was completed without incidents throughout the three-year implementation period.
- The efforts geared toward reducing the rate of gas flaring across the Company’s fields have paid off. Gas flaring has been reduced to 1.32% at the end of the 2011-2012 fiscal year, Compared to the permissible rate of 1.8%, which is better than the rate achieved over the past years. The flaring rate dropped to its lowest level in the Company’s history in August of the same year. Gas flaring reached about 1% during the past year, where it was estimated at 0.95% in April and 0.70% in August. In addition, KOC registered an unprecedented reduction in gas flaring in North Kuwait, which was estimated at a mere 0.21% in October 2011.

Total Gas Flaring throughout KOC



- The amount of gas transported to the LPG Unit amounted to 1.301 BSCFD up to March 2012 thanks to effective initiatives and procedures in terms of operation and gas treatment.
- The Control and Telemetry Project was recently commissioned and implemented; it will contribute toward the achievement of one of the KOC strategic objectives.
- Gas lifting in the Integrated Sabriya Fields has been enhanced and linked to the KwIDF's Control Room in December 2011, which will improve decision making and enhance the pumping of the required gas quantities.

Drilling & Workover

- At least 25 exploratory and development wells have been drilled to reach the targeted quantity of gas, which are as follows:

Well classification	Target	Actual
Gas development wells	0	9
Jurassic exploratory wells	3	4
Jurassic development wells	8	12
Total	11	25

4- Grow Reserves for a Sustainable Future

“The Company achieved its objectives pertaining to oil reserves, as Reserve Replacement Ration was over 102%.”

Prospective Reservoir Studies

- KOC recently started the second phase of the Oil Stock and Reserve Assessment Project by reviewing long-term plans for certain reservoirs in North Kuwait which will hopefully lead to an increase in future oil reserves.
- The Company carried out an End of Fields Life (EOFL) long-term study involving a number of reservoirs in North and West Kuwait. The study resulted in an increase in oil reserves by 1.6 percent of the Company's total reserves.
- Pilot tests have led to an effective application of low-salt water injection at Wara Reservoir in Greater Burgan Field.
- RMTL has been applied to Wara Reservoir in Greater Burgan, which is a project aimed at assessing the lifespan of the reservoirs in technical terms.
- The Company has achieved its objectives in relation to oil reserves for this year, as Reserve Replacement Ration was over 102%.

Seismic Survey Operations:

The agreement for the Kuwait Land 3D Single Sensor Seismic Survey project was signed in January of 2012 at the cost of about 51 million Kuwaiti Dinars. The project will make use of the latest seismic techniques, and the survey is considered to be the largest of its kind in terms of 3D Q-Land Seismic Survey in the world.

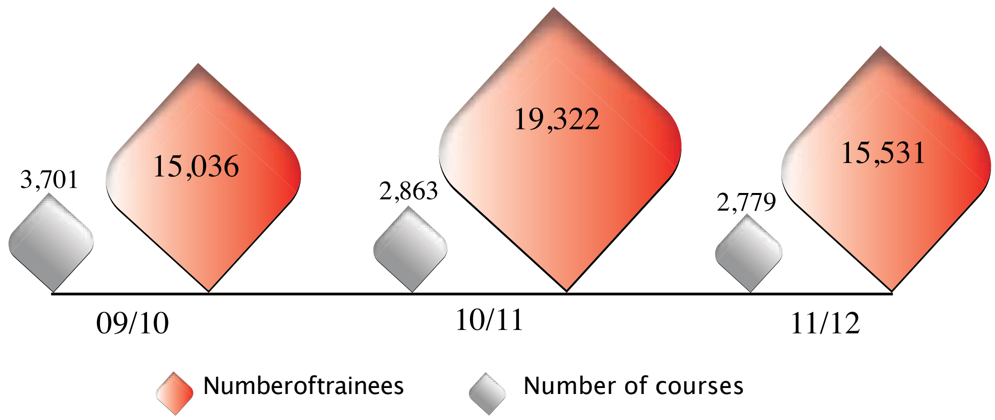
Exploratory Drilling Operations:

- Remarkable success has been registered in exploratory operations through the discovery of quantities of oil and natural gas in Al-Luyah Field (Marrat and Najma Serjello) and West Abdali Field (Al-Sedera) (Marrat and Najma Serjello). The discovery there surpassed the expected quantity of free gas; in addition, the discovery has contributed to the increase of oil reserves from middle Marrat layer in the same filed.
- The rate of exploration success reached 92% for the fiscal year 2011-2012.

5- Employee by Choice

"The Company has organized 2,779 training sessions in and out of Kuwait which 15,531 employees benefited from."

- KOC has organized 2,779 job related training sessions involving various fields within and outside the country. The number of trainees has reached 15,531.



- The number of KOC employees reached 7,094 until the end of the 2012 fiscal year.
- Kuwaiti citizens constitute 80.2% against the target of 79.5% annually. (This figure does not include Medical and Nursing staff)
- KOC took part in 40 local and international conferences, and presented a total of 243 technical papers for discussion in various conferences.
- In the domain of developing newly recruited engineers in the fields, KOC has launched the "Mobile Training Center" in collaboration with an American company which specializes in oil and gas, as well as oil field services and comprehensive integration of projects.
- KOC has organized a program for leadership development in conjunction with the most prestigious US universities specializing in business administration so that the participants can be familiarized with the latest administrative systems and modern leadership skills.

6- Realize Value From Technology

"The first smart field (Burgan – 136) was digitally tested and commissioned at the Gathering Center (GC-1). Caption"

- The first smart field (Burgan – 136) was digitally tested and commissioned at the Gathering Center (GC-1).
- The first pilot smart field (Mengeesh-178) was digitally tested and commissioned in December 2011. A flow control tool was installed which increased the well production to 11,768 barrels of dry oil compared to 2,000 barrels of oil produced with effluent water, which is equivalent to 75% of the oil produced from the same production layer.
- Cycle Steam Stimulation (CSS) was successfully tested at the lower Fars Reservoir with an average production of about 300 barrels of heavy oil per day in North Kuwait.
- At least six horizontal wells were drilled and tested with an average production of 200 barrels of heavy oil per day from one of the shallowest horizontal wells in the Middle East. A vertical rig was used, which penetrated the targeted horizontal layer from an inflection point of 150 feet from the surface.
- KOC successfully used solar power as a source to heat water in one of Ahmadi's homes. This led to the saving of about 180-200 kilowatts in this home.


Field KPI
Water Injection
Natural Flow
ESP Producer
SA-0366
880
17
2,199
42
Pump Frequency(Hz)
Today | Last Week | Last Month | Last Year
Running
With Opportunity
Alarm or Production Issue
SA-0366
Liquid Rate stb/d
1060
Oil Rate stb/d
880
Water Cut %
17
GOR scf/stb
232
Generate Status

7- Strengthen Our Commitment To HSSE

"For the second consecutive year, the Company has maintained a drop in the rate of car accidents to the lowest level."

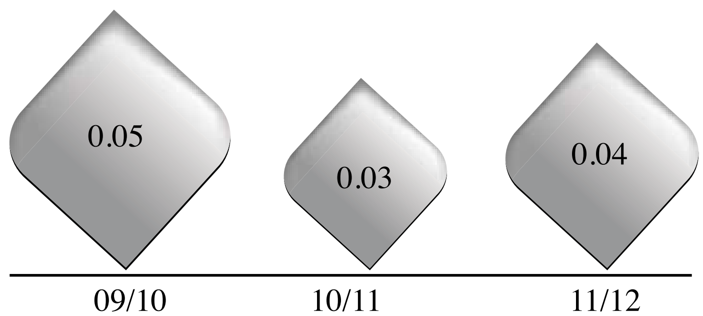
Health

The Company has organized an awareness campaign for employees on how to communicate with the deaf and how to deal with hearing problems through sign language.
Meanwhile, the first phase of the Dental Services Building has been completed. The facility comprises 17 new clinics, a laboratory and operating rooms with the latest medical equipment in addition to two waiting rooms.

Safety

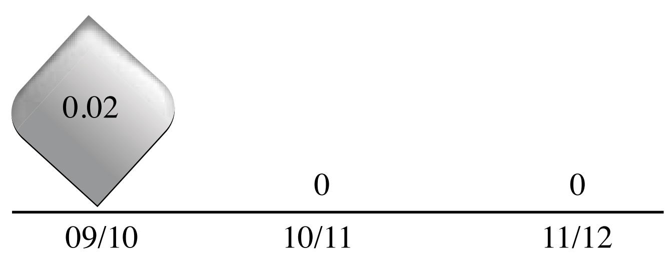
The rate of incidents increased by 0.01 compared to the fiscal year 2010-2011, thereby reaching 0.04 incidents per 200,000 man-hours.

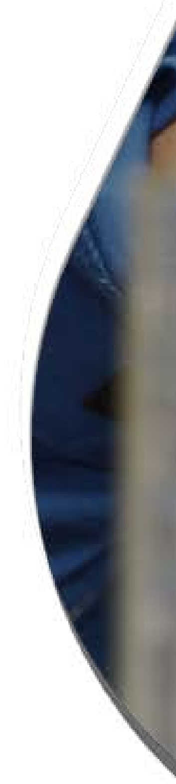
Rate of work time missed



In April of 2011, the HSE Team (West Kuwait) received the international Safety Award from the British Safety Council.
For the second consecutive year, the Company has maintained a drop in the rate of car accidents to the lowest level. The car accident rate has been reduced to zero; this includes serious and medium accidents.

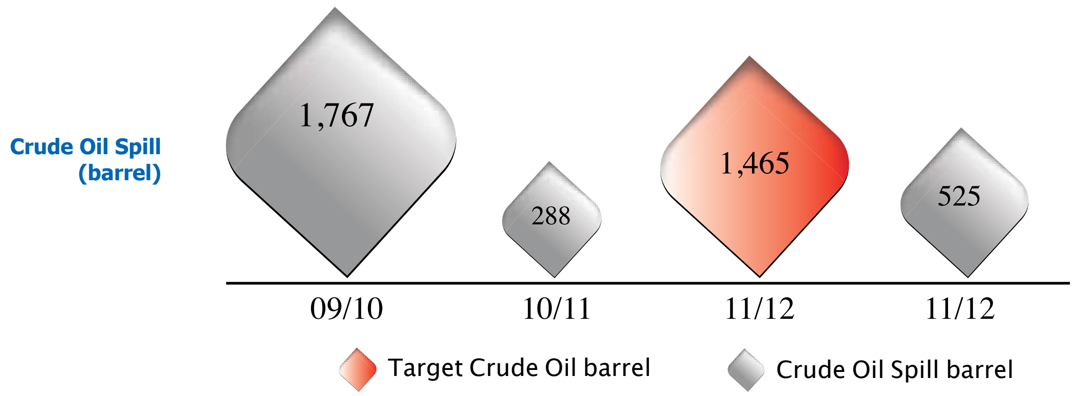
Car accidents rate





Environment

- The Company has maintained the reduction of oil spills to 525 barrels against the tolerance of 1,465 barrels.



- A taskforce has been formed to identify the sources of gas network leaks in Ahmadi and mitigate the associated risks. This will then be included in a final report compiled by a team of consultants.
- In December 2011, manifolds scattered in remote desert areas were lit up using solar panels. The project, which is the largest of its kind in KOC, was commissioned.
- A memorandum of understanding was signed with the National Liaison Office to coordinate on projects aimed at reclaiming the environment damaged by the Iraqi invasion of Kuwait.

- The company signed three major contracts in February 2012 to clean up the hydrocarbon contaminated soil in its oil fields which form the backbone of the restoration of the natural desert environment in a sustainable manner. This move demonstrates the continued improvement and remediation of Kuwait's environment under KOC's leadership. The key benefits of this project will see usable oil being recovered from appropriate features while contaminated soil shall be treated using the best available technology to designated end-points. Post clean-up, the natural desert environment shall be rehabilitated through the planting of native plant species.

8- Strive For Excellence In Performance

“KOC has won the CEO HSE Award for 2011 through the implementation of the new Slug Catcher project in BS-140”

- KOC has secured the first position in HSE among all the K-Companies as well as upstream companies in the Gulf Cooperation Council (GCC) States. This was done through benchmarking the performance of the said companies in the HSE domain. The last benchmarking was done during a meeting by the GCC HSE Committee Meeting in March 2012. Thus, the Company has come a long way towards achieving its strategic goal of being an HSE pioneer in the region.

- KOC has won the CEO HSE Award for 2011 through the implementation of the new Slug Catcher project in BS-140.
- The new Project Gate System has been finalized to replace the previous system. It came into effect in January 2012.
- Exploration & Production Development and West Kuwait Directorates signed the "Mithaq" agreement aimed at enhancing performance and service. The agreement is the first of its kind involving two KOC assets.

KOC's Aspirations within the Strategic Goals for 2012-2013

- Continue the implementation of projects designed to increase KOC's production capacity in line with its stated strategy of reaching an output of 3.65 million barrels per day by 2020 and maintaining this rate until 2030.
- Continue the implementation of Jurassic gas field development projects in order to achieve a production capacity of 1 billion cubic feet of free gas per day by 2016-2017.
- Develop heavy oil reserves in North Kuwait through the acquisition of necessary technology while training the Company's manpower in facilitating this goal.
- Increase onshore and offshore exploratory operations to enhance the Company's crude oil production capacity. Plans exist for production capacity to be increased to 750,000 barrels per day while gas production capacity will be increased by 1.5 billion cubic feet per day as a result of exploratory operations by 2030.
- Enhanced Oil Recovery (EOR) through the introduction of the best, modern and advanced technology, which includes:
    - The implementation of pilot and real water flood projects and enhancing the company's experiences in this domain.
    - Developing the Company's competencies in using EOR technology through the implementation of pilot projects in order to reach the real production capacity by 2020 and beyond.
    - The implementation of the crude oil separation program to be able to export three types of crude oil; including Kuwaiti crude oil, heavy oil and light oil compared to the current capacity of the exportation of only Kuwaiti crude oil.
    - The reduction of gas flaring to 1% across KOC.
    - The completion of the Full Sale Program by the Exploration Sector to enhance strategic performance.
    - Construction work started in February 2011 for the new Ahmadi Hospital which will serve the oil sector. The project is due to be completed in October 2014.
    - Recruiting competent and talented people and retaining them through the creation of a work environment that encourages outstanding performance based on motivation and enhancing the development of leadership and technical capacities.
    - KOC aspires to embody national partnership and contribute toward enhancing the local economy through continuous involvement of the private sector in the implementation of the KOC Strategy.

Kuwait Oil Company K.S.C.
State of Kuwait

“Financial statements and independent auditor’s report for the year ended 31 March 2012”

Statement of financial position
as at 31 March 2012

	Note	2012 KD'000	2011 KD'000
Assets			
Property, plant and equipment:			
Crude oil and general purpose		3,187,003	2,314,679
Gas collection and transmission		10,595	12,478
Drilling and exploration		18,880	34,593
Export operations		217	253
Mobile plant		757	1,238
Capital work in progress		1,653,214	1,851,802
Total property, plant and equipment	*5*	4,870,666	4,215,043
Intangible assets	*6*	14,937	17,738
Construction inventories	*7*	134,295	175,531
Receivable from Parent Company	*9*	15,094	15,094
Total non-current assets		5,034,992	4,423,406
Consumable inventories	*7*	84,442	81,103
Advances and other receivables	*8*	328,162	290,584
Amounts due from group companies	*15*	50,707	59,487
Cash and cash equivalents	*10*	2,091	6,544
Total current assets		465,402	437,718
Total assets		5,500,394	4,861,124
Equity and liabilities			
Equity			
Share capital – authorized, issued and fully paid shares of KD 1 each	*11*	30,188	30,188
Shareholder's current account	*11*	2,114,791	2,114,791
Statutory reserve	*11*	15,094	15,094
Total equity		2,160,073	2,160,073

Liabilities			
Due to Parent Company, net	*9*	1,474,018	1,343,940
Post employment benefits	*12*	152,758	114,439
Non-current liabilities		1,626,776	1,458,379
Accounts payable and other liabilities	*13*	538,066	451,574
Amounts due to group companies	*15*	2,165	1,392
Dividend payable	*14*	1,173,314	789,706
Current liabilities		1,713,545	1,242,672
Total liabilities		3,340,321	2,701,051
Total equity and liabilities		5,500,394	4,861,124

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

Sami Fahad Al-Rushaid	Khaled M. Al-Khamees
Chairman and Managing Director	*Dy. Managing Director (Admin & Finance)*

Statement of comprehensive income
for the year ended 31 March 2012

	Notes	2012 KD'000	2011 KD'000
Revenue:			
Revenue (net of royalty, levy and marketing fees)	*16*	5,350,316	3,698,527
Operating cost (cost of production):			
Contract services		(380,575)	(286,650)
Employee cost		(403,187)	(282,623)
Material cost		(45,308)	(38,111)
Depreciation and amortization		(343,240)	(295,023)
Total operating cost	*17*	(1,172,310)	(902,407)
Other operating income	*18*	13,193	15,028
Recoverable costs	*19*	101,974	65,997
Cost of production		(1,057,143)	(821,382)
Deferred cost recognized		(27,360)	(22,278)
Deferred cost		30,488	27,360
Total cost of sales		(1,054,015)	(816,300)
Gross profit		4,296,301	2,882,227
General and administrative expenses	*20*	(105,969)	(61,921)
Net operating profit		4,190,332	2,820,306
Interest income		117	113
Directors' remuneration	*21*	(42)	(42)
Net profit before contribution to shareholder		4,190,407	2,820,377
Contribution to the shareholder	*22*	(3,017,093)	(2,030,671)
Net profit		1,173,314	789,706
Other comprehensive income		-	-
Total comprehensive income for the year (transferable to Parent Company)	*14*	1,173,314	789,706

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

Kuwait Oil Company K.S.C.
State of Kuwait

Statement of changes in equity
for the year ended 31 March 2012

	Share capital KD'000	Shareholder's current account KD'000	Statutory reserve KD'000	Retained earnings KD'000	Total KD'000
Balance at 1 April 2010	30,188	2,116,542	15,094	-	2,161,824
Profit	-	-	-	789,706	789,706
Total comprehensive income for the year	-	-	-	789,706	789,706
Transactions with owner of the Company, recognized directly in the equity					
Settlement related to Kuwait Gulf Oil Company through the Parent Company	-	(1,751)	-	-	(1,751)
Distribution to owner of the Company (note 14)	-	-	-	(789,706)	(789,706)
Balance at 31 March 2011	30,188	2,114,791	15,094	-	2,160,073
Balance at 1 April 2011	30,188	2,114,791	15,094	-	2,160,073
Profit	-	-	-	1,173,314	1,173,314
Total comprehensive income for the year	-	-	-	1,173,314	1,173,314
Transactions with owner of the Company, recognized directly in the equity					
Distribution to owner of the Company (note 14)	-	-	-	(1,173,314)	(1,173,314)
Balance at 31 March 2012	30,188	2,114,791	15,094	-	2,160,073

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

Statement of cash flows
for the year ended 31 March 2012

	Note	2012 KD'000	2011 KD'000
Cash flows from operating activities			
Net profit		1,173,314	789,706
Adjustments for:			
Abortive drilling expenditure	*17*	4,066	3,945
Provision for obsolete and slow moving inventories		4,628	(2,772)
Depreciation and amortization	*5&6*	343,240	295,023
Contribution to shareholder	*9*	3,017,093	2,030,671
Provision for post employment benefits	*12*	42,917	14,457
		4,585,258	3,131,030
Changes in:			
- consumable inventories		(5,226)	(538)
- advances and other receivables		(37,578)	(124,039)
- receivable from Parent Company		(5,350,316)	(3,698,527)
- other payables to Parent Company		8,384	-
- accounts with group companies		9,553	(12,221)
- accounts payable and other liabilities		86,492	76,265
Cash used in operations		(703,433)	(628,030)
Post employment benefits paid	*12*	(4,598)	(2,531)
Net cash used in operating activities		(708,031)	(630,561)
Cash flows from investing activities			
Acquisition of property, plant and equipment (net of disposal)		(996,062)	(784,854)
Abortive drilling		(4,066)	(3,945)
Changes in construction inventories		38,495	(1,418)
Net cash used in investing activities		(961,633)	(790,217)
Cash flow from financing activities			
Funding from the Parent Company	*9*	1,665,211	1,419,415
Decrease in shareholder's current account		-	(1,751)
Net cash generated from financing activities		1,665,211	1,417,664
Net decrease in cash and cash equivalents		(4,453)	(3,114)
Cash and cash equivalents at 1 April		6,544	9,658
Cash and cash equivalents at 31 March	*10*	2,091	6,544

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

1. Reporting entity

Kuwait Oil Company K.S.C. ("the Company") is a wholly owned subsidiary of Kuwait Petroleum Corporation ("the Parent Company" or "KPC"). The Parent Company is wholly owned by the Government of State of Kuwait.

The Company is engaged in exploration, drilling, production and transportation of hydrocarbon resources within the State of Kuwait. The Company is also engaged in the storage of crude oil and its export. Hydrocarbon resources managed by the Company are the sovereign property of the State of Kuwait. Crude oil is extracted from reserves in Kuwait and, on the instructions of the Parent Company, is exported as blended crude or passed to Kuwait National Petroleum Company K.S.C. ("KNPC") for further processing or to the Ministry of Electricity and Water for power generation. Gas produced is treated similarly. The sales and marketing of crude oil produced by the Company is undertaken by the Parent Company.

The Company owns no oil and gas reserves nor any oil and gas inventory other than those required for operations.

The Company also provides marine services to KNPC's Mina Al-Ahmadi and Mina Abdulla refineries and the oil pier at Mina Al-Shuaiba. KNPC is charged for direct and certain indirect costs relating to these activities. The Company charges Group companies for medical and other services provided to their employees.

Effective 1 April 2007, the Parent Company changed the reporting structure of the Company to become a profit centre. Prior to 1 April 2007, the Company was reporting to the Parent Company as a cost centre with its costs fully reimbursed by the Parent Company. Under these revised arrangements, the Company's revenue is determined as the revenue from the sale of crude oil net of certain charges by the Parent Company (see policy on revenue recognition). In addition, 72% of the net profit is payable to the Parent Company as a contribution (Note 22).

The Company's registered office is P.O. Box 9758, Ahmadi 61008, State of Kuwait.

These financial statements were approved and authorized for issue by the Board of Directors on 19 April 2012 and are subject to approval of the Shareholder at the annual general assembly.

2. Basis of preparation

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"), interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB, that are effective for annual periods ending 31 March 2012, the requirements of the Kuwaiti Commercial Companies Law of 1960 as amended, and the Company's Articles of Association.

The Company has adopted all applicable revisions to IFRS and new IFRS that came into effect from 1 April 2011, including:

IAS 24 Related party disclosures (Revised)

The amended Standard clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities.

b) Basis of measurement

These financial statements are prepared under the historical cost or amortized cost basis. The financial statements are prepared on a going concern basis. All funding requirements of the Company are met by the Parent Company.

c) Functional and presentation currency

These financial statements are presented in Kuwaiti Dinars rounded to the nearest thousand ("KD '000"), which is the Company's functional and presentation currency.

d) Use of estimates and judgment

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Significant estimates and judgments are described in note number 4.

e) Standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 April 2011, and have not been applied in preparing these financial statements.

The management of the Company anticipates that the adoption of these standards, amendments to standards and interpretations once they become effective in future periods will have no significant financial impact on the financial statements of the Company in the period of initial application.

3. Significant accounting policies

The accounting policies set out below have been applied consistently by the Company to all periods presented in these financial statements, except as explained in note 2 (a).

a) Property, plant and equipment

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 capitalized 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.

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*.

Others

Oil and gas properties and other property plant and equipment are stated at cost, less accumulated depreciation and impairment losses.

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

Other assets under construction

Assets in the course of construction are carried at cost, less any recognized impairment loss. Cost includes all capital costs in accordance with the Company'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 ready for use.

Depreciation of these assets commences when the assets are ready for their intended use.

Subsequent costs

The cost of major repairs, overhaul and replacement of a component of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized.

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 profit or loss.

Depreciation

Depreciation is based on the cost of an asset less its residual value. 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 profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Drilling, exploration and other assets under construction are not depreciated.

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

Asset category	**Depreciation rate**
Oil and gas properties:	
Plant and machinery	10%
Tankage, pipelines and jetties	5%
Wells and surveys	10%
Service plant	25%
Drilling plant	33.33%
Other property and equipment:	
Marine craft	7.50%
Buildings and roads	4%
Office furniture and equipment	15%
Lorries and trailers	25%
Motor cars	33.33%
Computers	20%

b) <u>Intangible assets</u>

Seismic survey costs and other related costs incurred on exploratory and development wells are identifiable non-monetary assets from which future economic benefits will flow and are accordingly recognized as an intangible asset. These costs are stated at cost less accumulated amortization and impairment and are amortized over 10 years on a straight line basis in the case of development wells. The accounting policy for exploratory wells is applied to intangible assets related to exploratory wells.

c) <u>Inventories</u>

Inventories are measured at cost after making allowance for any obsolete or slow moving items. Cost of inventories is based on weighted average cost principle. Cost includes expenditure incurred in acquiring inventories and bringing them to their existing location and condition.

d) <u>Deferred cost</u>

The cost of production related to crude oil in storage at the year end is deferred and valued based on the average total cost of production for the year.

e) <u>Recoverable costs</u>

Recoverable costs represent costs incurred by the Company in providing services to or on behalf of related group companies. Recoverable costs are deducted from the Company's costs and shown separately in the statement of comprehensive income. Recoverable costs are allocated to related group companies based on the actual cost basis and do not include any profit margin.

f) <u>Provisions</u>

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

g) <u>Revenue recognition</u>

Revenue from services related to the exploration and extraction of crude oil is recognised when the crude oil is delivered to the Parent Company customers and is determined as the price at which crude oil is sold by the Parent Company net of certain costs allocated by the Parent Company as follows:

- Royalty at 20% of gross revenues.
- Fiscal levy at 74% of gross revenues net of royalty, scaled according to production levels and crude oil price.
- Marketing fee at 2% of gross revenues.

h) Leases

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised in the Company's statement of financial position.

i) Foreign currencies

Transactions in foreign currencies are translated into KD at rates of exchange prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into KD at rates of exchange prevailing at reporting date. The resultant exchange differences are recorded in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

Foreign currency differences arising on retranslation are recognised in the profit or loss.

j) Post employment benefits

The Company is liable for post employment benefits under the Oil Sector Law, Social Sector Law and the Labor Law.

Kuwaiti employees

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 Company's share of contributions to this scheme, which is a defined contribution scheme, is charged to profit or loss in the year to which they relate. The difference between Oil Sector Law and Labor Law is also accrued for Kuwaiti employees.

Expatriate employees

Expatriate employees are entitled to an end of service indemnity payable under the Kuwait Labor Law and the Company's by-laws based on the employees' accumulated periods of service and latest entitlements of salaries and allowances. Provision for this unfunded commitment which represents a defined benefit plan, has been made by calculating the notional liability had all employees left at the reporting date.

k) Financial instruments

i) *Non-derivative financial assets*

All financial assets are recognized initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company classifies non-derivative financial assets as loans and receivables.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective yield method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, advances and other receivables, receivable from Parent Company and amounts due from group companies.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

ii) *Non-derivative financial liabilities*

All financial liabilities are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Company classifies non-derivative financial liabilities as other financial liabilities. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective yield method.

Other financial liabilities comprise accounts payable and other liabilities, amounts due to group companies, dividend payable and due to Parent Company, net.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

l) Impairment

Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU 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 or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

Impairment losses are recognised in profit or loss. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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.

A reversal of an impairment loss is recognized immediately in profit or loss.

Non-derivative financial assets

A financial asset is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Company considers evidence of impairment for loans and receivables at a specific asset level. All individually significant receivables are assessed for specific impairment. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

In assessing impairment the Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

All impairment losses are recognized in profit or loss.

When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

4. Use of estimates and judgments

The preparation of the financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that may 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 recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is described below:

Treatment of exploration costs as abortive

Capitalized exploration drilling costs are considered abortive and expensed when commercially exploitable reserves of crude oil and gas are not found, if they are not subject to further appraisal activity or when temporarily abandoned with no plans for re-entry in the foreseeable future. In making judgments about whether to continue to capitalize exploration drilling costs, it is necessary to make judgments about the satisfaction of each of these conditions. If there is a change in one of these judgments in a subsequent period, then the related capitalized exploration drilling costs would be expensed in that period as abortive in the profit or loss.

Impairment of non-financial assets

At each reporting date, management assesses whether there is any indication that property, plant and equipment, intangible assets and inventories may be impaired. The determination of impairment requires considerable judgment and involves evaluating factors including industry conditions, technical innovation and market conditions.

Impairment and un-collectability of financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss.

5. Property, plant and equipment

By function, excluding capital work in progress

31 March 2012	Net book value at 31 March 2011 KD'000	Additions/ (disposals and transfers), net KD'000	Depreciation KD'000	Net book value at 31 March 2012 KD'000
Crude oil and general purpose	2,314,679	1,194,539	(322,215)	3,187,003
Gas collection and transmission	12,478	-	(1,883)	10,595
Drilling and exploration	34,593	27	(15,740)	18,880
Export operations	253	-	(36)	217
Mobile plant	1,238	84	(565)	757
Total	2,363,241	1,194,650	(340,439)	3,217,452

31 March 2011	Net book value at 31 March 2010 KD'000	Additions/ (disposals and transfers), net KD'000	Depreciation KD'000	Net book value at 31 March 2011 KD'000
Crude oil and general purpose	1,662,447	917,125	(264,893)	2,314,679
Gas collection and transmission	15,146	-	(2,668)	12,478
Drilling and exploration	55,569	498	(21,474)	34,593
Export operations	290	-	(37)	253
Mobile plant	4,500	(2,431)	(831)	1,238
Total	1,737,952	915,192	(289,903)	2,363,241

5. Property, plant and equipment (continued)

By Category

31 March 2012	Oil and gas properties					Other property, plant and equipment						Capital work in progress	
	Plant and Machinery (KD'000)	Tankage, pipelines and jetties (KD'000)	Wells and surveys (KD'000)	Service plant (KD'000)	Drilling plant (KD'000)	Marine craft (KD'000)	Building and roads (KD'000)	Office furniture and equipment (KD'000)	Lorries and trailers (KD'000)	Motor vehicles (KD'000)	Computers (KD'000)	Drilling, exploration and other assets under construction (KD'000)	Total (KD'000)
Cost													
As at 1 April 2011	1,408,576	1,198,004	1,628,946	37,244	2,538	20,562	329,059	2,398	29,829	51	30,151	1,851,802	6,539,160
Reclassification adjustments (a)	(21,450)	13,763	5,123	(3,567)	(1,700)	-	10,930	(19)	1	-	(1,430)	-	1,651
Adjusted balances as at 1 April 2011	1,387,126	1,211,767	1,634,069	33,677	838	20,562	339,989	2,379	29,830	51	28,721	1,851,802	6,540,811
Additions to Capital work in progress	-	-	-	-	-	-	-	-	-	-	-	996,062	996,062
Transfer from Capital work in progress	221,613	394,404	508,129	231	-	-	66,358	-	28	-	3,887	(1,194,650)	-
Disposals	(10,145)	(461)	-	(5,563)	(276)		(128)	(171)	(268)	(44)	(1,084)	-	(18,140)
As at 31 March 2012	1,598,594	1,605,710	2,142,198	28,345	562	20,562	406,219	2,208	29,590	7	31,524	1,653,214	7,518,733
Accumulated depreciation and impairment losses													
As at 1 April 2011	726,468	396,590	996,686	27,221	2,538	18,891	102,355	1,493	29,219	51	22,605	-	2,324,117
Reclassification adjustments (a)	(2,336)	1,766	2,308	4,339	(1,700)	18	(2,620)	5	2	-	(131)	-	1,651
Adjusted balances as at 1 April 2011	724,132	398,356	998,994	31,560	838	18,909	99,735	1,498	29,221	51	22,474	-	2,325,768
Charge for the year	122,125	63,688	135,291	1,218	-	242	14,037	215	520	-	3,103	-	340,439
Disposals	(10,145)	(461)	-	(5,563)	(276)	-	(128)	(171)	(268)	(44)	(1,084)	-	(18,140)
As at 31 March 2012	836,112	461,583	1,134,285	27,215	562	19,151	113,644	1,542	29,473	7	24,493	-	2,648,067
Carrying value													
As at 31 March 2012	762,482	1,144,127	1,007,913	1,130	-	1,411	292,575	666	117	-	7,031	1,653,214	4,870,666

a. The adjustment represents the re-classification between classes of property, plant and equipment and has no impact on the overall carrying value.

Exploration and evaluation costs included under drilling, exploration and other assets under construction amounted to KD 15,936 thousands (31 March 2011: KD 9,736 thousands).

5. Property, plant and equipment (continued)

By category (continued)

31 March 2011	Oil and gas properties					Other property, plant and equipment						Capital work in progress	
	Plant and Machinery (KD'000)	Tankage, pipelines and jetties (KD'000)	Wells and surveys (KD'000)	Service plant (KD'000)	Drilling plant (KD'000)	Marine craft (KD'000)	Building and roads (KD'000)	Office furniture and equipment (KD'000)	Lorries and trailers (KD'000)	Motor vehicles (KD'000)	Computers (KD'000)	Drilling, exploration and other assets under construction (KD'000)	Total (KD'000)
Cost													
As at 1 April 2010	1,015,010	857,574	1,554,128	36,783	2,678	20,562	224,937	5,301	29,829	51	30,414	1,985,575	5,762,842
Additions to Capital work in progress	-	-	-	-	-	-	-	-	-	-	-	787,750	787,750
Transfer from Capital work in progress	395,143	341,725	78,253	901	-	-	104,755	-	-	-	746	(921,523)	-
Disposals	(1,577)	(1,295)	-	(440)	(140)	-	(633)	(2,903)	-	-	(1,009)	-	(7,997)
Transfers	-	-	(3,435)	-	-	-	-		-	-	-	-	(3,435)
As at 31 March 2011	1,408,576	1,198,004	1,628,946	37,244	2,538	20,562	329,059	2,398	29,829	51	30,151	1,851,802	6,539,160
Accumulated depreciation and impairment losses													
As at 1 April 2010	614,607	346,195	887,801	27,218	2,678	18,654	92,672	1,458	28,441	51	19,540	-	2,039,315
Charge for the year	113,289	51,591	108,885	443	-	237	10,252	354	778	-	4,074	-	289,903
Disposals	(1,428)	(1,196)	-	(440)	(140)	-	(569)	(319)	-	-	(1,009)	-	(5,101)
As at 31 March 2011	726,468	396,590	996,686	27,221	2,538	18,891	102,355	1,493	29,219	51	22,605	-	2,324,117
Carrying value													
As at 31 March 2011	682,108	801,414	632,260	10,023	-	1,671	226,704	905	610	-	7,546	1,851,802	4,215,043

6 - Intangible assets

31 March 2012	Seismic surveys	Others	Total
	KD'000	KD'000	KD'000
Cost			
As at 1 April 2011	74,299	1,773	76,072
Additions during the year	-	-	-
As at 31 March 2012	74,299	1,773	76,072
Accumulated amortization			
As at 1 April 2011	57,222	1,112	58,334
Amortised during the year	2,193	608	2,801
As at 31 March 2012	59,415	1,720	61,135
Net book value			
as at 31 March 2012	14,884	53	14,937

31 March 2011	Seismic surveys	Others	Total
	KD'000	KD'000	KD'000
Cost			
As at 1 April 2010	70,864	1,773	72,637
Additions during the year	3,435	-	3,435
As at 31 March 2011	74,299	1,773	76,072
Accumulated amortization			
As at 1 April 2010	52,710	504	53,214
Amortised during the year	4,512	608	5,120
As at 31 March 2011	57,222	1,112	58,334
Net book value			
as at 31 March 2011	17,077	661	17,738

7 - Inventories

	2012	2011
	KD'000	KD'000
Inventories at cost	224,788	258,057
Provision for obsolete and slow-moving items	(6,051)	(1,423)
	218,737	256,634
Classified in statement of financial position as:		
Construction inventories	134,295	175,531
Consumable inventories	84,442	81,103
	218,737	256,634

8 - Advances and other receivables

	2012	2011
	KD'000	KD'000
Advances to contractors	275,792	240,999
Prepaid expenses	437	3,572
Staff advances	5,765	6,421
Deferred cost	30,488	27,360
Other receivables	15,680	12,232
	328,162	290,584

9 - Due to Parent Company, net

Due to Parent Company, net represents the net balance of amounts due from and (to) the Parent Company. Movements on this balance during the year were as follows:

	2012 KD'000	2011 KD'000
As at 1 April	(1,328,846)	(909,751)
Net revenue receivables (note 16)	5,350,316	3,698,527
Net funds transfer	(1,665,211)	(1,419,415)
Dividend distributed (note 14)	(789,706)	(667,536)
Transfer of statutory reserve	(15,094)	(15,094)
Contribution to shareholder (note 22)	(3,017,093)	(2,030,671)
Other payables	(8,384)	-
As at 31 March	(1,474,018)	(1,343,940)
Non-current receivables		
Receivable from Parent Company (*relating to transfer of statutory reserve*)	15,094	15,094
	(1,458,924)	(1,328,846)

In accordance with the Company's Article of Association, an amount equal to statutory reserve is transferred to the Parent Company. The amount due to Parent Company is unsecured and non-interest bearing, with no fixed terms of payment. This has been classified as non-current as Parent Company does not intend to request repayment in the short-term.

10 - Cash and cash equivalents

	2012 KD'000	2011 KD'000
Cash in hand	16	18
Cash at bank	2,075	2,917
Deposits with Parent Company	-	3,609
	2,091	6,544

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11 - Equity

Share capital

The authorized, issued and fully paid up share capital of the Company comprises of 30,188,291 (31 March 2011: 30,188,291) shares of KD 1 each.

Shareholder's current account

This account represents interest free contributions from the Parent Company and is classified as owner's equity as the Parent Company has given the Company the discretion to determine the timing and amounts of repayment.

Statutory reserve

The Company's Articles of Association stipulate that 10% of the net profit for the year should be transferred to the statutory reserve. As permitted by the Kuwait Commercial Companies Law, the Board of Directors resolved to limit this reserve to 50% of the share capital and accordingly only KD 15,094 thousands has been appropriated to statutory reserve. This has been approved by the shareholder.

12 - Post employment benefits

	2012	2011
	KD'000	KD'000
Balance at beginning of the year	114,439	102,513
Charge for the year	42,917	14,457
Payments made during the year	(4,598)	(2,531)
Balance at end of the year	152,758	114,439

13 - Accounts payable and other liabilities

	2012	2011
	KD'000	KD'000
Accounts payable	309,198	90,032
Contractor and suppliers retentions	63,921	54,265
Liquidated damages	47,956	31,536
Contractor accrued liabilities	3,151	188,419
Supplier accrued liabilities	453	385
Staff payables	72,606	60,996
Accrued expenses	27,042	21,138
Other accrued liabilities	13,739	4,803
	538,066	451,574

14 - Dividend payable

The Company’s Articles of Association stipulate that the net profit for the year after transfer to statutory reserve is payable as dividend. Upon the approval of these financial statements, dividend payable will be transferred to the Parent Company (note 9).

15 - Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. These include the shareholder, directors, executive officers and key management of the Company and companies of which they are principal owners or over which they are able to exercise significant influence.

The aggregate value of significant related party transactions and outstanding balances other than those disclosed elsewhere in the financial statements are as follows:

a) *Transactions with related parties:*

The Company has entered into transactions with related parties on terms approved by management.

i. Costs recoverable from group companies for services provided by the Company are disclosed in note 19.

ii. All of the Company’s revenue for the year amounted to KD 5,350,316 thousands (31 March 2011: KD 3,698,527 thousands) represents sales to the Parent Company.

iii. Training costs charged by the Parent Company amounted to KD 5,563 thousands (31 March 2011: KD 2,932 thousands) (note 20).

iv. The Company extracted and transferred the gas to Kuwait National Petroleum Company K.S.C., for which no revenue was recognised in the profit or loss.

Key management compensation

	2012	2011
	KD’000	KD’000
Salaries and other long term employee benefits	971	641
	971	641

b) *Balances with related parties under the common control of the Parent Company :*

	2012 KD'000	2011 KD'000
Due from group companies:		
Kuwait National Petroleum Company K.S.C.	34,277	48,393
Kuwait Oil Tanker Company S.A.K.	4,121	2,343
Kuwait Foreign Petroleum Exploration Company K.S.C.	204	160
Oil Development Company K.S.C. (Closed)	755	824
Kuwait Aviation Fueling Company K.S.C.	210	111
Petrochemical Industries Company K.S.C.	1,724	1,256
Kuwait Petroleum International Limited	81	59
Kuwait Gulf Oil Company K.S.C. (Closed)	9,335	6,294
Kuwait Santa Fe Engineering and Petroleum Projects Company K.S.C.	-	47
	50,707	59,487
Due to group companies:		
Oil Sector Services Company K.S.C. (Closed)	2,165	1,392
	2,165	1,392

Related parties balances reflected in the statement of financial position neither bear any interest nor there are any agreed repayment terms. Accordingly these balances are treated as recoverable on demand.

16 - Revenue

The Company earns revenue from the exploration and extraction of crude oil which belongs to the State of Kuwait. Revenue from these services is computed based on the sale value of crude oil by the Parent Company less allocated costs as follows:

	2012 KD'000	2011 KD'000
Gross revenue	28,459,121	19,673,016
Less: allocated costs		
Royalty	(5,691,824)	(3,934,603)
Fiscal levy	(16,847,799)	(11,646,426)
Marketing fee	(569,182)	(393,460)
Net revenue	5,350,316	3,698,527

Applicable percentages on allocated costs are disclosed under revenue recognition policy (see note 3(g)).

17 - Total cost

Total cost consists of the following:

	Note	2012 KD'000	2011 KD'000
Total operating cost		1,172,310	902,407
Add: General and administration expenses	*20*	105,969	61,921
Less: Other operating income	*18*	(13,193)	(15,028)
Total cost		1,265,086	949,300

The allocation of total cost by function including general and administrative expenses and other operating income are as follows:

	2012 KD'000	2011 KD'000
Crude oil production	686,901	492,635
Gas production	162,800	103,018
Export operations	68,079	51,814
Abortive drilling expenditure	4,066	3,945
Depreciation and amortization	343,240	297,888
Total cost	1,265,086	949,300

18 - Other operating income

	2012 KD'000	2011 KD'000
Port fees	6,557	5,435
Other income	6,636	9,593
	13,193	15,028

19 - Recoverable costs

	2012 KD'000	2011 KD'000
Kuwait National Petroleum Company K.S.C.	29,901	20,575
Kuwait Gulf Oil Company K.S.C.	622	1,653
Kuwait Petroleum Corporation K.S.C.	570	206
Oil Development Company K.S.C.	690	878
Group companies for medical services	70,191	42,685
	101,974	65,997

Costs reimbursable by Kuwait National Petroleum Company K.S.C. mainly represent marine services provided for export operations.

Costs reimbursable by Kuwait Gulf Oil Company K.S.C. and Oil Development Company K.S.C. mainly represent the consultancy and other services provided by or through the Company.

20 - General and administrative expenses

	2012 KD'000	2011 KD'000
Utilities	39,306	23,327
Training costs	5,563	2,932
Insurance	3,481	3,330
Medical costs	41,554	30,249
Others	16,065	2,083
	105,969	61,921

Training costs represent the Company's share of these costs charged by the Parent Company.
Staff costs are included in cost of production as employee cost and are disclosed separately in the statement of comprehensive income.

21 - Directors' remuneration

Board of Directors' remuneration of KD 42 thousands (31 March 2011: KD 42 thousands) is subject to the approval of the shareholder during general assembly meeting.

22 - Contribution to the shareholder

In accordance with the revised reporting structure of the Company as a profit centre (see note 1), 72% of the net profit for the year is payable to the Parent Company.

23 - Operating leases

Annual commitments under non-cancellable operating leases are as follows:

	2012 KD'000	2011 KD'000
Within 1 year	12,815	25,433
Between 1 and 5 years	51,258	38,748
	64,073	64,181

24 - Financial instruments

Financial risk management

Overview

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

- credit risk
- market risk
- liquidity risk

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

The Company continuously reviews its financial risk exposures and takes measures to limit these to acceptable levels. Financial risk management is carried out by the Company's Financial Services Group, under policies approved by the Board of Directors. The Financial Services Group identifies and evaluates financial risks in close co-operation with the operating units of the Company. The Board provides written principles for overall financial risk management, as well as written polices covering specific areas, such as credit risk, market risk and liquidity risk which are discussed below:

a. Credit Risk

Credit risk is the risk of financial loss to the Company if counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from bank balances, advances and other receivables and amounts due from group companies.

The Company's total sales are to the Parent Company inside Kuwait and, therefore, there is no credit risk.

The maximum exposure to credit risk for financial assets at the reporting date was:

	2012	**2011**
	KD'000	**KD'000**
Advances and other receivables	297,237	259,652
Amounts due from group companies	50,707	59,487
Cash and cash equivalents	2,075	6,526
	350,019	325,665

The Company under instructions from the Parent Company deposits surplus cash with various local financial institutions of high credit rating. There are no past due or impaired receivables and the Company does not hold any collateral against these receivables.

b. Market risk

Market risk is the risk that changes in the market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company'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 optimizing the return.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has no significant interest bearing assets or liabilities and therefore the Company's future performance and cash flows are independent of changes in market interest rates.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in foreign exchange rates.

The Company is exposed to foreign currency risk on transactions that are denominated in a currency other than the Kuwaiti Dinar primarily US Dollar and Euro. The Financial Services Group monitors and measures currency exposures on recognized assets and liabilities on a regular basis.

The Company manages foreign currency risk by matching assets and liabilities of similar currency exposures and by obtaining advances in foreign currencies from the Parent Company to pay of its foreign currency third party liabilities. Therefore the fair value of future cash flows of the Company's financial instruments are not significantly affected due to changes in foreign currency rates.

Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in equity market prices, whether caused by factors specific to an individual investment, issuer or all factors affecting all instruments traded in the market.
The Company is not exposed to equity price risk as there are no investments in equity securities.

c. Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company'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 Company's reputation.

The Company's financial liabilities essentially mature within one year except for due to Parent Company, net. However its activities are solely funded by the Parent Company which significantly minimizes liquidity risk.

Fair value

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Underlying the definition of fair value is the presumption that the Company is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

In the opinion of the management, the estimated fair value of financial assets and liabilities that are not carried at fair value at the reporting date is not materially different from their carrying value.

25 - Capital risk management

The Company defines capital as total equity, which includes share capital and shareholder's current account as shown in the statement of financial position. The Company's objectives when managing capital are to safeguard its ability to fund the business of the Company.

There were no changes in the Company's approach with regard to capital management during current year compared to prior years.

26 - Commitments and contingencies

Commitments for future capital expenditure in relation to lump sum contracts and purchase orders amounted to KD 1,810 million (31 March 2011: KD 1,919 million).

27 - Litigations

The Company is involved in various legal proceedings and claims arising in the ordinary course of business. While the outcome of these matters cannot be predicted with certainty, management does not believe that these matters will have a material adverse effect on the Company's financial statements if disposed unfavorably.

28 - Contingent assets / liabilities

KOC's total estimated losses which resulted from the Iraqi invasion and occupation of Kuwait have been included in four separate claims, based on the type of loss, filed with the United Nations Compensation Commission through the Public Authority for Assessment of Compensation in Kuwait. The aggregate amount of these claims is approximately equal to US$ 3,137 million (approximately equal to KD 873 million) out of which US$ 2,838 million (approximately equal to KD 817 million) was approved. The financial statements do not include amounts related to these claims. The total amount received up to 31 March 2012 amounted to US$ 1,583 million (approximately equal to KD 440 million), (up to 31 March 2011: US$ 854 million approximately equal to KD 237 million) as a partial payment, which was remitted to the Parent Company directly.