شركة نفط الكويت

Kuwait Oil Company

إحـدى شركـات مؤسسـة البتـرول الكويتيـة

A Subsidiary of Kuwait Petroleum Corporation

ANNUAL REPORT

2015 - 2016

KOC has made many accomplishments in 2015/2016 that were achieved through the concerted efforts of all Company parties. These continuous efforts aimed to increase Crude Production Capacity to 3.65 MMBOPD by 2020. The Company excelled this year with Crude Production Capacity surpassing 3 MMBOPD. In this report, we will detail the Company's performance and achievements within the framework of KOC's Strategic Objectives.

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Annual Report
2015 - 2016

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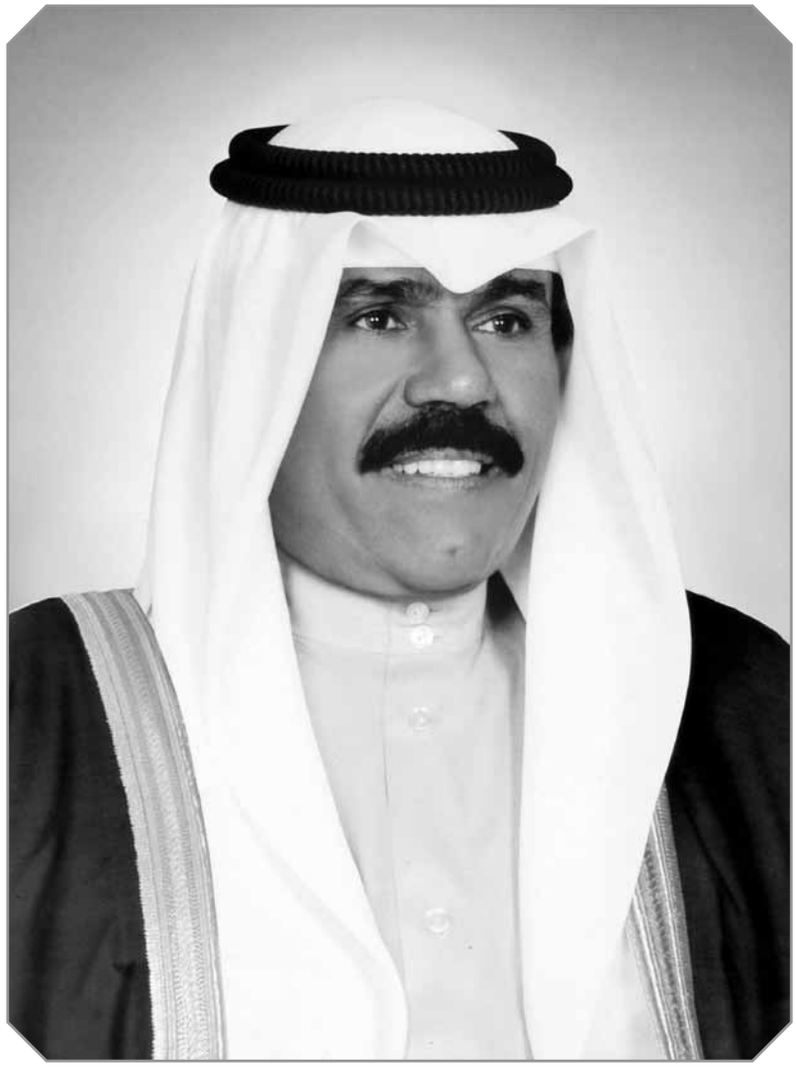
His Highness
Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah
Amir of Kuwait



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

Members of the Board

Mohammad Al-Jazzaf
Chairman of the Board

Jamal Jaafar
Chief Executive Officer

Abdullah Baroun
Deputy Chairman of the Board

Waleed Al-Bader
Board Member

Hatem Al-Awadhi
Board Member

Wafa Al-Zaabi
Board Member

Hamed Al-Alban
Board Member

Saud Al-Shammari
Board Member

OFFICE

JAMAL ABDUL AZIZ JAAFAR
Chief Executive Officer

AHMAD A/LATEEF AL-KHARRAZ
Manager (CEO Office Gr.)

SAUD FARAJ AL-SHAMMARI
Manager (Legal Affairs)

ESAM NASSER IBRAHIM AL-HOUTI
Deputy Chief Executive Officer (MP&TS)

SAAD RASHED MARZOUK AL-AZMI
Deputy Chief Executive Officer (A&F)

MENAHI SAEED HINDI AL-ENEZI
Deputy Chief Executive Officer (E&G)

HASAN ALI ABDULLA BUNAIN
Deputy Chief Executive Officer (WK)

ABDULLAH ALI AHMAD Al-SUMAITI
Deputy Chief Executive Officer (S&EK)

BADRIA A/RAHMAN ALI
Deputy Chief Executive Officer (NK)

AYAD MOHAMMED AL-KANDARI
Deputy Chief Executive Officer (D&T)

EMAD MAHMOUD AL-SULTAN
Deputy Chief Executive Officer (P&C)

ESMAIEL ABDULLA ALI
Deputy Chief Executive Officer (Corp. Svcs.)

Khaled Sulaiman Fouzan Al-Fouzan
Manager Industrial Services

Abdulla Khalid Al-Zamami
Manager Major Projects Gr. I

Khaled Nayef M. B. Al-Otaibi
Manager Major Projects - II

Yacoub Ahmed Ali Dashti
Manager Major Projects III

Mohsen J. Al-Shammari
Manager Projects Support Svcs. Gr.

Ali Zain Al-Naqeeb
Manager (Corporate Information Technology)

Hassan Abdulla Ahmed Al-Kandari
Manager (Human Resources)

Manager (Training & Career Dev)

Qusai Naser Al-Amer
Manager Training & Career Dev. Gr.

Dr. Emad Dawood Al-Awad
Manager (Medical Gr.)

Abdulla Mansi Al-Shammari
Manager (Financial Systems & control Group)

Mohd. A/Jawad Al-Basri
Manager (Public Rel. & Inform. Gr.)

Abdul Khaleq Mostafa Ali
Head (London Office)

Mohammed Abdul Hadi Ali Al-Zuabi
Manager (Gas Operations)

Elian Hussain Dahash Al-Anzi
Manager (Gas Fields Development)

Ali Hussain Mohammed Al-Kandari
Manager Production & Projects (Gas)

Bader Nasser Hassan Al-Qauod
Manager Operations Support (Gas)

Ahmad Jaber Al-Eidan
Manager Exploration

Omer Ali Sadeq
Manager Operations (West Kuwait)

Khalaf Ghayad Al-Anezi
Manager Fields Development Gr. (WK)

Saeed Mohd. Al-Duwaisan
Manager Support Svcs. WK Gr.

Saeed Mohd. Al-Duwaisan
Manager Support Svcs. WK Gr.

Ali Sayed Hashem
Manager Export Operations Gr.

Yousef A/Rahman Al-Baker
Manager Export Opns. & Marine Opns. Support Svcs.

Manager Marine Operations Gr.

Bader Nasse Al-Telaihi
Manager Operations Gr. (EK)

Fuad Mohd. Al-Shaikh
Manager Operations Gr. (SK)

Farida Abdulla Ali
Manager Fields Development Gr. (S&EK)

Ameena Rajeb Saleh
Manager Support Svcs. (S&EK) Gr.

Bader A/Rahman Mahmoud
Manager Operation Support Group

Adnan Eid Al-Adwani
Manager Operations Group (NK)

Mohammed Jamaan Al-Otaibi
Manager Support Services Group (NK)

Bader Ahmad Al-Saad
Manager Fields Development Gr. (NK)

Manager Fields Develoment Heavy Oil Gr. (NK)

Musleh Baddah Al-Otaibi
Manager Operations Group Heavy Oil

Abdulla Mohd. Al-Harbi
Manager Operations Support Group

Nayef A. Al-Anzi
Manager (Technical Support)

Saud Al-Foudari
Manager Deep Drilling Group

Yousef Mohd A/ Rahman
Manager (Development Drilling Group I)

Saeed Mohd Al-Shaheen
Manager Well Survelliance Group

Jamal Al-Hamoud
Manager Research & Technology Group

Mohd. A/Wahab Al-Qenaei
Manager Research & Development Group

Ali Mohd. Al-Saleh
Manager Development Drilling Group II

Bader A/latif Al-Khayyat
Manager Drilling Engineering Group

Bader Ebrahim Al-Attar
Manager Planning Group

Adly Ahmad Abu Amarah
Manager Contracts Group

Abdul Wahab Al-Mithin
Manager (Purchasing and Materials Management Group)

Ibrahim Abdul Majeed Faraj
Manager Commercial Support Group

Mohammed Khalifa Al-Abduljaleel
Manager (Capital Program Planning Group)

Esmaeil Ali Ahmad
Manager (Ahmadi Projects)

Nouri Yousef Abdul Latif Al-Khatrash
Manager (Ahmadi Services)

Manager Health, Safety & Environment

Waleed Mohd Al-Shuaib
Manager (Soil Remediation)

Sami Abdulla Al-Yaqout
Manager Security Group

Manager Mgmt. Support Group

Ali Jaafar Al-Bairami
Manager Fire Group

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Chief Executive Officer's Message

It is my pleasure to present you with KOCs' Annual Report for 2015/2016. This report includes a comprehensive review of the Company's activities and achievements over the past year.

To begin, I will refer to the most important value that governs how our Company prepares its plans and develops its work mechanisms. This value also underpins the achievement of our progress throughout our many tasks and projects. The value to which I refer, of course, is teamwork. The spirit of teamwork displayed by all of our employees has been the key to our success in maintaining KOC's position as a leader in its field. It has also allowed us to successfully continue on our distinguished journey with safety and efficiency.

The financial year that ended last March witnessed many achievements at various levels, and although it is difficult to review them all in this limited space, it should be noted that Company employees at various work sites rose to the challenge of increasing production capacity. With the grace of Allah and the efforts and dedication of our staff, KOC exceeded its production capacity targets.

KOC has made steady progress in its heavy oil program, and the Company successfully exceeded its annual

targets. A similar achievement was made with respect to the production of associated and non-associated gas, as gas production has increased in parallel with the increase in crude oil.

Perhaps one of the most prominent achievements made by the Company is the continued effort to reduce gas flaring, which of course has both environmental and economic benefits. In April of last year, the Company managed to reduce flaring to less than 1% for the first time in its history.

The Company has continued its effort to maintain its position as an employer of choice for skilled and qualified labor. In this regard, the recruitment process has been very active in selecting some of the best employees and partners for the Company. KOC's Management also paid a great deal of its attention to strengthening the capacities and efficiency of its staff through a series of programs and specialized training courses. These courses were conducted at the local, regional and international level.

Meanwhile, we were keen to acquire and utilize the latest technologies in the world available to us for the benefit and development of the Company's business. In addition, we spared no effort in strengthening our commitment to HSE-related matters, which play a vital role in the Company's policies and plans. Matters related to HSE also play a very important role in the conduct of our employees, who have received prestigious awards and certifications from institutions around the world.

I would also like to shed light on the various Company programs created to serve the community in which we operate, which stems from our commitment to social responsibility. A series of initiatives in this regard includes a list of public awareness programs and campaigns that were particularly targeted at students and schools. The Company also did much in the way of creating job opportunities for young Kuwaiti students upon graduation, and these efforts were highlighted by internship opportunities and interactive sessions for those considering jobs in the field.

This introduction has merely served as a brief overview of some of the many achievements made by KOC over the last year. It is without question that these achievements would not have been possible without the sincere efforts put forth by our diverse group of dedicated employees and partners, who naturally have our utmost thanks and appreciation. It is through their continued efforts and the spirit of teamwork that prevails at our Company that KOC aims to remain at the forefront of the oil and gas industry.

JAMAL ABDUL AZIZ JAAFAR

Kuwait Oil Company Annual Report 2015/2016

1st Strategic Objective:

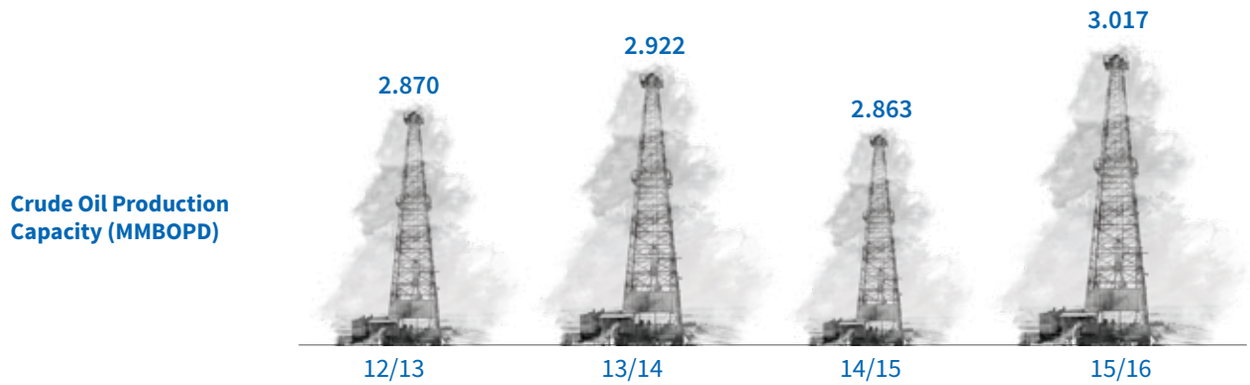
Maximize the Strategic Value from Oil

Crude Production Capacity

Kuwait Oil Company strives to find the necessary plans and elements that will lead to an increase and enhancement of Crude Production Capacity. Thus, Integrated Assets Plans (IAPs) were developed to achieve this goal, which is a major challenge for the Company. IAPs managed to enhance the cooperation and communication between operations areas and drilling groups to reach the goals of the plan. As a result, Crude Production Capacity reached 3.017 MMBOPD at year-end, higher than the 2015/2016 target of 3 MMBOPD. Efforts are still ongoing to make progress on plans and reach the Crude Production Capacity target of 3.15 MMBOPD for the next year.

The utmost efforts have also been made to increase KOC's Actual Crude Production. In this regard, KOC established a Production Optimization Steering Committee and Taskforce Team for coordinating and optimizing the additional workover resources across KOC. The Taskforce Team made an excellent contribution by adding more than 300,000 BOPD, and accordingly, led to achieve the maximum amount of Actual Crude Production within the shortest possible period using workover rigs. KOC Actual Crude Production reached its highest level of approximately 3.009 MMBOPD during January 2016, and an average of 2.883 MMBOPD during 2015/2016. Therefore, KOC fulfilled its commitment of delivering the crude to KPC's call within a tolerance of 3%.

Starting with KOC assets, specifically with the North Kuwait operations area, the Company achieved a Crude Production Capacity of approximately 709 MBOPD and an Actual Crude Production of 705 MBOPD, reaching a maximum Actual Crude Production during March 2016 of approximately 728 MBOPD. This achievement is based on several factors, with the main factor being the increment of drilling and workover rigs during the year. Another factor is the increment of the water injection rate in the reservoirs from 610 MBWPD to 770 MBWPD. Also, the number of shutdown days in GCs for preventive maintenance was reduced from 51 days to only 23 days. The efforts are continuous and ongoing to increase production rates in this asset. Many contracts were signed during the



year, which include the construction of "Manifolds Group Production Feeders and Trunk Lines for GCs 29, 30, and 31", and the "New Water Center in North Kuwait" projects.

Regarding Heavy Oil activities, the latest updates are mentioned as follows:

- KOC exceeded the annual target of demonstrating Heavy Oil Crude Production Potential of 4,000 BOPD. The Company demonstrated 5,184 BOPD. In addition, 185 wells were released to drilling, and all documentations of the Heavy Oil project were reviewed.

- Commenced the largest construction activities in KOC history (Lower Fars Heavy Oil Program) at a cost of KD 1.3 billion.

- Increased Heavy Oil reserves as a result of modeling/analyzing the geological and reservoir studies and pilot projects.

- Drilled the shallowest horizontal well in the Middle East by using a conventional oil rig, and continued testing six similar wells that show encouraging results.

- Reactivated the production of oil wells in South Ratqa field from 1980 in order to enhance KOC Heavy Oil capabilities.

- Started developing Um-Niqa Field for Heavy Oil to achieve a Production Capacity of approximately 30 MBOPD.

Moving to the South and East Kuwait asset, Crude Production Capacity reached approximately 1,706 MBOPD, and Actual Crude Production reached 1,686 MBOPD. As part of KOC efforts to enhance the Production Capacity in this operations area, booster pumps were installed in GCs 1, 2, 4, 6, and 22 to increase the GCs' capacity to deal with the increment of water production. In addition, the Company successfully installed two horizontal pumps with a capacity of 30 MBWPD in all mentioned GCs to deal with associated water and re-inject it in wells drilled specifically for this process, which will enhance production capacity and raise the efficiency and flexibility of maintenance operations. Similarly, a comprehensive study was made for all GCs in this area; it observed an amount of approximately 110 MBOPD of dry crude being treated in the desalter units of wet crude. Accordingly, the Company changed the pipelines route to dry crude units in all GCs with estimated amounts of 68 MBOPD, which led to an increase in the capacity for the wet crude.

Regarding the West Kuwait asset, Crude Production Capacity reached approximately 534 MBOPD,

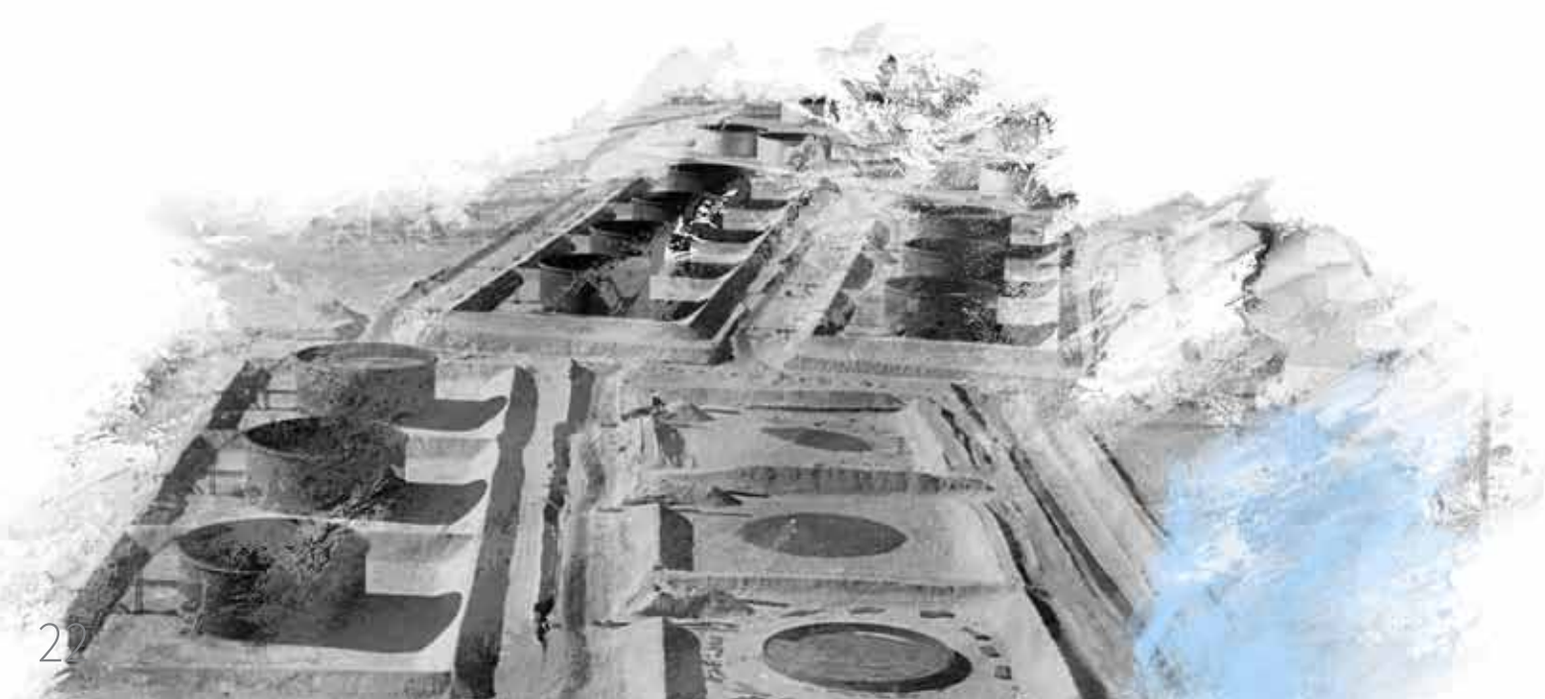
and Actual Crude Production reached 490 MBOPD. The efforts in this area succeeded in reducing the associated water for 13 wells in the Um-Ghudair field during the period from June to August 2015, and as a result, the production rate was increased to around 23 MBOPD of crude oil. Furthermore, the Company made the necessary improvements on 24'' pipelines (from GC-27) and 20'' pipelines (from Ahmadi Distribution Manifold), and extended them to the Eocene line in Mina Abdullah to ensure a continuous supply of heavy oil from West Kuwait for KNPC, as well as providing the local market with asphalt.

Regarding Light Oil Production from North Kuwait and the Early Production Facility (EPF), production reached about 68 MBOPD. The deferral of EPF-50 shutdown for the coming year 2016/2017 contributed to increasing the average daily production. Intensive efforts are being made in that area in order to enhance the production capacity.

The Company used all the opportunities that contribute to achieving its strategic objectives and reaching 3.65 MMBOPD by 2020. Several tests were successfully conducted on its wells, such as the well testing on (RA-0423) in Middle Maudud reservoir which resulted in production capacity of about 2,200 BOPD. Another example is the successful vertical drilling on well (RA-0502) due to the inaccessible quantities of oil down GC-15; the results were equivalent to 3,000 BOPD.

Regarding Export Operations during the fiscal year 2015/2016, specifically in the third quarter, a remarkable quantity of 11.4 MMBBLS of oil was exported within 48 hours, which is equivalent to 4 days of total KOC daily crude production. Furthermore, and during the first quarter of the year, the Company achieved its highest level of crude exports in a single day of 6.7 MMBOPD, which is a unique record in the history of KOC that reflects the improvement of performance and dedication to work.

Meanwhile, twelve contracts were awarded and executed for well surveillance and workover activities during the fiscal year 2015/2016, with a savings of approximately US $216 million. This reflects the spirit of cooperation and sense of responsibility among the teams within the Company.

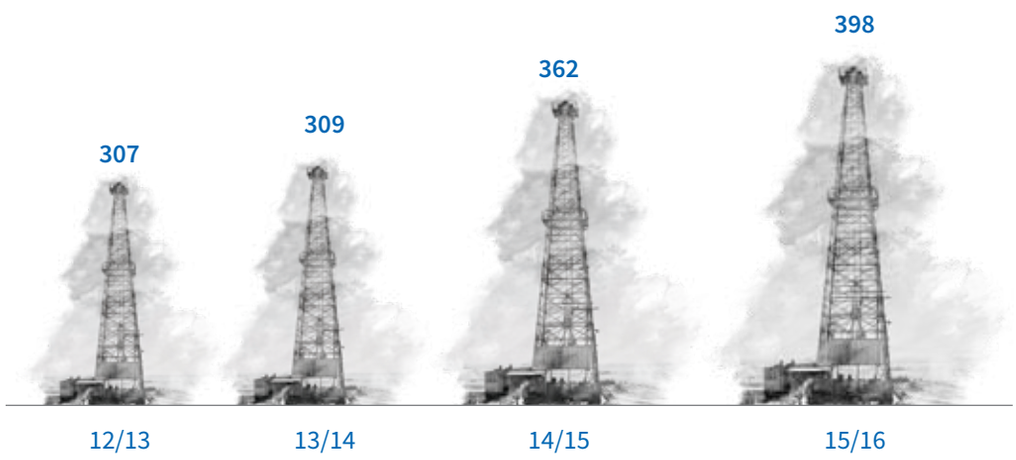


Drilling and Workover

During 2015/2016, KOC faced many challenges and difficulties but succeeded in overcoming them efficiently to achieve the Company's Crude Production Capacity targets. The Company selected the best opportunities for drilling and workover rigs in order to increase production. At the end of the fiscal year, the total number of drilling and workover rigs reached 97, compared to 82 rigs of last year. Moreover, contracts for 7 new workover rigs were awarded during 2015/2016.

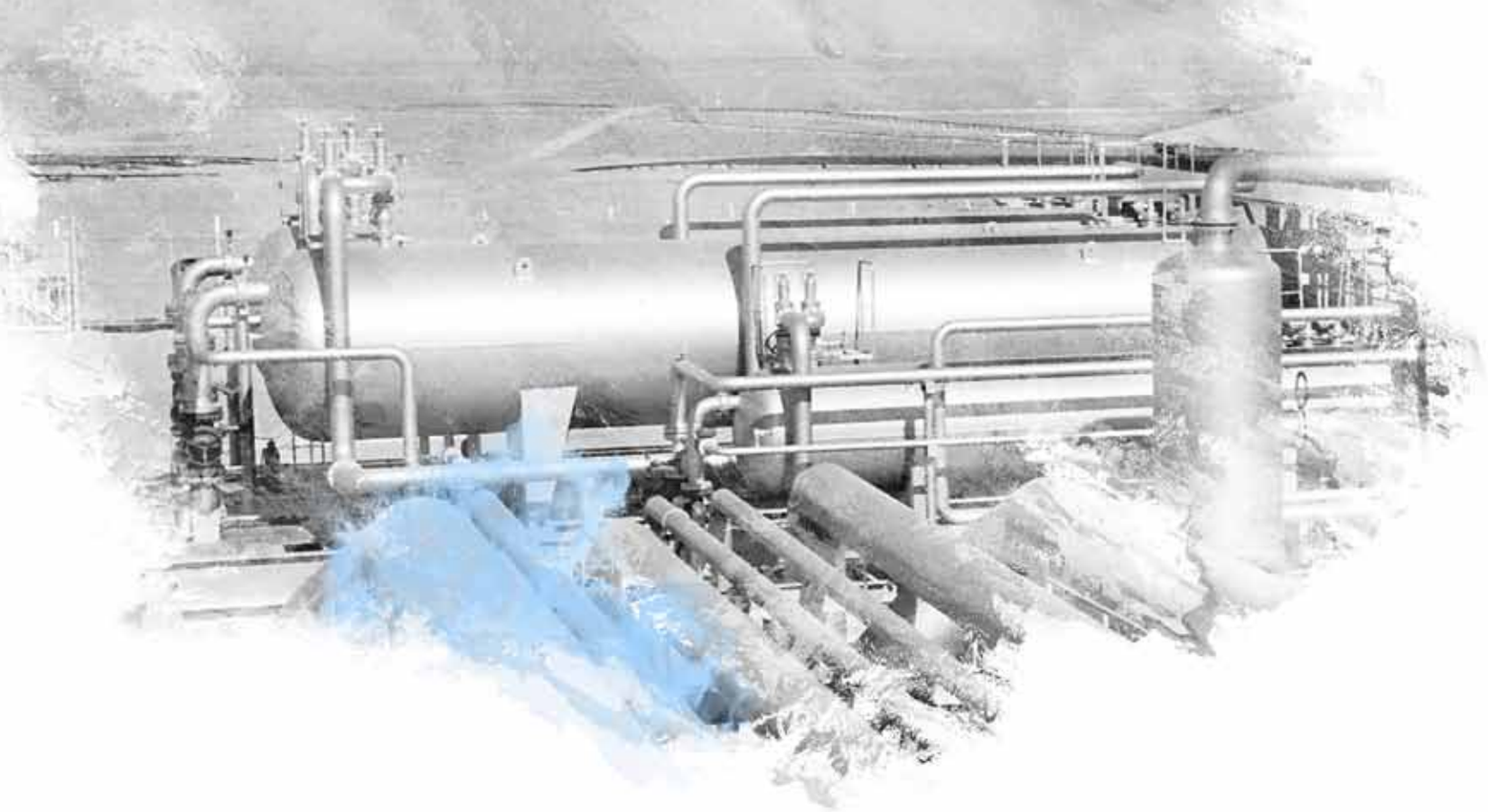
As a result, 416 new wells for crude oil and non-associated gas were drilled in KOC fields, exceeding the annual target for the year of 401 wells. Out of which, 398 wells were drilled to produce crude oil against a target of 386 wells. Thus, approximately 770 MBOPD of oil gain was marked through wells drilling and workover operations, including the installation of Electrical Submersible Pumps, all in order to maintain the Crude Production Capacity.

Number of Drilled Wells for Crude Oil



Well Classification	Target	Actual
Cretaceous Development Wells	247	275
Jurassic Development Wells	5	5
Heavy Oil Development Wells	100	85
Exploratory Wells	34	33
Total	386	398

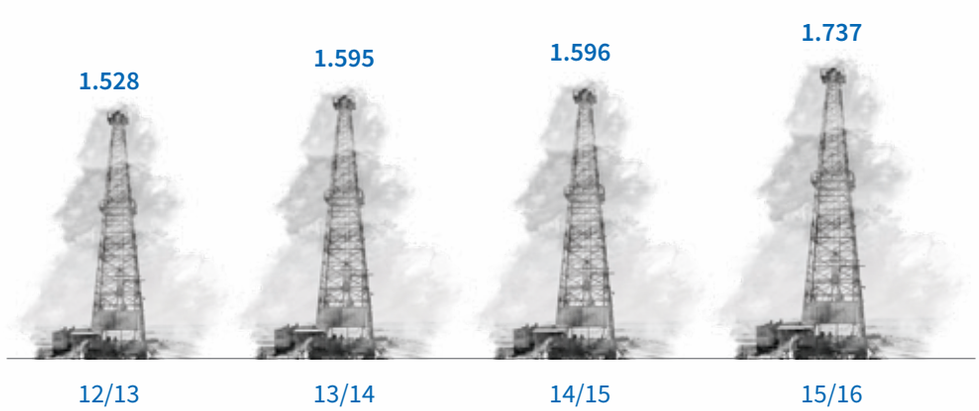
2nd Strategic Objective:
Realize the Potential of Gas

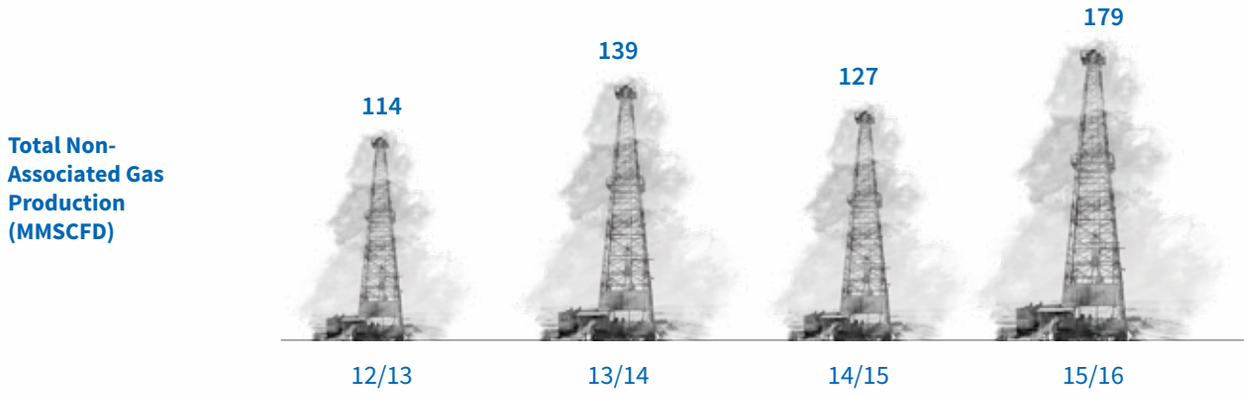


Production Capacity of Associated and Non-Associated Gas

In line with the increment of KOC Actual Crude Production, the total daily average of Associated and Non-Associated Gas Production increased and reached 1.737 MMSCFD against the target of 1.530 MMSCFD, higher by 207 MMSCFD or equivalent to 14%. In addition, total Non-Associated Gas Production averaged 179 MMSCFD against the target of 147 MMSCFD. Postponement of Early Production Facility (EPF-50) shutdown to 2016/2017 led to achieving that rate.

Total Associated and Non-Associated Gas Production (MMSCFD)

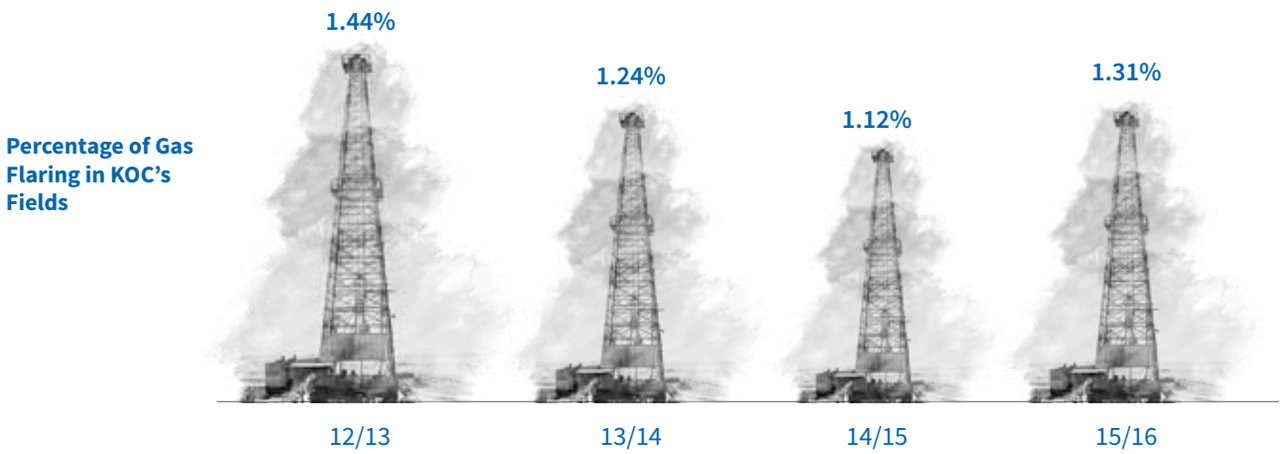




One of the most remarkable achievements of the Company is continuing to reduce Gas Flaring to 1%, and striving to achieve less than 1% in line with its strategy. These efforts have paid off, with KOC achieving the lowest Gas Flaring percentage ever of 0.36% during April 2015. The Company also won the "Gas Flaring Reduction Excellence Award 2015" as part of the World Bank Global Gas Flaring Reduction (GGFR) initiative. The Company succeeded in achieving a very high level of West Kuwait Associated Gas, and also succeeded in reducing West Kuwait Gas Flaring from 40% to less than 1%, through the commissioning of several projects in West Kuwait related to Gas Sweetening, Gas Compression, Gas Re-Injection, and other projects that are part of the strategic objective of the Company.

Despite the Company's tireless efforts to reduce the Gas Flaring percentage, repeated closure of the Kuwait National Petroleum Company (KNPC) Acid Gas Removal Plant (AGRP) (over approximately six weeks from planned) had an intense effect on KOC Gas Flaring by the end of fiscal year 2015/2016. Total KOC Gas Flaring reached 1.31% higher than the tolerance of 1.15%. It is worth mentioning that if the AGRP closure factor was excluded, then KOC Gas Flaring would be 0.96%, which is better than the tolerance. Thus, Kuwait Oil Company finds it necessary to add key performance measures to maintain the operation of the AGRP in KNPC for the most possible number of days in the year.

On the other hand, Average Gas Exported to the LPG Unit in KNPC amounted to 1.625 MMSCFD as of the end of March 2016, exceeding the target of 1.465 MMSCFD.



Continuing Company achievements in this regard, and in January 2016, a contract for the JPF-SA facility in North Kuwait asset was signed with Schlumberger to add 40 MBOPD of Light Oil and 104 MMSCFD of Non-Associated Gas. The facility will be in operation during 2017. Currently, there are two similar tenders for construction projects of two units to increase Light Oil and Non-Associated Gas Production during the fiscal year 2016/2017.
Furthermore, the second gas line was commissioned within EF/1713 project (Construction of fuel lines from Mina Al-Ahmadi to Sabiya and Doha stations: 48/40 inch). This will enhance the fuel in the north stations and contribute to provding greater flexibility to consume the produced gas and to reduce gas flaring, as well as supply KNPC with liquefied gas imported from ships.

Drilling & Workover of Jurassic Reservoirs (Non-Associated Gas)

18 deep wells were drilled to reach the targeted quantity of Non-Associated Gas, which are as follows:

Well Category	Target	Actual
Deep Developmental Wells (Jurassic)	8	8
Deep Exploratory Wells (Jurassic)	7	10
Total	15	18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3rd Strategic Objective:

Grow Reserves for a Sustainable Future

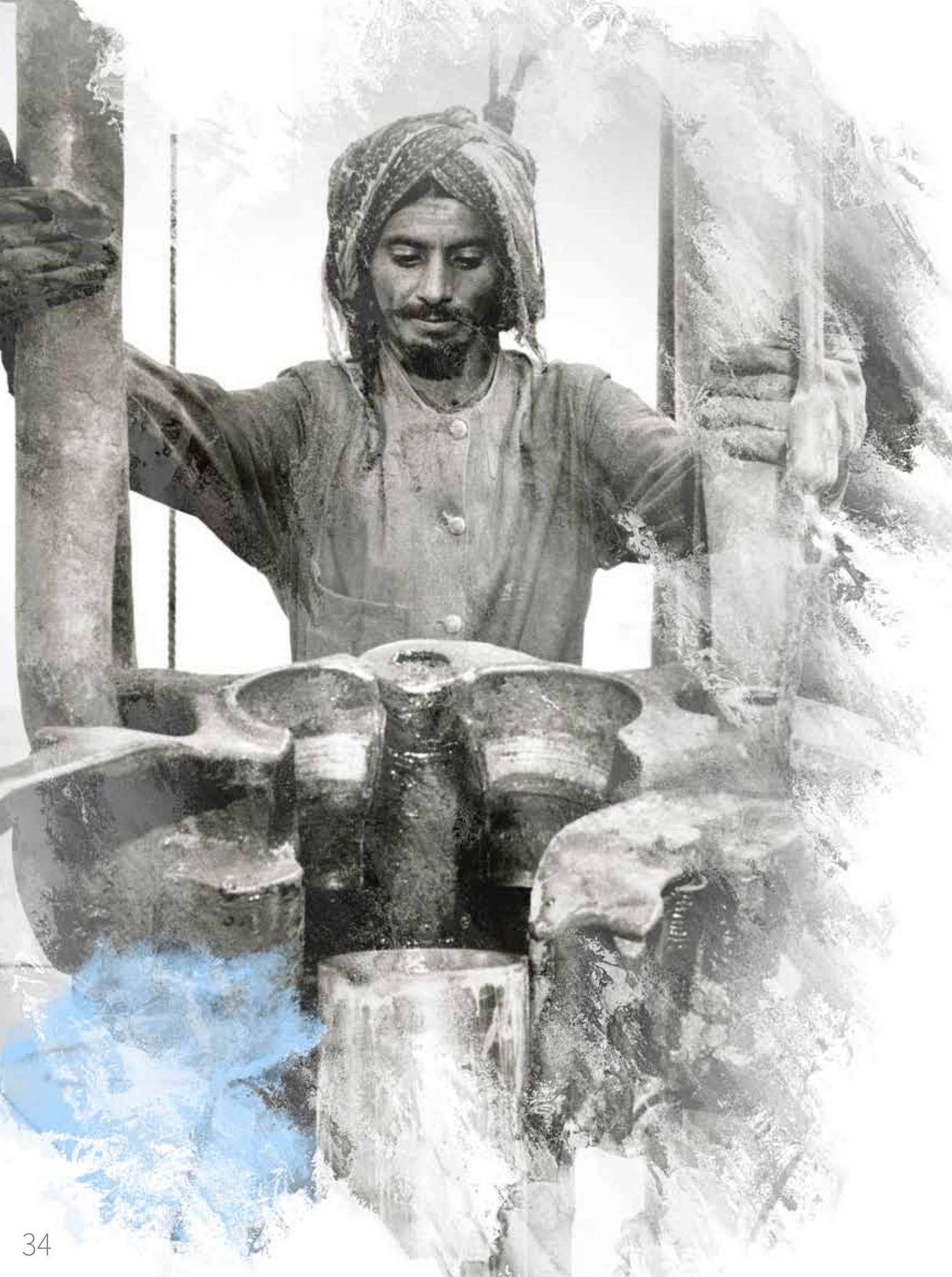
Reservoir Assessment Studies

The Company has a steady growth in the reserves and non-conventional hydrocarbon resources in order to achieve its strategic goals and increase production capacity. For the first time in KOC history, a “Reservoir Management Practices Study” was completed which is one of the leading oil industry studies. It identified some of the best practices and applications that will be adopted to support the Company in achieving its strategic goals. In addition, the Company started executing the first pilot for miscible gas injection in MN (MO) reservoir in West Kuwait. Also, five wells were drilled in Sabriyah-Maudud field to continue implementing the Enhanced Oil Recovery Project (EOR) in North Kuwait. Furthermore, more than 500 opportunities for exploration have been studied. Finally, and regarding the Reserve Replacement Ratio, KOC managed to replace much more than 102% (three years rolling average of Reserves Replacement Ratio – BOE) through exploration and development, compared to a target of 100%.

Seismic Survey Operations

The Company continued its seismic surveys and committed to achieve annual targets despite the challenges faced due to overlapping seismic surveys with residential areas, farms, and open areas for grazing, which affect the surveys, equipment and wiring used for operations. Kuwait Oil Company organized a large campaign to raise citizens' awareness of the importance of cooperation between the two parties in order to achieve the desired goals of seismic surveys. The campaign succeeded by creating remarkable interest from citizens. The Company successfully completed 62% of the 3D seismic survey project for Greater Burgan, which is the second-largest producing field in the world. It is expected to complete the acquisition phase in November 2016 and then complete the processing phase in September 2017. In to the aforementioned figures, 34% of the 3D seismic survey project for Kuwait Bay was successfully completed.

Meanwhile, the Company developed the geological operations unit of the Exploration Operations Team by using new technological equipment used for the first time at Kuwait Oil Company, which helped to assess and determine the depths of the producing layers in exploratory wells more accurately. The results were confirmed by comparing them with the well testing, such as Gotnia layer in Minagish field.



Exploratory Drilling Activities:

During 2015/2016, four exploratory reservoirs were transferred to field development against the annual target of transferring two reservoirs. Furthermore, numerous exploratory drilling operations have been completed which aim to achieve the Company's strategic objectives by increasing its production and reserves. These activities include:

– A new discovery of oil made in the Middle Marrat Reservoir (JT-0001) (Jithathil) in West Kuwait. Testing results showed an average production of 1,053 BOPD, along with average gas production of 0.810 MMSCFD.

– Two new discoveries of oil in the Middle Marrat Reservoir and the Middle Mauddud Reservoir resulted in approximately 2,400 BOPD and 800 BOPD from wells (NUR-0001) and (BH-0035) respectively. This will contribute to increasing oil reserves and hydrocarbon resources that will be convertible into proven reserves.

– New discovery of oil in Upper Burgan Reservoir resulted in approximately 1,200 BOPD from well (BH-0036).

– Successfully drilled (RA-0449) in Maudud Reservoir-Raudhatain Field which proved promising for new oil volumes.

– First ever Middle Zubair layer (Z28CH) put on production with about 1,300 BOPD which will contribute to increasing the proven reserves and production in the future.

4th Strategic Objective:

Be an Employer of Choice

Kuwait Oil Company strives to raise the skills and potential of its employees by providing them with attractive work environments and working to reach the highest job satisfaction levels. It also seeks to attract Kuwaitis as encouragement to the national employment rate. Here, we mention the most important achievements in this regard during the fiscal year 2015/2016.

KOC exerted enormous efforts to facilitate recruitment processes for 839 employees. Accordingly, the total number of Kuwait Oil Company employees at the end of the fiscal year reached 9,818 employees, including the medical and nursing staff. The percentage of Kuwaitis employed, including the medical and nursing staff, reached 79.2%, while it reached 85.4% excluding the medical and nursing staff, against the yearly target of 85.8%. One of the most difficult challenges during the year was the number of employees retiring from the Company.

The Company advertised in local newspapers for recruitment in contractors' vacancies to create job opportunities for Kuwaitis in the contracts and to encourage the private sector to attract national employment. 722 Kuwaitis were accepted out of which 305 were accepted as drilling employees. Therefore, Kuwaitis in contracts reached 25%, which was the target of Kuwaitis for contractors.

As part of its continuous efforts to provide the best learning opportunities for its employees, and in conjunction with the best academic institutions, KOC is implementing the following programs:

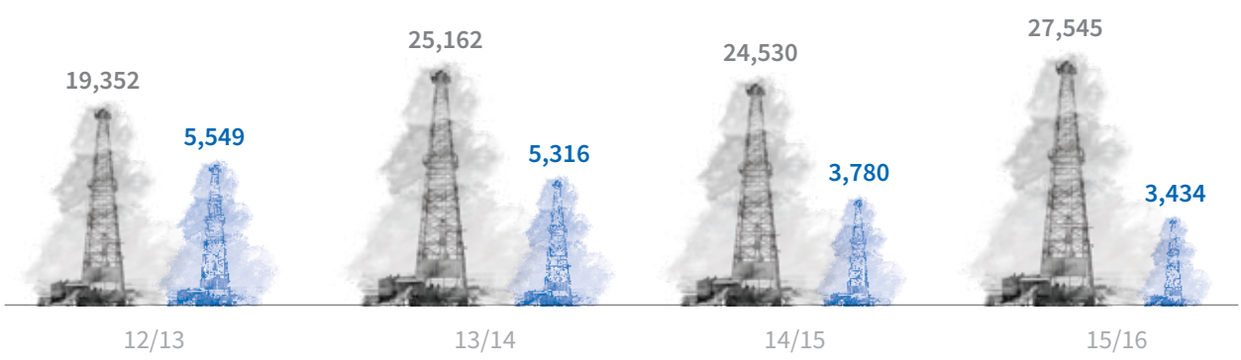
– "Learning on Demand" program with Harvard School of Business. The program is designed to the highest quality standards and consists of 40 subjects in Administration Development. Participants included 90 circular appointed employees, 235 UDs and 118 fast track individuals.

– "Kaizen", the development training program conducted in coordination with the International Institute "Kaizen". The program is considered one of the pillars of the training plan for Team Leaders.

The Company also continued several initiatives to develop and train its employees, including dispatching 44 of its top employees to the Republic of South Korea, and dispatching 82 employees to be trained with International Oil Companies abroad. These efforts seek to enhance scientific, technical and research programs needed to improve the Company's production capacities. Furthermore, the Company has dispatched the number of employees to be engaged with the International Companies in technical programs and professionally for varying periods that will expand employees' perspectives and increase their scientific and practical experience, and to demonstrate best practices and the latest developments in order to improve the Company's operational processes. The number of dispatched employees during the fiscal year was 62 employees from a variety of specialties and fields from the Company.

In addition, KOC has organized 3,434 job-related training courses inside and outside the State of Kuwait that cover various specializations. The number of training opportunities reached 27,545 in accordance with the employee training plan set by the Company for the employees' career development, in addition to 5,553 training opportunities using other developmental tools.

As the Company is interested in youth and their talent enhancement, the "Future Talents" program for oil sector staff was completed for this year which aims to develop functional processes and improve youth talents. The program contained 18 projects that brought innovations from a number of young employees from KOC, KPC, and other oil companies.



Number of Courses
Number of Training Opportunities

5th Strategic Objective:

Realize Value from Technology

- The testing and pilots conducted on modern technologies mentioned here or previously provide new means to increase reserves and production. It is worth mentioning that the full-field deployment of this same technology is what will enhance and increase production capacity. Among these technologies, we mention:
- KOC has recorded a landmark in North Kuwait Heavy Oil development from Lower Fars reservoir, where North Large Scale Thermal Pilot was partially commissioned in October 2015 and operated on 26 wells. This facility is the first of its kind in KOC history, as it consists of Water Treatment and Injection Unit, as well as necessary facilities for testing, producing, processing and exporting oil. In addition, it includes a facility for Gas Processing, pipelines, and a facility to separate the sand and waste treatment.
- Moreover, KOC has opened the Intelligent Solution Center in North Kuwait Directorate, a center of world-class decision-making abilities to work on gathering data on wells and facilities in real time in order to make a comprehensive decision based on information technology.
- The Company has also built an automated system and database to identify the available opportunities for workover activities and optimal utilization, and to provide the necessary

information as well as produce reports for decision-making and maximum gains in the shortest possible time, all to support the Company in achieving the production targets. This system was a participation in the "Optimizing the drilling and workover resources" project, which was mentioned earlier in this report.

- KOC has completed the Well Delivery PGS Program, which will contribute effectively in achieving the strategic objectives of the Company. It included awareness sessions for Team Leaders who are responsible for drilling operations, as well as Managers and DCEOs.
- In addition, Kuwait Oil Company drilled five wells equipped with 7" production pipelines using horizontal drilling. Previously, drilling these types of wells was considered a challenge. Working on this project took two years of research and study to make the proper and safe design of these wells. This success is the beginning of the expansion of upcoming projects to achieve North Kuwait development goals and the exploitation of abandoned and non-producing wells.
- For the first time globally, KOC used Weatherford's new design whipstock "Low-Pressure Permanent Casing-Exit Packer" utilized in RA-ST0192 at a depth of 6,000 ft. This provides a simple and cost-effective method for isolating the main bore during sidetracking operations, and it does not require additional downhole trips to install the packer.
- Also, "ILOOP" technology was successfully tested to remove hydrogen sulfide gas from acidic crude oil in Burgan field, in full compliance with KOC standards of health, safety and environment. This technology will allow the production from wells that have been closed due to high hydrogen sulfide levels, and it will reduce the maintenance costs related to corrosion.
- Furthermore, the Company replaced diesel generators that operate in daily hiring manner in the assets with solar-powered chemical injection pumps, which will lead to reducing energy consumption.
- Similar to the "GIS-Geographic Information System" that has been established in KOC directorates; KOC has established a system in North Kuwait Directorate to guarantee the sites for drilling projects and other projects in advance, and working continuously to provide updated databases for the field by using airplanes and aerial photography to be sent to the database. Accordingly, an updated database will be available for all related users of all teams and groups.
- One of the most prominent awards obtained by KOC, the "International Technology Provider of the Year" by Oil & Gas Year TOGY that was held in Kuwait for the successfully implemented "Brine Treatment Plant at SWWT&RP" (Sulaibiya Waste Water Treatment and Reclamation Plant).

6th Strategic Objective:

Strengthen Our Commitment to HSSE

Despite the intensification of efforts in order to achieve the Company's strategy and increase the Production Capacity, the Company is providing a great care to achieve maximum levels of Security, Safety, Environmental protection and Health insurance, which are part of its strategy and priorities. Thus, the efforts are continued in this area in parallel with Company's efforts to increase Production Capacity rate.

Health

Starting with health, the construction of the New Ahmadi Hospital was completed to serve the oil sector. The opening ceremony will be during the 2016/2017 fiscal year.

Moreover, Ahmadi Hospital has organized a number of social activities, including blood donation campaigns and awareness days, which revolved around various fields of medicine, which reflects the Company's attention and positive interaction with the society and its interest in the health of its entire people. In this regard, Ahmadi Hospital was honored by the Central Blood Bank for being the best in donating blood Kuwait-wide.

And for the fourth time consecutively, KOC won the RoSPA Gold Award, which is awarded by the British Royal Society of Occupational Health & Safety, in recognition of outstanding performance in health and occupational safety.

Safety

Regarding Safety, and during September 2015, the ISO 14001:2004 and OHSAS 18001:2007 international certifications for Environment Management System and Occupational Health & Safety Management System were successfully achieved Company-wide reflecting KOC's continuous efforts in this area.

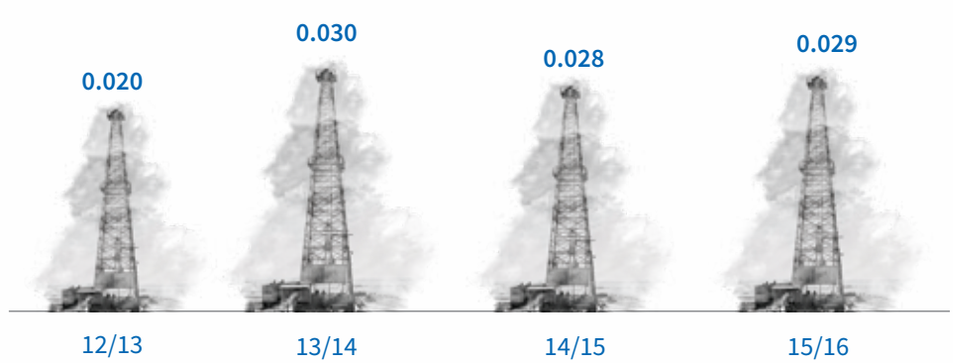
KOC's efforts and endeavors are focused to reduce the Lost Time Injury Frequency Rate (LTIFR), which reached 0.029 accidents per 200,000 working hours at yearend against the tolerance of 0.032 accidents per 200,000 working hours.

KOC regrets reporting three fatalities among the Company's employees and contractors for this year in April, July, and August 2015. It carried out the necessary investigations of the circumstances surrounding the fatalities and took required action to prevent the recurrence of such incidents in the future. In this regard, KOC calls all employees repeatedly to share the lessons learned in order to maintain its human resources. The Company also regretted the breaking out of a fire in a Raudhatain well (RA-552), but the intensive efforts contributed in putting it out with the utmost speed that exceeded expectations, demonstrating professionalism, teamwork and a joint team spirit. KOC has worked with full transparency by briefing the media and the social media communication on the progress of the incident through the issuance of consecutive statements, which had a significant impact in demonstrating the facts as they were, and raising the tranquility of society.

Meanwhile, in January 2016, KOC put out a fire on a foreign diving vessel which was berthed at Shuaiba Terminal, avoiding a major disaster from a tanker berthed nearby.

During January 2016, and for the fourth time, Kuwait Oil Company organized the Contractors Safety Day, which was attended by a group of the Company's senior management and other officials from K-Companies. During this event, best practices and lessons learned were discussed. Challenges facing contractors and various resolutions were exchanged, in addition to the means of overcoming them in order to achieve the required safety.

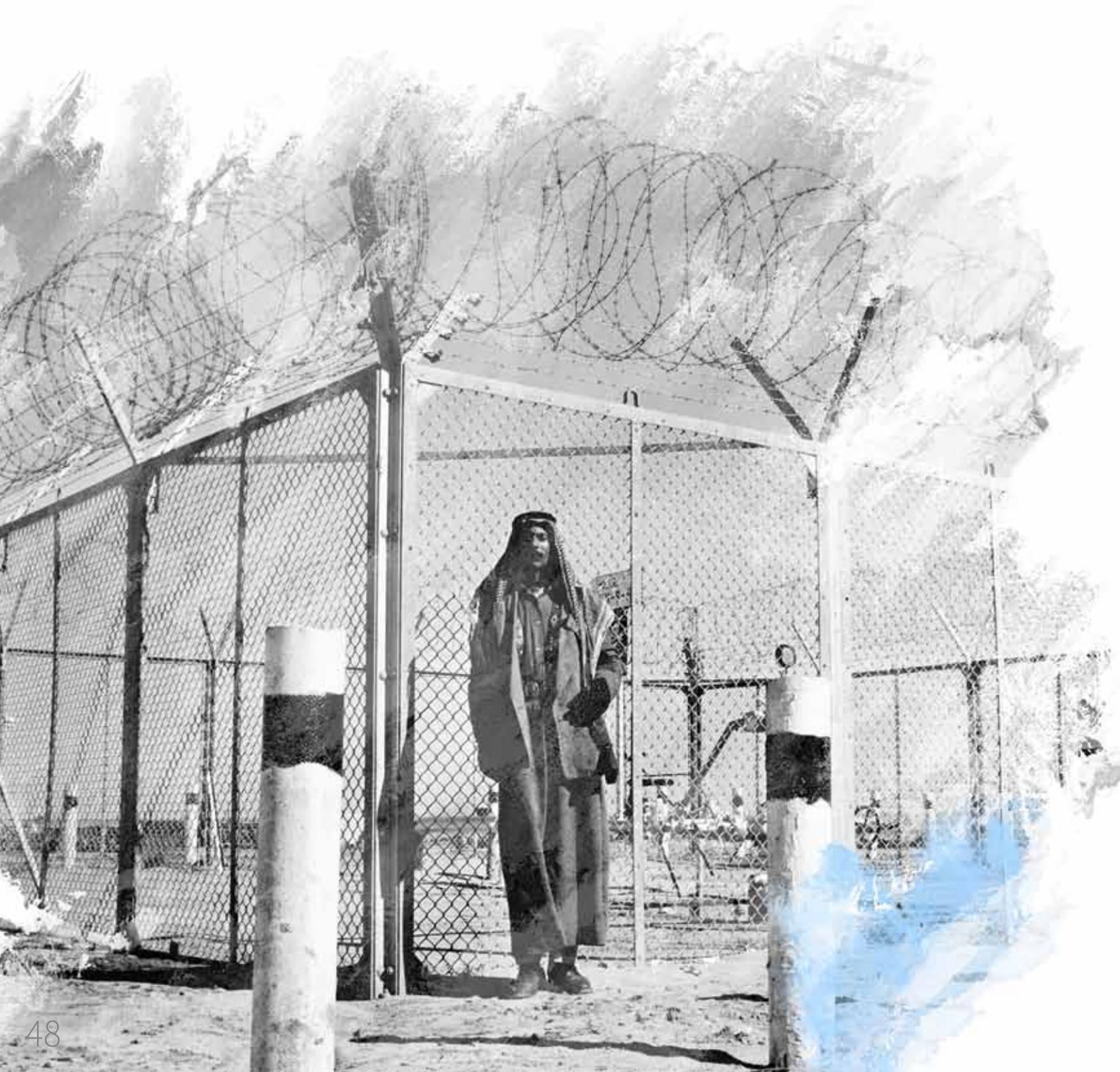
Lost Time Injury Frequency Rate



Security

In late June 2015, and in coordination across the oil sector and Vital and Oil Installations Protection Department - (V&OIPD), the security situation was raised to the extreme level (3), red, due to acts of terror marked by the bombing of a mosque in the country.

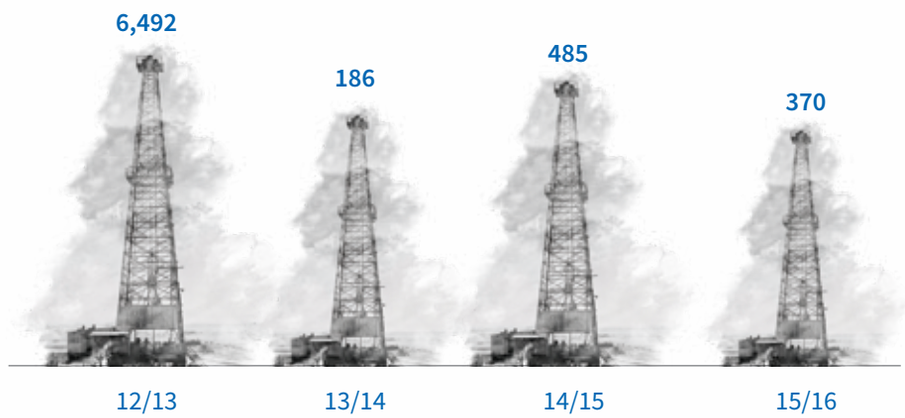
During March 2016, KOC conducted Crisis Management field training to enhance organizational preparedness. The training was held in East Burgan area, in cooperation with Kuwait Fire Service Directorate and the General Department of Civil Defense.



Environment

As mentioned previously, KOC recorded the lowest Gas Flaring percentage in its history during April 2015, reaching only about 0.36%. In addition, the Company continued its efforts for reducing the quantities of volume spilled within the operation areas; the volume spilled reached only 370 barrels against a tolerance of 1,200 barrels. Also, the Effluent Water Disposal into Pits was maintained at zero in all operations' areas and their fields.

Volume Spilled (Barrels)



The Company has conducted several initiatives and campaigns regarding the environment and received several awards. For example, KOC opened Um-Al Aish Oasis, which is located in North Kuwait. Moreover, it organized the Health and Environment Day for the second time during January 2016, which included a presentation of the Company's achievements in this regard. In addition, the Company celebrated the World Environment Day concurrently with the annual event celebrated by the United Nations, through a number of activities, including campaigns that cleaned public areas and planted trees in association with local school. It also participated in lifting the wreckage of an abandoned wooden boat that was handed over to Kuwait Municipality to avoid the navigational risk, and it also recovered a dead whale from Qaruh Island and Kuwait Bay in cooperation with Scientific Center diving team. Finally, yet importantly, the Company obtained the first prize for social responsibility in solar energy through its participation in the Menasol conference during May in Dubai.

7th Strategic Objective:

Strive For Excellence in Performance

KOC is making all efforts and always strives for excellence and superiority in performance. All these efforts are aimed at increasing Crude Production Capacity with a target of 3.65 MMBOPD by 2020. The most important achievements are mentioned in this regard:

KNPC has accepted the KOC proposal by combining three terminals (LNG, Sulfur, and NRP) into one station at Al-Zour area, which will lead ultimately to achieving saving of more than KD 100 million in capital expenditures and reduce operating expenses in the future.

KOC also formed an internal committee to reduce expenses and maximize revenue works within the principles and criteria adopted by the KPC CEO. The committee started its work during the fiscal year 2015/2016 and confined about 63 various initiatives within Company operations and activities. The activity also extended to other K-Companies, and as a result, the reduction in expenses from these initiatives will be around KD 700 million.

Similarly, the Company succeeded in implementing the Metering Well Test System in 13 GCs so far and is working on applying it in all other GCs, which will save the cost of conducting gas to oil ratio tests of wells. In addition, data provision will be faster and the reliability will be enhanced to conduct the necessary studies.

On the other hand, KOC has entirely implemented some of its ship to ship operations at sea (STS) for the crude oil and petroleum products, as those operations used to be handled by KOTC and a third party in international waters.

Regarding the Center of Excellence (CoE), the target for this year has been achieved. The specialties were expanded from three to six out of which are artificial lift and corrosion. Also, the information technology tools were established to support the cooperation between the six specialties across the three Upstream companies, and a strong communication link between Upstream companies was established to facilitate knowledge sharing and lessons learned through “Expert Connect”.

In regard to the Key Performance Indicators system (KPI), as KOC strives to enhance employees’ performance and excellence in achieving objectives; the KPI system was developed by principles and criteria aligned with the Performance Management System of the Company, and will be applied during the fiscal year 2016/2017.

In addition to the above, the Company participated in numerous conferences, forums and exhibitions in order to attain excellence in performance. Likewise, it organized different events and presented several technical papers including but not limited to:

- “Flow Measurement Technology for Oil and Gas Conference” which was organized by the Company for the second time and hosted several manufacturers for oil and gas measurements technology. During the conference, 24 technical papers were presented, eight of which for the Company and three technical papers for other subsidiaries of KPC. Furthermore, an exhibition was held in parallel with the conference presenting the latest technologies, and four workshops were held on the third day of the conference, which contributed to knowledge sharing and experiences exchanged in this vital area for the staff in the oil sectors in Kuwait and abroad.

- The “International Standard for Maritime Pilot Organizations - ISPO”, the international conference and exhibition which was organized by the Company for the first time.

- “OGWA 2016” exhibition, which KOC participated in with more than 300 local and international companies.

- “Geo 2016”, the Middle East’s 12th Geosciences Exhibition which was held in Bahrain.

- “Oil and Gas” conference and exhibition in Kuwait.

8th Strategic Objective:

Contribute to Enterprise and State

KOC has launched numerous campaigns and implemented initiatives as part of its corporate social responsibility efforts, some of which are as follows:

The Company has installed and operated new fuel lines to secure the needed fuel for electrical power stations and water distillation, and to support related national development projects. In addition, it succeeded in conserving more than 25% in operating the Gathering Centers in the Company assets during the summer.

As part of the Company's commitment to knowledge sharing with Ministries and Authorities in the areas of planning and training, KOC participated in a workshop specialized in human resources and manpower planning, held at the Civil Service Commission (CSC), where it presented the five year plan with respect to KOC's future needs. KOC subsequently accepted CSC's request for additional collaboration in order to benefit from the Company's expertise, systems and sophisticated programs linked to addressing current and future human capital requirements. Meanwhile, within the same perspective of exchanging expertise, the Company has trained a group of firefighters from Kuwait Fire Service Directorate.

For the second consecutive year, KOC has cooperated with the Public Authority for Applied Education and Training, represented by the College of Nursing, in developing a training program to encourage High School graduates (scientific section) to be enrolled at the college, and to close the Company's vacancies for nursing. It is worth mentioning that nursing is considered one of the difficult, rare jobs to have a national employment in it, and currently, there are 30 students – male and female, admitted to Bachelor and Diploma programs. KOC actively monitors their training and recruits them upon graduation.

In pursuit of Company objectives to enhance community health and environmental awareness, and to support safe and healthy environment for schools, the Company sponsored the second contest of Environmental Activities for schools nominated by the Ministry of Education under the theme "Towards Health and Environmentally Friendly Schools".

Among the most prominent safety campaigns carried out by the Company during the fiscal year, was "No Texting While Driving" campaign. This comprehensive awareness campaign was carried out in coordination with the Ministry of Interior to inform the local society about the dangers of texting and browsing the phone while driving. Many awareness lectures and presentations were held to achieve campaign goals. Another campaign was the annual Beach Clean-up campaign, which was organized by the Company for the eleventh consecutive year in order to protect the marine environment. Additionally, KOC has conducted an energy conservation campaign, and an awareness campaign in Julai'a with respect to health, safety and environment procedures.


KAZIMAH
KUWAIT

KOC's Aspirations towards meeting its Strategic Objectives for 2016/17

● Continue the implementation of projects designed to increase KOC's Crude Oil Production Capacity, in line with its stated strategy of reaching a capacity of 3.65 MMBOPD by 2020 and maintaining this rate until 2030. Kuwait Oil Company is looking to reach a Production Capacity of 3.15 MMBOPD by March 2017.

● Continue the implementation of projects designed to "Develop and Sustain Non-Associated Gas Reservoirs in NK Jurassic" in order to achieve a Production Capacity of 1 MMSCFD of Non-Associated Gas by 2022/2023.

● The development of Heavy Oil reserves in North Kuwait by acquiring necessary technology and training Company's manpower to achieve Production Capacity of Heavy Oil of 60 MBOPD from Ratqa Field in Lower Fars reservoir by 2018/2019, in addition to developing Um-Niqa Field in Lower Fars reservoir to achieve Production Capacity of 30 MBOPD by 2016/2017 fourth quarter.

● Initiating the implementation of the off-shore drilling project, as part of the onshore and offshore exploration operations, to increase the Crude Oil Production Capacity and the production capacity of non-associated gas by 1 billion cubic feet per day by 2030 as a result of developing the discovered reserves.

● Producing approximately 200 MBOPD of Oil and 160 MMSCFD from new Oil and Gas that have been explored in recent years as a part of the KOC Exploration Strategy, which aims to find new hydrocarbon reserves to increase the Crude Oil Production Capacity by 700 MBOPD and 1 MMSCFD of Gas by 2030.

Enhance Oil Recovery (EOR) by:

- Continuing the implementation of pilot and full-field Water Flood projects in order to enhance the Company's experiences in this domain towards building capacity.

- Continuing to develop the Company's competencies in using EOR technology through the implementation of pilot projects.

● Implementation of the segregation/blending projects to export four types of Crude Oil; including Kuwait Export Crude, Heavy Oil (Lower Fars and Um-Niqa), Middle Heavy Oil (Ratawi and East Um-Ghudair), and Light Oil compared to the current capacity which only exports Kuwait Export Crude.

● Continue the reduction of Gas Flaring across KOC.

● Continue the implementation of Ahmadi Township project.


مجلس النقد الكويتي
عشرة دنانير
ورقة نقد صادرة
بموجب القانون رقم ٤١ لسنة ١٩٦٠
عشرة دنانير

Financial statements and independent auditor's report

for the year ended 31 March 2016

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

Statement of financial position
as at 31 March 2016

	Note	2016 KD'000	2015 KD'000
Assets			
Property, plant and equipment:			
Crude oil and general purpose		3,772,305	3,528,194
Gas collection and transmission		388,462	259,402
Drilling and exploration		130,796	137,363
Export operations		134	144
Mobile plant		1,225	1,692
Capital work in progress		3,966,833	3,138,331
Total property, plant and equipment	*5*	8,259,755	7,065,126
Intangible assets	*6*	26,703	28,257
Construction inventories	*7*	181,438	182,656
Receivable from Parent Company	*9*	15,094	15,094
Non-current assets		8,482,990	7,291,133
Consumable inventories	*7*	109,649	107,184
Advances and other receivables	*8*	516,458	433,888
Amounts due from group companies	*15 (b)*	63,143	82,893
Cash and cash equivalents	*10*	10,070	1,932
Current assets		699,320	625,897
Total assets		9,182,310	7,917,030
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*	5,587,074	3,934,500
Post employment benefits	*12*	345,186	336,384
Non-current liabilities		5,932,260	4,270,884
Accounts payable and other liabilities	*13*	783,908	683,911
Amounts due to group companies	*15 (b)*	-	35
Dividend payable	*14*	306,069	802,127
Current liabilities		1,089,977	1,486,073
Total liabilities		7,022,237	5,756,957
Total equity and liabilities		9,182,310	7,917,030

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

Mohammad Al Jazzaf
Chairman

Jamal Abdul Aziz Ja'afar
Chief Executive Officer

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

Statement of profit or loss and other comprehensive income
for the year ended 31 March 2016

	Note	2016 KD'000	2015 KD'000
Revenue:			
Revenue (net of royalty, levy and marketing fees)	*16*	2,444,135	4,210,868
Operating cost (cost of production):			
Contract services		(512,536)	(484,835)
Employee cost		(592,286)	(629,825)
Material cost		(73,988)	(59,812)
Depreciation, amortization and write off		(230,753)	(203,747)
Total operating cost	*17*	(1,409,563)	(1,378,219)
Other operating income	*18*	28,727	22,190
Recoverable costs	*19*	114,566	122,601
Cost of production		(1,266,270)	(1,233,428)
Deferred cost recognized		(44,863)	(53,577)
Deferred cost		46,694	44,863
Total cost of sales		(1,264,439)	(1,242,142)
Gross profit		1,179,696	2,968,726
General and administrative expenses	*20*	(86,618)	(103,993)
Net operating profit		1,093,078	2,864,733
Interest income		69	49
Directors' remuneration	*21*	(42)	(42)
Net profit before contribution to shareholder		1,093,105	2,864,740
Contribution to the shareholder	*22*	(787,036)	(2,062,613)
Net profit and total comprehensive income for the year (transferable to Parent Company)	*14*	306,069	802,127

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 2016

	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 2014	30,188	2,114,791	15,094	-	2,160,073
Profit	-	-	-	802,127	802,127
Total comprehensive income for the year	-	-	-	802,127	802,127
Transactions with owner of the Company, recognized directly in the equity					
Distribution to owner of the Company (note 14)	-	-	-	(802,127)	(802,127)
Balance at 31 March 2015	30,188	2,114,791	15,094	-	2,160,073
Balance at 1 April 2015	30,188	2,114,791	15,094	-	2,160,073
Profit	-	-	-	306,069	306,069
Total comprehensive income for the year	-	-	-	306,069	306,069
Transactions with owner of the Company, recognized directly in the equity					
Distribution to owner of the Company (note 14)	-	-	-	(306,069)	(306,069)
Balance at 31 March 2016	30,188	2,114,791	15,094	-	2,160,073

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

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

Statement of cash flows
for the year ended 31 March 2016

	Note	2016 KD'000	2015 KD'000
Cash flows from operating activities			
Net profit		306,069	802,127
Adjustments for:			
Abortive drilling expenditure	*17*	1,239	11,424
Provision for obsolete and slow moving inventories		2,749	1,755
Depreciation, amortization and write off	*5&6*	230,752	203,747
Contribution to shareholder	*9*	787,036	2,062,613
Provision for post employment benefits	*12*	44,054	69,631
		1,371,899	3,151,297
Changes in:			
- consumable inventories		(5,214)	(1,513)
- advances and other receivables		(82,570)	(6,179)
- receivable from Parent Company	*9*	(2,444,135)	(4,210,868)
- other movements in Parent Company balances	*9*	7,529	(4,234)
- accounts with group companies		19,715	(11,456)
- accounts payable and other liabilities		99,997	45,334
Cash used in operations		(1,032,779)	(1,037,619)
Post employment benefits paid	*12*	(35,252)	(60,583)
Net used in operating activities		(1,068,031)	(1,098,202)
Cash flows from investing activities			
Acquisition of property, plant and equipment		(1,423,827)	(1,063,467)
Abortive drilling	*17*	(1,239)	(11,424)
Changes in construction inventories		1,218	(6,283)
Net cash used in investing activities		(1,423,848)	(1,081,174)
Cash flows from financing activities			
Funding from the Parent Company	*9*	2,500,017	2,180,788
Net cash generated from financing activities		2,500,017	2,180,788
Net change in cash and cash equivalents		8,138	1,412
Cash and cash equivalents at beginning of the year		1,932	520
Cash and cash equivalents at end of the year	*10*	10,070	1,932

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 2016 and are subject to approval of the Shareholder at the annual general assembly.

2. Basis of preparation

a) Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), the requirements of the Companies Law No. 1 of 2016, and the Executive Regulations Companies Law No. 1 of 2016, as amended, and the Company's Articles of Association and the Ministerial Order No. 18 of 1990.

The new Companies Law No. 1 of 2016 was issued on 24 January 2016 and was published in the Official Gazette on 1 February 2016 cancelled the Companies Law No 25 of 2012, and its amendments. According to article No. 5, the new Law will be effective retrospectively from 26 of November 2012, and the Executive Regulation of Law No. 25 of 2012, as amended, will continue until a new set of executive regulation is issued.

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) Standards and interpretations not yet adopted

New standards issued but not effective for the financial year beginning after 1 January 2015 and not early adopted by the Company:

IFRS 9 – Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmers.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

IFRS 16- Leases

In January 2016, the IASB issued IFRS 16 Leases. The new standard requires lessees to recognise assets and liabilities for most leases on-balance sheet. Lessees applying IFRS 16 will have a single accounting model, with certain exemptions. Lessors applying IFRS 16 will classify leases using the same principle as in IAS 17 and lessor accounting is substantially unchanged.

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 give some guidance on how to apply the concept of materiality in practice. The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2016. The Management of the Company do not anticipate that the application of these amendments to IAS 1 will have a material impact on the Company's financial statements.

Amendments to IAS 16 and IAS 38 (Amendments) – Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset.

The amendments to IAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are "highly correlated", or when the intangible asset is expressed as a measure of revenue.

Annual Improvements to IFRSs 2012-2014 Cycle

The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarised below.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

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.

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.

Drilling, exploration and 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 statement of profit or loss and other comprehensive income.

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	
	2016-2015	2014-2015
Oil and gas properties:		
Plant and machinery	4%	4%
Tankage, pipelines and jetties	4%	4%
Wells and surveys	5%	5%
Service plant	25%	25%
Drilling plant	20%	20%
Other property and equipment:		
Marine craft	8%	8%
Buildings and roads	4%	4%
Office furniture and equipment	10%	10%
Lorries and trailers	20%	20%
Motor cars	20%	20%
Computers	10%	10%

b) Intangible assets

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 20 years on a straight line basis.

c) Inventories

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) Deferred cost

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) Recoverable costs

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 profit or loss and other comprehensive income. Recoverable costs are allocated to related group companies based on the actual cost basis and do not include any profit margin.

f) Provisions

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 economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

g) Revenue recognition

Revenue from services related to the exploration and extraction of crude oil is recognised when the crude oil is delivered to the Parent Company's 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.

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 in hand, cash at bank 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 statement of profit or loss and other comprehensive income.

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.

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.

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 2016	Net book value at 31 March 2015 KD'000	Additions/ (disposals and transfers), net KD'000	Depreciation KD'000	Net book value at 31 March 2016 KD'000
Crude oil and general purpose	3,528,194	449,117	(205,006)	3,772,305
Gas collection and transmission	259,402	144,382	(15,322)	388,462
Drilling and exploration	137,363	1,145	(7,712)	130,796
Export operations	144	-	(10)	134
Mobile plant	1,692	(34)	(433)	1,225
Total	3,926,795	594,610	(228,483)	4,292,922

31 March 2015	Net book value at 31 March 2014 KD'000	Additions/ (disposals and transfers), net KD'000	Depreciation KD'000	Net book value at 31 March 2015 KD'000
Crude oil and general purpose	3,204,879	511,393	(188,078)	3,528,194
Gas collection and transmission	68,335	196,678	(5,611)	259,402
Drilling and exploration	142,902	2,314	(7,853)	137,363
Export operations	154	-	(10)	144
Mobile plant	365	1,793	(466)	1,692
Total	3,416,635	712,178	(202,018)	3,926,795

5. Property, plant and equipment (continued)

By Category

31 March 2016	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													
At 1 April 2015	2,125,454	1,892,558	2,920,211	39,541	833	21,202	483,113	3,017	32,484	7	36,651	3,138,331	10,693,402
Additions to capital work in progress	-	-	-	-	-	-	-	-	-	-	-	1,423,799	1,423,799
Additions	-	-	-	14	-	-	-	-	-	-	-	-	14
Transfer from capital work in progress	176,760	69,917	238,284	1,138	-	61,910	45,714	593	(89)	-	1,084	(595,297)	14
Write off	(5,387)	(1,073)	(84)	(788)	-	-	(7,029)	(596)	(28)	-	(1,801)	-	(16,786)
At 31 March 2016	2,296,827	1,961,402	3,158,411	39,905	833	83,112	521,798	3,014	32,367	7	35,934	3,966,833	12,100,443
Accumulated depreciation and impairment losses													
At 1 April 2015	1,138,148	667,537	1,549,693	30,648	599	19,923	160,389	1,920	29,478	7	29,934	-	3,628,276
Charge for the year	50,344	63,217	86,289	3,668	55	2,828	18,780	247	697	-	2,358	-	228,483
Write off	(5,078)	(958)	(73)	(773)	-	-	(6,963)	(597)	(28)	-	(1,601)	-	(16,071)
Adjustment	(143)	250	(325)	-	-	-	95	-	-	-	123	-	-
At 31 March 2016	1,183,271	730,046	1,635,584	33,543	654	22,751	172,301	1,570	30,147	7	30,814	-	3,840,688
Carrying value													
At 31 March 2016	1,113,556	1,231,356	1,522,827	6,362	179	60,361	349,497	1,444	2,220	-	5,120	3,966,833	8,259,755

Exploration and evaluation costs included under drilling, exploration and other assets under construction amounted to KD 18,477 thousands. (31 March 2015: KD 17,779 thousands).

5 Property, plant and equipment (continued)

By category (continued)

By Category

31 March 2015	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													
At 1 April 2014	1,860,126	1,746,566	2,665,547	38,047	560	20,562	450,146	2,116	29,394	7	34,421	2,789,463	9,636,955
Adjustment	(134)	-	-	-	-	-	-	-	-	-	-	-	(134)
Adjusted balance as at 1 April 2014	1,859,992	1,746,566	2,665,547	38,047	560	20,562	450,146	2,116	29,394	7	34,421	2,789,463	9,636,821
Additions to capital work in progress	-	-	-	-	-	-	-	-	-	-	-	1,061,955	1,061,955
Transfer from capital work in progress	267,014	146,042	254,664	2,786	273	640	33,609	936	3,213	-	3,001	(713,087)	(909)
Disposals	(1,552)	(50)	-	(1,292)	-	-	(642)	(35)	(123)	-	(771)	-	(4,465)
At 31 March 2015	2,125,454	1,892,558	2,920,211	39,541	833	21,202	483,113	3,017	32,484	7	36,651	3,138,331	10,693,402
Accumulated depreciation and impairment losses													
At 1 April 2014	1,093,566	610,541	1,473,624	28,461	560	19,629	144,340	1,849	29,337	7	28,943	-	3,430,857
Adjustment	435	-	-	-	-	-	-	-	-	-	(569)	-	(134)
Adjusted balance as at 1 April 2014	1,094,001	610,541	1,473,624	28,461	560	19,629	144,340	1,849	29,337	7	28,374	-	3,430,723
Charge for the year	45,699	57,046	76,069	3,479	39	294	16,691	106	264	-	2,331	-	202,018
Disposals	(1,552)	(50)	-	(1,292)	-	-	(642)	(35)	(123)	-	(771)	-	(4,465)
At 31 March 2015	1,138,148	667,537	1,549,693	30,648	599	19,923	160,389	1,920	29,478	7	29,934	-	3,628,276
Carrying value													
At 31 March 2015	987,306	1,225,021	1,370,518	8,893	234	1,279	322,724	1,097	3,006	-	6,717	3,138,331	7,065,126

6. Intangible assets

31 March 2016	Seismic surveys KD'000	Others KD'000	Total KD'000
Cost			
At 1 April 2015	95,744	2,068	97,812
At 31 March 2016	95,744	2,068	97,812
Accumulated amortization and impairment losses			
At 1 April 2015	67,754	1,801	69,555
Amortised during the year	1,495	59	1,554
At 31 March 2016	69,249	1,860	71,109
Net book value			
At 31 March 2016	26,495	208	26,703

31 March 2015	Seismic surveys KD'000	Others KD'000	Total KD'000
Cost			
At 1 April 2014	93,618	1,773	95,391
Additions during the year	2,126	295	2,421
At 31 March 2015	95,744	2,068	97,812
Accumulated amortization and impairment losses			
At 1 April 2014	66,053	1,773	67,826
Amortised during the year	1,701	28	1,729
At 31 March 2015	67,754	1,801	69,555
Net book value			
At 31 March 2015	27,990	267	28,257

7. Inventories

	2016 KD'000	2015 KD'000
Inventories at cost	296,548	292,552
Provision for obsolete and slow-moving items	(5,461)	(2,712)
	291,087	289,840
Classified in statement of financial position as:		
Construction inventories	181,438	182,656
Consumable inventories	109,649	107,184
	291,087	289,840

8. Advances and other receivable

	2016 KD'000	2015 KD'000
Advances to contractors	448,370	295,365
Prepaid expenses	2,477	5,904
Staff advances	8,712	8,407
Deferred cost	46,694	44,863
Deferred terminal benefits	-	58,923
Other receivables	10,205	20,426
	516,458	433,888

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:

	2016 KD'000	2015 KD'000
At 1 April	(3,934,500)	(2,778,852)
Net revenue receivables (note 16)	2,444,135	4,210,868
Net funds transfer	(2,500,017)	(2,180,788)
Dividend distributed (note 14)	(802,127)	(1,127,349)
Contribution to shareholder (note 22)	(787,036)	(2,062,613)
Other movements	(7,529)	4,234
At 31 March	(5,587,074)	(3,934,500)
Non-current receivables		
Receivable from Parent Company (*relating to transfer of statutory reserve*)	15,094	15,094
	(5,571,980)	(3,919,406)

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

	2016 KD'000	2015 KD'000
Cash in hand	19	23
Cash at bank	10,051	1,909
	10,070	1,932

11. Equity

Share capital

The authorized, issued and fully paid up share capital of the Company comprises of 30,188,291 (31 March 2015: 30,188,291) shares of KD 1 each. The share capital is paid in cash.

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

In accordance with the Companies Law No. 1 of 2016, and the Executive Regulations of Companies Law No. 25 of 2012, as amended and the Company's articles of association, 10% of profit for the year is transferred to the statutory reserve until the reserve reaches a minimum of 50% of the paid up share capital. As permitted by the Companies Law No. 1 of 2016, and the Executive Regulations of Companies Law No. 25 of 2012, as amended, 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

	2016 KD'000	2015 KD'000
Balance at beginning of the year	336,384	327,336
Charge for the year	44,054	69,631
Payments made during the year	(35,252)	(60,583)
Balance at end of the year	345,186	336,384

13. Accounts payable and other liabilities

	2016 KD'000	2015 KD'000
Accounts payable	460,922	349,989
Contractor and suppliers retentions	133,890	111,823
Liquidated damages	96,700	78,605
Contractor accrued liabilities	1,950	1,817
Staff payables	41,685	72,858
Accrued expenses	21,291	42,187
Other accrued liabilities	27,470	26,632
	783,908	683,911

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

Related parties include the shareholder and executive officers of the Company, close members of their families and companies of which they are the principal owners or over which they are able to exercise significant influence.

Related party balances reflected in the statement of financial position are unsecured and neither bear any interest nor there are any agreed repayment terms. Accordingly, these balances are treated as recoverable/ payable on demand.

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 the management.

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

ii. All of the Company's net revenue for the year amounted to KD 2,444,135 thousands (31 March 2015: KD 4,210,868 thousands) represents net sales by the Parent Company (note 16).

iii. Training costs charged by the Parent Company amounted to KD 4,256 thousands (31 March 2015: KD 4,958 thousands) (note 20).

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

Key management compensation

	2016 KD'000	2015 KD'000
Salaries and other employee benefits	1,283	1,070
	1,283	1,070

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

	2016 KD'000	2015 KD'000
Due from group companies:		
Kuwait National Petroleum Company K.S.C.	50,738	66,442
Kuwait Oil Tanker Company S.A.K.	4,010	6,435
Kuwait Foreign Petroleum Exploration Company K.S.C.	440	732
Kuwait Aviation Fueling Company K.S.C.	1,182	435
Petrochemical Industries Company K.S.C.	2,736	1,728
Kuwait Petroleum International Limited	208	417
Kuwait Gulf Oil Company K.S.C. (Closed)	3,261	5,638
Oil Sector Services Company K.S.C. (Closed)	568	1,066
	63,143	82,893
Due to group companies:		
Oil Development Company K.S.C. (Closed)	-	35
	-	35

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:

	2016 KD'000	2015 KD'000
Gross revenue	13,000,718	22,398,232
Less: allocated costs		
Royalty	(2,600,144)	(4,479,646)
Fiscal levy	(7,696,425)	(13,259,753)
Marketing fee	(260,014)	(447,965)
Net revenue (note 9)	2,444,135	4,210,868

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	2016 KD'000	2015 KD'000
Total operating cost		1,409,563	1,378,219
Add: General and administration expenses	*20*	86,618	103,993
Less: Other operating income	*18*	(28,727)	(22,190)
Total cost		1,467,454	1,460,022

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

	2016 KD'000	2015 KD'000
Crude oil production	980,862	959,748
Gas production	159,525	183,946
Export operations	95,075	101,157
Abortive drilling expenditure	1,239	11,424
Depreciation, amortization and write off	230,753	203,747
Total cost	1,467,454	1,460,022

18. Other operating income

	2016 KD'000	2015 KD'000
Port fees	18,099	13,230
Other income	10,628	8,960
	28,727	22,190

19. Recoverable costs

	2016 KD'000	2015 KD'000
Kuwait National Petroleum Company K.S.C.	34,802	33,699
Kuwait Gulf Oil Company K.S.C.	8	3,422
Kuwait Petroleum Corporation K.S.C.	900	575
Oil Development Company K.S.C.	35	24
Kuwait Foreign Petroleum Exploration Company K.S.C.	-	156
Kuwait Oil Tanker Company S.A.K.	-	1
Group companies for medical services	78,821	84,724
	114,566	122,601

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

	2016 KD'000	2015 KD'000
Utilities	29,642	49,526
Training costs (note 15)	4,256	4,958
Insurance	5,933	6,161
Medical costs	35,341	40,913
Others	11,446	2,435
	86,618	103,993

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 profit or loss and other comprehensive income.

21. Directors' remuneration

Board of Directors' remuneration of KD 42 thousands (31 March 2015: 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 center (see note 1 and 9), 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:

	2016 KD'000	2015 KD'000
Within 1 year	2,786	2,076
Between 1 and 5 years	11,145	8,024
	13,931	10,100

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 and the Company's management of capital. 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 policies 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:

	2016 KD'000	2015 KD'000
Receivable from the Parent Company	15,094	15,094
Advances and other receivables	467,287	324,198
Amounts due from group companies	63,143	82,893
Cash and cash equivalents	10,051	1,909
	555,575	424,094

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

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. 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, except for receivable from / due to Parent Company, 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's capital management objectives are to safeguard the Company's ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the costs of capital. The Company's exposure to capital risk is limited as there are no external financing as at the reporting date.

Further, the Company is not subject to externally imposed capital requirements, except the minimum capital requirements of the Companies Law No. 1 of 2016, and the Executive Regulations of Companies Law No. 25 of 2012, as amended.

26. Commitments and contingencies

Commitments for future capital expenditure in relation to lump sum contracts and purchase orders amounted to KD 2,828 million (31 March 2015: KD 2,916 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 884 million) out of which US$ 2,838 million (approximately equal to KD 800 million) was approved. The financial statements do not include amounts related to these claims. The full amount has been received by the Company by the end of prior year which was remitted to the Parent Company directly.