شركة نفط الكويت
Kuwait Oil Company

إحدى شركات مؤسسة البترول الكويتية
A Subsidiary of Kuwait Petroleum Corporation

» 2018/19

ANNUAL REPORT

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A Subsidiary of Kuwait Petroleum Corporation

ANNUAL REPORT
2018-2019

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HH Sheikh

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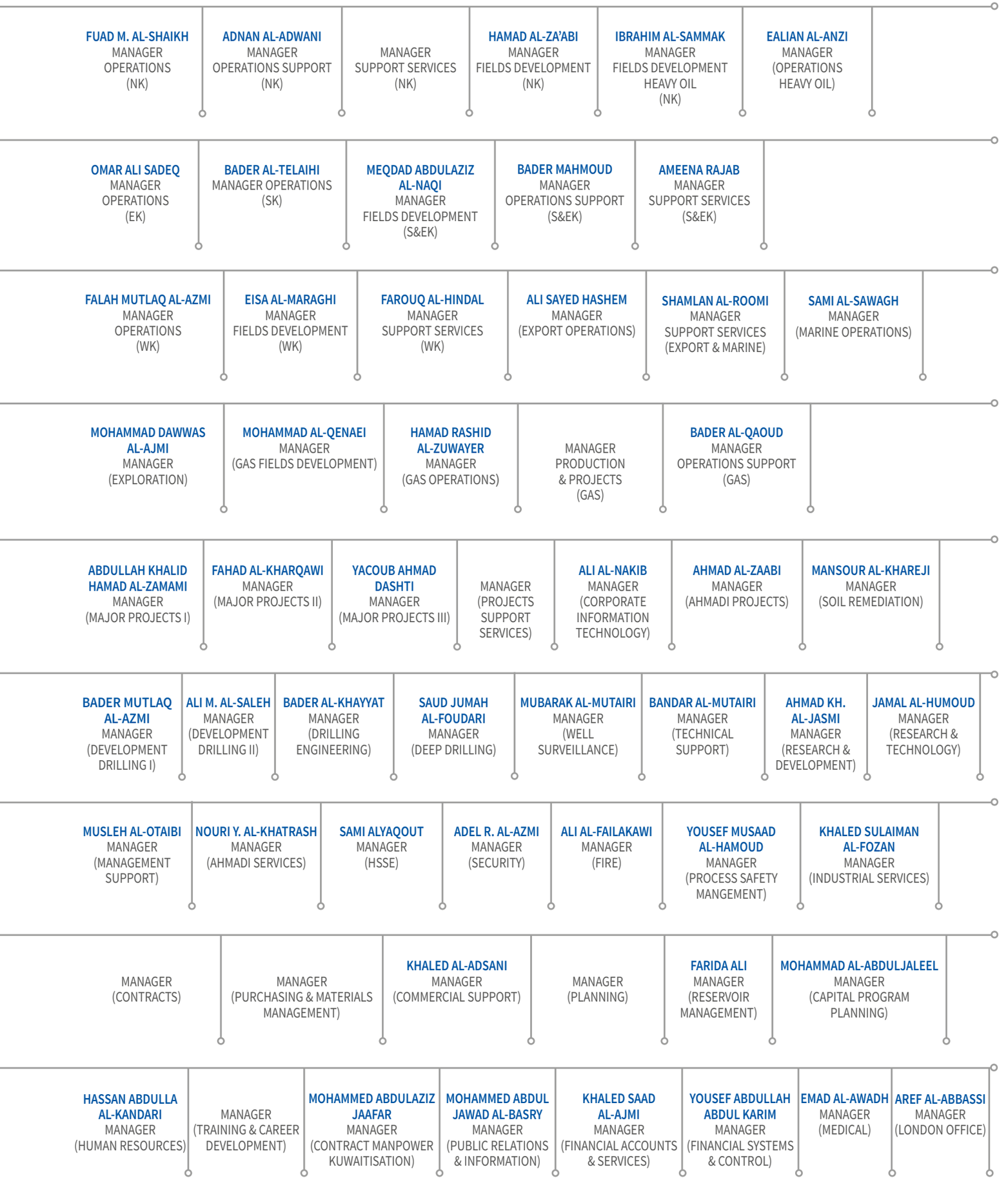
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Introduction

Over the course of the 2018/2019 fiscal year, KOC overcame many challenges to maintain production, which allowed the Company to achieve a Crude Production Capacity of 2.855 MBOPD while Non-Associated Gas Production reached 444 MMSCFD, with a peak of 513 MMSCFD during September of 2018. Over the same period, KOC drilled 444 wells for Crude Oil and Non-Associated Gas throughout all of the Company's areas of operation by utilizing 108 drilling and workover rigs (65 drilling rigs and 43 workover rigs). In addition, five new discoveries were announced during the year. The Heavy Oil program remains one of the Company's main focus areas as part of its 2040 Strategy, and it will continue to hold great importance for the Company's overall operations in the coming years.

KOC has also utilized the latest forms of technology throughout its activities in the field in order to optimize and improve the performance of its operations. In addition, the Company remained focused on recruitment and training, with an emphasis on hiring Kuwaitis for both KOC positions and contracting companies; whereby of the 366 employees who were recruited, 151 were fresh Kuwaiti graduates, 124 were Kuwaitis with work experience, and 91 were non-Kuwaiti. In addition, 3,382 Kuwaitis were accepted to work within KOC contracts.

In the area of Health, Safety, Security and the Environment, the Company has endeavored to reduce its Lost Time Injury Frequency Rate (LTIFR), which reached 0.026 accidents per 200,000 working hours.

Moreover, the Company participated in numerous conferences and exhibitions in order to attain excellence in performance. Likewise, it organized different initiatives and campaigns as part of its Corporate Social Responsibility efforts.

In this report, we describe the Company's performance and achievements within the framework of KOC's strategic objectives.

Chief Executive Officer's Message

As KOC and the State of Kuwait continue to work toward realizing the objectives of our 2040 Strategy for the oil sector, it is with great pride that I present you with the KOC Annual Report for 2018/19, which provides a comprehensive review of the Company's activities and achievements over the past year.

Before presenting this annual summary of our Company's achievements, I would like to recognize each and every KOC employee who has contributed to the success of many of our recent projects and initiatives. As always, KOC's spirit of teamwork is the overriding factor which has once again proven to be instrumental in maintaining our position as an international leader in the oil and gas industry. Our continuous commitment to KOC and our fellow employees has allowed us to further develop our systems of support throughout all areas of our operation, allowing us to reach our objectives with even greater degrees of safety and efficiency.

A renewed commitment to close cooperation between all KOC Directorates, Groups, and Teams has defined the general activity of KOC's efforts over the last fiscal year. As we look at the road ahead and the challenges which lie before us, it has become increasingly evident that our future success will be determined by the decisions we make today. For example, in addition to strengthening our current workforce through specialized training courses and programs at the local, regional, and international level, KOC has continued to ensure that the recruitment process for new employees selects the right individuals for the right positions, and that they are then provided with the necessary training to succeed well into the future. In this regard, I am happy to report that of the 366 employees who joined KOC over the past year, 151 were fresh Kuwaiti graduates while 124 were Kuwaitis with work experience who can now inject their skills and knowledge into KOC's current operations.

To summarize KOC's activities over the past fiscal year from a technical perspective, I am happy to report that the Company achieved a Crude Production Capacity of 2.855 MBOPD. Meanwhile, KOC's Non-Associated Gas Production stood at 444 MMSCFD, with a brief peak of 513 MMSCFD during September of 2018. In addition, 108 drilling and workover rigs were used to drill 444 wells for Crude Oil and Non-Associated Gas projects, with five new discoveries being announced over the past year alone. In addition, it should be noted that KOC's Heavy Oil program remains an integral part of our 2040 Strategy, and KOC's Heavy Oil projects will remain a critical aspect of KOC's overall operations in the near to long term.

A review of our activities over the past year would not be complete without mentioning the various Company programs that were created to serve the community in which we operate. KOC's commitment to social responsibility has resulted in a series of new and established initiatives which seek to create public awareness and engagement. From health and safety awareness lectures in schools to environmental remediation efforts in the field, KOC remains committed to improving the lives of Kuwait's citizens and residents whenever and wherever possible. In addition, more details of KOC's commitment to matters related to HSSE can be found in the pages that follow.

There is no doubt that the achievements registered over the past fiscal year would not have been possible without the commitment of KOC's dedicated employees and business partners. The spirit of cooperation and teamwork which prevails over our work has guided us up to this point, and it will continue to carry us forward as we seek to unlock the potential of KOC's human element through the careful development of our loyal workforce.

Sincerely,

Emad Mahmoud Sultan
CEO, Kuwait Oil Company

Kuwait Oil Company Annual Report 2018-2019

1st Strategic Objective:

Achieve Sustainable Crude Oil Production Capacity

A. Crude Production Capacity

Crude Production Capacity reached 2.855 MBOPD at year-end. Efforts are still ongoing to make progress on plans in order to reach a targeted Crude Production Capacity of 3.100 MBOPD for the next year.

Starting with KOC Assets, specifically with the North Kuwait operations area, the Company achieved a Crude Production Capacity of approximately 671,000 BOPD.

With regards to North Kuwait Projects, a successful cleaning pigging job for all effluent water transit lines between the central injection pumping facility and the Gathering Centers in Umm Al-Aish was conducted, which helps to improve the quality of associated water with oil used in the injection process and resulting in life longevity of injection wells, which assists in reducing energy requirements for injection pumps. Also, the commissioning of the Effluent Water Treatment and Injection Plant helped to provide operational solutions to overcome all difficulties in the planned injection schedule. This project has contributed to increasing the total injection rates to 180,000

barrels of injected water per day by utilizing 19 wells, which in turn contributes to maintaining the pressure of the reservoir and enhancing the production of crude oil by improving and guaranteeing the quality of water injection to protect the reservoir and the environment. In this context, the highest levels of water injection was in Sabriya and Al Ra udhatain fields, where an average of 1.2 million barrels of water per day was achieved, thus enhancing the reservoir pressure as well as increasing production by displacing oil with water injected into reservoirs.

With respect to Heavy Oil activities, production capacity reached 11,000 BOPD. In an effort from KOC to enhance its production capacity, the Effluent Water Disposal System has been commissioned in Umm Niqa, saving approximately KD 1.2 million annually. Also, the treated water was initially injected into the well (UN-136), helping to reduce the water level in the evaporation pit. In cooperation with an International Oil Company, KOC recently organized a Heavy Oil business event aimed at discussing multiple technical details related to Heavy Oil projects, fields, successes, activities, strategies and future work vision to apply lessons learned and achieve optimum accomplishment levels. KOC's cooperation with IOCs aims to develop Kuwait's Heavy Oil resources within the framework of the Enhanced Technical Services Agreement (ETSA).

Moving to the South & East Kuwait Asset, Crude Production Capacity reached 1.519 MBOPD. Minagish production reached more than 30,000 BOPD in Burgan Field, its highest since 1983. This is a milestone towards the target of 2020/2021 to reach 80,000 BOPD from Minagish reservoir in line with KOC's strategic goals.

As part of the Company's efforts to enhance production capacity in this area, it has successfully completed the Water Knock-Out Facility for Gathering Centers (GCs) 1&2; thus increasing water handling capacity from 120,000 to 270,000 BWPD and handling the crude with high water cuts of up to 75% in both GCs for future water cut increases. This helped in saving the diesel consumption by stopping the existing Artificial Lifting Pumps. In GC-22, work has been done on increasing the efficiency of the gas compressor by replacing old parts and using a new self-cleaning system that blows air at intervals, thus reducing the cost of maintenance and interruption of the compressor during cleaning operations.

In addition to the above, during January 2019, GC-8 activated new water injection pumps. South & East Kuwait Directorate has completed the 2018 water injection plan that is designed to increase the production capacity of the water injection to 1 million barrels per day. In Burgan Field, a total of 72 water injection wells were connected to the nearest facility by using high pressure pumps over a short period of time.

South & East Kuwait has participated in several initiatives related to field development and training of Kuwaiti employees within a framework of the Enhanced Technical Services Agreement (ETSA).

Regarding West Kuwait Asset, Crude Production Capacity reached 477,000 BOPD. In order to sustain the production of crude oil and reduce the amount of gas flaring, a contract was signed to expand the current Gas Sweetening Facility from 60 to 100 million cubic feet of gas per day to provide the maximum possible gas supply to the facility, during the unavailability of the Acid Gas Removal Plant (AGRP).

HAMOON
VALLETTA

As for the production of Light Oil, capacity reached 176,000 BOPD. In a significant achievement for KOC, segregation of Kuwait Super Light Crude (KSLC) was accomplished successfully at the North Tank Farm and commenced from the early Jurassic production facilities in the Sabriya and West Raudhatain fields (JPF-SA, JPF-WR) at the rate of 70,000 barrels of oil per day through the North Pier. The first shipment of export took place on July 1, 2018.

B. Export Operations

In line with the Company's strategic objectives, KOC reached the highest export rate in one day (7.3 million barrels) during April 2018, maintaining the quality and characteristics of the exported crude. This is a record rate in the Company's history compared to the previous record rate (6.8 million barrels) in February 2015.

In coordination with KNPC, KOC has carried out a successful line pressurization for the 20" Bunker Submarine line during September 2018. Accordingly, KOC informed KPC to proceed with the resumption of ship fuel shipments through this line (through the 20 and 21 mooring berths), thus contributing to the cost optimization for KPC.

C. Drilling and Workovers (Excluding Non-Associated Gas)

The total number of wells that were drilled specifically for the production of oil (excluding Non-Associated Gas) reached 411 new wells compared to the annual target of 384 wells, and 871 workover jobs.

Classification of Wells	Number of Wells
Cretaceous Development Wells	356
Jurassic Development Wells	11
Heavy Oil Development Wells	28
Exploratory Wells	16
Total	**411**

2nd Strategic Objective:

Achieve Sustainable Non-Associated Gas Production

A. Production Capacity of Associated Gas and Non-Associated Gas

KOC is making every effort to achieve its strategic goal of sustaining Non-Associated Gas Production. In this regard, the total daily production of Associated Gas and Non-Associated Gas at the end of 2018/2019 was 1.961 MMSCFD, while production of Non-Associated Gas reached 444 MMSCFD. KOC Non-Associated Gas Production of 513 MMSCFD peaked in September 2018.

The percentage of Gas Flaring in KOC fields reached 2.74%. KOC has undertaken several initiatives to reduce gas flaring where a contract was signed to expand the current Gas Sweetening Facility from 60 to 100 million cubic feet of gas per day to provide the maximum possible gas supply to the facility, during the unavailability of the Acid Gas Removal Plant (AGRP).

Among the Company achievements in this regard is the commissioning of "Train – I LP Lean Gas Compressor" at Booster Station (BS-180) which started exporting to the KOC gas network, which in turn helps to deal with the surplus of liquefied gas to satisfy most natural gas consumers and gas users at Shuaiba Industrial Area. In addition, the Sulfur Recovery Unit in "JPF-SA" Phase – II which is located in North Kuwait was successfully commissioned, along with exporting the sulfur to KNPC.

In line with environmental, security and safety requirements, the upgradation of the gas and condensate network contract was signed in July 2018, thus improving the integrity of old gas pipelines. Furthermore, the successful commissioning of the "Telemetry System" for monitoring and control of gas consumer network enables management of the gas pipeline network in KOC Fields, MEW Power Stations and KNPC.

B. Drilling and Workover of Jurassic Reservoirs (Non-Associated Gas)

Thirty three deep wells were drilled to reach the targeted amount of Non-Associated Gas. In addition, 50 workover jobs were completed and the Company's exploration program was implemented.

Classification of Wells	Number of Wells
Deep Developmental Wells (Jurassic)	27
Deep Exploratory Wells (Jurassic)	6
Total	**33**

3rd Strategic Objective:

Replace Reserves to Sustain Production

A. Reservoir Assessment Studies

KOC maintained an increase in oil reserves during the 2018/2019 fiscal year and had a steady growth in reserves and Non-Conventional Hydrocarbon resources in order to achieve its 2040 Strategy goals and increase production capacity. An evaluation of the techno-commercial feasibility of the first Chemical Enhanced Oil Recovery in Kuwait was conducted to sustain production and increase proven reserves in accordance with KOC's strategic plans.

In line with Kuwait's geological formations, a model has been prepared to help predict the quality and maturity of the oil reservoir based on isotopes for methane, ethane and propane during drilling, which contributes to the improvement of geological formations and studies during the drilling period.

KOC also delivered a detailed discussion panel on KOC's experience in water injection in North Kuwait Fields over the past 20 years and lessons learned. The discussion also reviewed the situation in these fields, the management of water injection operations, the technologies applied, as well as the method used in the annual planning of studies and projects to improve field performance and water injection.

In collaboration with a specialized company, KOC organized a workshop which focused on the management of the Bahra Maudud Reservoir where the global best practices were reviewed to maximize production from the reservoir by using new technologies. Specialists from both companies delivered presentations on the analysis of the nature of production in Bahra along with the plans to be applied in the future, as well as optimizing, monitoring and analyzing production in the reservoir.

In another collaboration with KISR-PRC and Emiratis Company, KOC completed an Integrated Surface Water Management project that addressed a number of operational challenges. There are many components to integrated water management, including the treatment of produced water, facilities optimization and management of injected water. The main objective of this project is to study three sites, namely the Central Injection Pump Facility in North Kuwait, Minagish Water Injection Plant in West Kuwait and the Effluent Water Plant Phase – II in South & East Kuwait in order to provide an integrated strategy to optimize the treatment and handling of high volumes of effluent water.

In a new accomplishment for the Company, KOC won the SPE Rocky Mountain North America Regional Competition in the "Best Research" category under the title of "Chemical EOR Economic Feasibility for a Multi-Well Pilot Sector of Sabriyah Lower Burgan Reservoir." In addition, KOC was selected for the best poster award presented in the 20th International Sedimentological Congress (ISC), which was organized recently by the International Association of Sedimentologists (IAS) in Canada. The topic of the presented poster was "Sedimentology and Diagenetic Modifications of Ratawi Limestone with Reference to Reservoir Characterization."

B. Seismic Survey Operations

The seismic survey is an important process for KOC, which contributes to the improvement of data needed for exploratory drilling. In this regard, a 3D seismic survey project for West Kuwait Sub Region has been initiated and the first 3D seismic volume of 995 km^2 covering Mutriba area was fully processed using an in-house processing center.

In addition, KOC organized an awareness seminar to announce the release of the first KOC Marine Seismic Safety Handbook. The information provided was accumulated during the recent seismic surveys in Kuwait. The handbook is intended to provide HSSE awareness to the visitors of the seismic survey vessels and the content is organized in four sections with clear illustrations that focus on hazards onboard the seismic vessels, common life-threatening accidents, organization, responsibilities and general HSSE roles. The timing of introducing this handbook is important as it coincides with upcoming extensive offshore exploration activities as part of the 2040 Strategy, and the latest updates are described in the next paragraph.

C. Exploratory Offshore Drilling Activities

Regarding exploratory offshore activities, KOC completed the Kuwait Offshore Exploration Project, which is fully integrated with all subsurface disciplines and presented to the Reservoir Management Committee in line with KOC strategic targets for new oil.

Furthermore, KOC held a preliminary meeting with a number of government bodies to discuss KOC's Offshore Exploration Drilling Project. The meeting aimed to discuss the ways of cooperation and collaboration between KOC and the government to avoid conflict between the services provided by these entities, and the project objectives fall under the strategic plan for KPC and KOC. The meeting was part of the many preparations that have been made for the launch of the Offshore Exploration Drilling Project at KOC, which is in its final stages.

D. Exploratory Drilling Activities

As mentioned in the drilling and workover section, a number of exploratory drilling operations have been completed in 2018/2019 which will contribute to achieving the strategic objectives of the Company in terms of adding reserves and production, including:

1. Cretaceous Layer

- New discovery in Bihayth – Minagish (BI-05) well with 41 API
- New discovery of Heavy Oil in Bahrah – Lower Fars

2. Jurassic Layer

- New discovery of Light Oil in Umm Roos – Najmah Sargelu (UR-040) well with 45 API
- New discovery of Light Oil in Riksah – Middle Marrat (RK-01) well with 45 API
- New discovery in Burgan – Gotnia with 19 API

4th Strategic Objective:

Strive for World-Class Operational Excellence

KOC strives to achieve the highest levels of security, safety, environmental protection and health insurance, which is part of the Company's overall strategy and a top priority. Its efforts are in line with its 2040 Strategy goals.

A. Health

In the area of health, the staff at Ahmadi Hospital are working hard to organize the work process and develop the necessary protocols for receiving patients and providing the best medical services. On the basis of these efforts, the commencement of pediatric accident and emergency care at Ahmadi Hospital will provide specialized medical services for children under 12 years of age, designed from a pediatric perspective to provide exceptional, child-focused care to patients as well as to offer support and guidance to their families. In addition, a Patient Information and Management Center (PIMC) was established in order to facilitate and improve the medical report services through a centralized unit that provides a link between the medical physicians and patients, which represents a milestone towards patient-oriented services.

In terms of medical awareness campaigns, KOC conducted two blood donation campaigns. One was held during Ramadan and aimed to increase the supply of blood during a time of the year when the availability of blood for patients who require it is low. In the other donation campaign, the hospital collected 240 blood bags from Ahmadi Hospital at the Central Blood Bank, serving the Ahmadi region and upholding its good reputation in the medical community.

KOC has again received the honor of recognition from the Ministry of Health after it reached fourth place for the most blood donors in the State of Kuwait last year. KOC provided more than 940 blood donors during its various campaigns in this field. Prior to its fourth position, the Company held the first position in the State of Kuwait for three successive years.

B. Safety and Security

Regarding Safety, KOC's efforts and endeavors are focused on reducing the Lost Time Injury Frequency Rate (LTIFR), which reached 0.026 accidents per 200,000 working hours at year-end.

A special assignment was successfully accomplished by KPC through KOC related to the construction of both new and renovation works of security buildings for the Kuwait National Guard, with excellent performance displayed with respect to the magnitude of the accomplished works and the sensitivity of the undertaking. In this regard, KOC successfully tested state of the art systems for tracking drones and radars in North Magwa.

To enhance HSSE awareness on potential hazards and precautionary measures against possible risk exposure inside and outside KOC's work areas, the Company carried out several awareness sessions for the Kuwait National Guard covering H_2S Hazards, defensive driving, EOD hazards and precautions, safety communication skills and management of hazardous gas.

KOC competed in the Firefighters Challenge Championship held in New Zealand in April 2018, breaking the championship record for the second time.

In the framework of Cyber Security in K-Companies, a new generation of firewalls have been installed on KOC's network, which helps to enhance the secure infrastructure of the Company's IT systems. These firewalls use the latest technology to protect IT services from advanced cyber-attacks. KOC was recognized with the prestigious award during the "Chief Information Security Officer 30" event.

KOC has launched the first safe driving program for contract employees in cooperation with the Health, Safety and Environment Center and has trained 141 vehicle operators.

D. Environment

The Company continued its efforts towards reducing the quantities of volume of oil spilled within the operation areas; the volume spilled reached 243 barrels at year end compared to 540 barrels of oil spilled during the last fiscal year 2017/2018.

The Waste Water Recovery Plant (WWRP) has been constructed for the first time at KOC. This plant processes leaks from the South & East Kuwait areas of operations. It has a capacity of approximately 10,000 barrels of wasted water per day. The plant collects water and pumps it into specialized wells for disposal in a safe manner, which contributes to the provision of safety required and the preservation of the environment in line with the laws of the Environment Public Authority.

KOC held several environmental campaigns, including the "Great Green Wall" to enhance the environmental performance of employees, which was attended by 118 employees from the Company and several government agencies concerned. Two presentations were delivered on the best way to combat desertification and the role of local plants in the ecosystem in Kuwait, with a final presentation delivered about the Company's Abdaliya preservation area. KOC also organized a campaign to clean the shore of Kubr Island in the context of the Company's environmental and community responsibility to clean and rehabilitate the area by removing all waste which affects and threatens marine and terrestrial life.

5th Strategic Objective:

Optimize Portfolio Management

A draft concept and mechanism of the Corporate Portfolio Management System has been prepared and a practical testing process has been initiated with the North Kuwait Directorate to assess the appropriateness of the specific mechanism and reformulate it if necessary. The Asset Management Portfolio project is one of the initiatives required in KOC's 2040 Strategy to prioritize the choice of future investment opportunities to optimize the Company's assets and maximize its return on investment. This requires the harmonization of existing workflows and mechanisms to develop the work processes and regulations to ensure the implementation of the initiative.

DELL
DELL

6th Strategic Objective:

Facilitate Technology & Capability Transfer

A. Technologies

The existing operations are based on utilizing the latest technologies mentioned here, as these new technologies provide new ways to increase reserves and production. However, it should be noted that the completion of the implementation of these technologies and their integration into the KOC system will lead to the achievement of some of the 2040 strategic initiatives. The related technologies illustrated below represent some of the ongoing initiatives.

In collaboration with Schlumberger, KOC applied the technology of "Casing while Drilling" for the first time in a number of wells in Raudhatain Field. This sophisticated technology poses a challenge to the Company to improve its drilling mechanisms and reduce the hazards ratio during drilling operations. The technology is part of the integrated drilling system "IDS-IPM" project that the Company has been operating since 2016. In addition, the Multi Stage Fracturing of the reservoir layers technology was replaced by another process which is the catalyst of the layers by acids with costs saving estimated at USD $2.8 million, which also led to the same expected production.

Also, the new "Utilizing Green Burner" technology was used for the first time in KOC West Kuwait Fields for the rigless operation of deep wells with high H_2S/CO_2 at wells DF-4 & DF-10, restoring more than 4,000 BOPD to West Kuwait production.

Meanwhile, KOC successfully signed a contract with a specialized service company for the "Open Technology Access" in December 2018, which ensures continuity of services previously provided by the service company's geology and geophysics software solutions. Furthermore, through two rounds of negotiations, the price was reduced with approximately USD $12 million in cost savings.

B. Skills and Human Resources

Kuwait Oil Company strives to enhance the skills and unlock the potential of its employees by providing them with an attractive work environment, and by working to reach the highest levels of job satisfaction. It also seeks to attract Kuwaitis as part of its national employment mandate. Here, we mention the most important achievements in this regard during the 2018/2019 fiscal year.

Recruitment and Kuwaitization

KOC exerted enormous efforts to facilitate the recruitment of 366 employees, including 151 recent Kuwaiti graduates, 124 experienced Kuwaitis, and 91 non-Kuwaiti employees. In addition, 3,382 Kuwaitis were accepted to work within KOC signed contracts. Accordingly, the total number of KOC employees at the end of the fiscal year reached 11,075 employees, including the medical and nursing staff. Hence, the percentage of Kuwaitis including the medical and nursing staff reached 81.68%, while it reached 89.25% excluding the medical and nursing staff.

In order to create job opportunities for Kuwaitis in the contracts and to encourage the private sector to attract national employment, 3,382 Kuwaitis were accepted, resulting in Kuwaitis in contracts reaching approximately 26.3% during 2018/2019.

KOC believes in the importance of the human factor and seeks to create a network of Kuwaiti

2 - Moderate
1 - Slight
0 - Minimal

technical workers through attention to the training programs. Training is an essential element which enables Kuwaiti employees to perform their required tasks in line with the requirements of contracts in the oil sector to operate the Company's various facilities efficiently. Practical education and on-the-job training was provided to 56 employees in the field of drilling.

As part of the Company's efforts to promote partnership with other oil companies and its pioneering role in implementing the latest methods and practices, KOC participated in the implementation of the Kuwaitization Agreement with Kuwait Petroleum Corporation and Kuwait Oil Tanker Company.

Some of the challenges faced by Kuwait Oil Company during the 2018/2019 fiscal year related to recruitment and contracts:

- Increasing the job awareness of employees in contracts and raising the efficiency of the job. The Company has faced this challenge by organizing awareness sessions for all contract employees. Three awareness sessions for new employees and 10 sessions for contract supervisors were held in all Directorates.
- Qualifying and training skilled and semi-skilled Kuwaiti employees to raise their competency needed for the new roles in the contracting companies. KOC seeks to increase the training programs in coordination with the Public Authority for Applied Education.
- Raising the percentage of the Kuwaiti workforce in the Company's contracts by mobilizing the Company's many job vacancies from the skilled and specialized labor force in the local labor market to meet the needs of KOC Groups to achieve their strategic objectives.
- In coordination with KPC's affiliated "Petroleum Training Center" to build a personal data bank for all Kuwaiti employees in contracts to facilitate the registration process in the courses available by acquiring an additional 5,000 licenses .

Training and Development

The Company continues to serve its employees by developing initiatives that include training abroad at International Oil Companies (IOCs) on specialized technical programs to obtain certificates in their fields of work, in order to develop scientific, technical and research programs necessary to improve the productive capabilities of the Company. Recently, 185 employees were assigned to these IOCs.

In addition, the Company aspires to meet the training needs of employees and develop their skills by using various training tools such as direct training programs, self-learning, distance learning, on the job training or joining International Companies. During 2018/2019, the number of participants in these programs reached 29,807 through 3,063 programs.

The Company's most important achievements in terms of training and development during the fiscal year 2018/2019:

- Kuwait Oil Company signed a Memorandum of Understating (MOU) with the Faculty of Nursing in the Public Authority for Applied Education & Training, in which KOC cooperated with the faculty in the bachelor's and diploma program to fulfill and achieve KOC's medical manpower

requirements. By recruiting Kuwaiti students studying at this faculty after graduation and while training, KOC provides a monthly grant as a reward at the end of each semester. In addition, KOC signed an MOU with the Public Authority for Applied Education & Training for the first time to attract high school graduates to join the nursing program and then to employ them at Ahmadi Hospital. The first batch of graduates has been appointed as nurses at the Company's hospital.

- KOC signed an MOU with the Kuwait Oil Tanker Company to attract high school graduates (males - science discipline) to complete their studies abroad (UK), after which they will be re-cruited in Marine Operations positions at Kuwait Oil Company.
- KOC organized a conference titled "KOC Integrated Talent Management Forum" in February 2019. The conference included lectures and workshops with attendees, and more than 400 employees from various local and International Oil Companies participated, as well as guests from local educational institutes. This forum is a major event as it provides opportunities to listen to and work with leading international human capital experts, providing the latest methodologies to enable attendees to meet the challenges of the modern workplace.
- The Unified Learning Management System (ULMS) was implemented in cooperation with KPC and the oil sector as a whole in terms of training and career development. These programs will be implemented through PTC inside and outside Kuwait.
- The Company has prepared and published a booklet under the title: "Seven Cs Mentoring Booklet." The booklet will be a reference for all stakeholders in KOC to unify the procedures related to this process.
- KOC developed a new methodology to unify training for new recruits (UD Development through instructional systems design). This new system will standardize the programs for all jobs assigned to the newly appointed, in coordination with Kuwait Petroleum Corporation.

PIG 878

7th Strategic Objective:

Actively Manage Stakeholders to Satisfy Kuwait's Energy Demand Efficiently

A. Actively Manage Stakeholders

KOC strives to achieve excellence and progress in its performance by exerting effort to achieve its strategy of raising production capacity by 2040. The most important achievements in this regard include:

Coordinate stakeholder communication and provide critical insights into the business flow (KOC Holistic Review), including data collection, contributing to the assessment of key aspects of KOC's overall operating model in light of the 2040 Strategic Objectives.

In addition, tender fees and initial insurance for various tender types were also consolidated in coordination with the Central Agency for Public Tenders and the Higher Procurement Committee at KPC.

B. Contribute to Enterprise and State

KOC participated in numerous conferences, forums and exhibitions in order to attain excellence in performance. In this regard, it organized different events and presented several technical papers. Some of the conferences and exhibitions that KOC participated in include the following:

- Conference and Exhibition of Green Buildings in the State of Kuwait
- "ONS" conference and exhibition in the Norwegian city of Stavanger
- 17th Conference of the Gulf Career Development Forum in Kuwait
- International Petroleum Society Conference and Exhibition, Dallas, Texas, USA
- World Digital Refineries Congress Conference and Exhibition in Kuwait
- Conference of the Arab Union of Oil, Mines and Chemicals Workers in the State of Kuwait
- ADIPEC Global Petroleum Conference and Exhibition in the Emirate of Abu Dhabi in the UAE
- MEOS 2019 Oil and Gas Conference and Exhibition in Manama, Bahrain

The Company organized several initiatives and campaigns that serve the Company's social responsibility towards the community. It participated in activities such as visiting the elderly and patients of Ahmadi Hospital.

On the occasion of Kuwait's national celebrations, Kuwait Oil Company inaugurated celebrations for Kuwait's 58th National Day and the 28th Liberation Day of the State of Kuwait in Safat Square on February 25 and 26. It included various activities aimed at different groups of society and of all ages, with the participation of many local and regional folklore bands.

KOC's Aspirations towards meeting its Strategic Objectives for 2018/2019

- The Company aims to continue building production capacity of crude oil in accordance with the strategic objectives. KOC is also looking forward to continuing the implementation of projects to increase production, such as Gathering Center (GC-31) in North Kuwait area and Gathering Center (GC-32) in South & East Kuwait which is expected to be completed in fiscal year 2020/2021 to deal with the production of acid oil from the Minagish reservoir in Burgan Field.
- Conduct an extensive drilling program to develop newly discovered prospects as part of the 2040 Strategy.
- Focus on water treatment, handling, and injection operations for reservoirs to increase their production capacity.
- Raise production capacity of Non-Associated Gas from 500 MMSCFD to 1.0 BSCFD by establishing four new Jurassic Production Facilities in the coming three years, two of which (Jurassic Production Facilities 4 & 5) are expected to be signed within this fiscal year.
- The development of Heavy Oil reservoirs in North Kuwait by completing "Ratqa Lower Fars Reservoir" through commissioning the Heavy Oil Central Production Facility to achieve

production capacity equivalent to 60 MBOPD. In addition to the development of the field of Umm Niqa, “Lower Fars” will increase production capacity to 25 MBOPD. This aids in acquiring the required technology and training the national workforce in KOC.

- Finalize signing the contracts of the offshore drilling project as part of the onshore and offshore exploration operations to support the Company’s production capacity.
- Raise the production capacity of Kuwait Oil Company for the year 2019/2020 through the implementation of initiatives of the Production Optimization and Assurance Committee to improve and ensure production in the following areas:
  - Workover wells
  - Wells inspection
  - Implement short-term reservoir production initiatives.
  - Implement short-term initiatives to improve plant production.
- Improve and develop production methods using the best modern technology in order to:
  - Work on the implementation of pilot and actual Water Flood projects to improve the Company’s expertise in this area.
  - Develop the Company’s capabilities in the use of EOR technology through the implementation of pilot projects to reach the production capacity targets.
- Advancing forward with crude oil segregation projects to export different types of crude such as heavy oil (Lower Fars and Umm Niqa), medium heavy (Ratawi and East Umm Gudair), in addition to the light crude being shipped and Kuwait Export Crude (KEC) and (KSLC).
- Continue reducing gas flaring to 1% at the level of Kuwait Oil Company.

600 m
500 m
400 m
300 m
200 m
100 m

Financial Statements and Independent Auditor's Report

For the year ended 31 March 2019

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State of Kuwait

Opinion

We have audited the financial statements of Kuwait Oil Company K.S.C. ("the Company"), which comprise the statement of financial position as of 31 March 2019, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 March 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Other Information

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the financial statements include the information required by the Companies Law No. 1 of 2016, as amended, and its Executive Regulations and the Company's Memorandum and Articles of Association, as amended. In our opinion, proper books of account have been kept by the Company, an inventory count was carried out in accordance with recognized procedures and the accounting information given in the Board of Directors' report agrees with the books of accounts of the Company. We have not become aware of any violations of the provisions of the Companies Law No. 1 of 2016, as amended, and its Executive Regulations, or of the Company's Memorandum and Articles of Association, as amended, during the year ended 31 March 2019 that might have had a material effect on the business of the Company or on its financial position.

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

Kuwait : 18 April 2019

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

Statement of financial position
as at 31 March 2019

	Note	2019 KD'000	2018 KD'000
Assets			
Property, plant and equipment:			
Crude oil and general purpose		5,604,568	5,366,550
Gas collection and transmission		875,533	774,543
Drilling and exploration		103,711	111,441
Export operations		6,944	97
Mobile plant		1,031	459
Capital work in progress		6,531,632	5,392,475
Total property, plant and equipment	*5*	13,123,419	11,645,565
Intangible assets	*6*	83,445	88,379
Construction inventories	*7*	172,267	156,586
Receivable from Parent Company	*9*	15,094	15,094
Non-current assets		13,394,225	11,905,624
Consumable inventories	*7*	119,512	104,892
Advances and other receivables	*8*	539,328	560,239
Amounts due from group companies	*15 (b)*	79,071	93,077
Cash and cash equivalents	*10*	5,152	7,565
Current assets		743,063	765,773
Total assets		14,137,288	12,671,397
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*	9,547,501	8,713,827
Post employment benefits	*12*	616,431	447,450
Non-current liabilities		10,163,932	9,161,277
Accounts payable and other liabilities	*13*	1,253,015	942,563
Dividend payable	*14*	560,268	407,484
Current liabilities		1,813,283	1,350,047
Total liabilities		11,977,215	10,511,324
Total equity and liabilities		14,137,288	12,671,397

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

Sanad Hemaidi Al- Sanad
Chairman

Emad Mahmoud Sultan
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 2019

	Note	2019 KD'000	2018 KD'000
Revenue:			
Revenue (net of royalty, levy and marketing fees)	*16*	3,947,451	3,142,706
Operating cost (cost of production):			
Contract services		(676,732)	(701,307)
Employee cost		(836,063)	(673,184)
Material cost		(71,695)	(61,926)
Depreciation, amortization and write off	*5&6*	(383,598)	(352,244)
Total operating cost	*17*	(1,968,088)	(1,788,661)
Other operating income	*18*	31,319	52,480
Recoverable costs	*19*	157,835	137,025
Cost of production		(1,778,934)	(1,599,156)
Deferred cost recognized		(64,009)	(44,516)
Deferred cost		-	64,009
Total cost of sales		(1,842,943)	(1,579,663)
Gross profit		2,104,508	1,563,043
General and administrative expenses	*20*	(103,673)	(108,055)
Net operating profit		2,000,835	1,454,988
Interest income		163	353
Directors' remuneration	*21*	(42)	(42)
Net profit before contribution to shareholder		2,000,956	1,455,299
Contribution to the shareholder	*22*	(1,440,688)	(1,047,815)
Net profit and total comprehensive income for the year (transferable to Parent Company)	*14*	560,268	407,484

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 2019

	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 2017	30,188	2,114,791	15,094	-	2,160,073
Net profit	-	-	-	407,484	407,484
Total comprehensive income for the year	-	-	-	407,484	407,484
Transactions with owner of the Company, recognized directly in the equity					
Distribution to owner of the Company (note 14)	-	-	-	(407,484)	(407,484)
Balance at 31 March 2018	30,188	2,114,791	15,094	-	2,160,073
Balance at 1 April 2018	30,188	2,114,791	15,094	-	2,160,073
Net profit	-	-	-	560,268	560,268
Total comprehensive income for the year	-	-	-	560,268	560,268
Transactions with owner of the Company, recognized directly in the equity					
Distribution to owner of the Company (note 14)	-	-	-	(560,268)	(560,268)
Balance at 31 March 2019	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 2019

	Note	2019 KD'000	2018 KD'000
Cash flows from operating activities			
Net profit		560,268	407,484
Adjustments for:			
Abortive drilling expenditure	*17*	3,786	8,530
Provision for obsolete and slow moving inventories		-	1,012
Depreciation, amortization and write off	*5&6*	383,598	352,244
Contribution to the shareholder	*9*	1,440,688	1,047,815
Provision for post employment benefits	*12*	252,653	124,007
		2,640,993	1,941,092
Changes in:			
- consumable inventories		(14,620)	5,993
- advances and other receivables		20,911	(38,393)
- receivable from the Parent Company	*9*	(3,947,451)	(3,142,706)
- other movements in the Parent Company balances	*9*	2,188	(879)
- accounts with group companies		14,006	(24,795)
- accounts payable and other liabilities		311,040	22,111
Cash used in operations		(972,933)	(1,237,577)
Post employment benefits paid	*12*	(83,672)	(24,356)
Net used in operating activities		(1,056,605)	(1,261,933)
Cash flows from investing activities			
Acquisition of property, plant and equipment	*5&6*	(1,857,106)	(2,124,295)
Abortive drilling	*17*	(3,786)	(8,530)
Changes in construction inventories		(15,681)	41,383
Net cash used in investing activities		(1,876,573)	(2,091,442)
Cash flows from financing activities			
Funding from the Parent Company	*9*	2,930,765	3,350,227
Net cash generated from financing activities		2,930,765	3,350,227
Net change in cash and cash equivalents		(2,413)	(3,148)
Cash and cash equivalents at beginning of the year		7,565	10,713
Cash and cash equivalents at end of the year	*10*	5,152	7,565

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

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

Notes to the financial statements
for the year ended 31 March 2019

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 the 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 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 18 April 2019 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 its Executive Regulations, and the Company's Articles of Association and the Ministerial Order No. 18 of 1990.

This is the first set of the Company's annual financial statements in which ("IFRS 9"), *Financial Instruments* and ('IFRS 15"), *Revenue from Contracts with Customers* have been applied. Changes to significant accounting policies are described in Note 2d.

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.

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

Notes to the financial statements
for the year ended 31 March 2019

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) Changes in significant accounting policies

The Company has initially applied IFRS 15 and IFRS 9 from 1 April 2018. A number of other new standards are also effective from 1 April 2018 but they do not have a material effect on the Company's financial statements.

Due to the transition method chosen by the Company in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

i. IFRS 15, *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Company has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application 1 April 2018. Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

Revenue from exploration and extraction of crude oil and gas

Under IAS 18, the Company recognized revenue from exploration and extraction of crude oil when it 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.

Additionally, in the previous year, the Company deferred the cost of production related to crude oil held in storage at the year end and valued based on the average total cost of production for the year.

Under IFRS 15, the Company recognizes the revenue, computed based on above allocation, when it loads the crude oil on the designated vessel at the port of Kuwait. The Company satisfies performance obligation of extracting, processing, storing and transporting crude oil or gas through pipelines to the Parent Company over time. However, the revenue is recognized at a point of time due to uncertainty involved in customer orders. Further the supply of gas is considered as a separate performance obligation because it is

distinct from extraction, processing and supply of crude oil and the Company allocates the transaction price for services related to gas based on their stand-alone selling price and recognize revenue as it satisfies its performance obligations to the Parent Company with respect to supply of gas.

The Company recognizes all costs related to satisfied performance obligation (or partially satisfied performance obligations) as expenses in the statement of profit or loss and other comprehensive income. As result, the Company did not recognize deferred cost in the current year.

ii. *IFRS 9, Financial Instruments*

The Company has adopted IFRS 9, *Financial Instruments* issued in July 2014 with a date of initial application of 1 April 2018. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

Additionally, the Company has adopted consequential amendments to IFRS 7, *Financial Instruments: Disclosures* that are applied to disclosures on 2019 but have not been generally applied to comparative information.

The key changes to the Company's accounting policies resulting from the adoption of IFRS 9 are summarised below:

i. Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 did not have a significant effect on the Company's accounting policies related to financial liabilities.

The following table below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets as at 1 April 2018.

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

Notes to the financial statements
for the year ended 31 March 2019

	Original measurement and classification under IAS 39	New classification and measurement under IFRS 9
Cash and cash equivalents	Loans and receivables, carried at amortised cost	Financial assets carried at amortised cost
Receivable from Parent Company	Loans and receivables, carried at amortised cost	Financial assets carried at amortised cost
Advances and other receivables	Loans and receivables, carried at amortised cost	Financial assets carried at amortised cost
Amounts due from group companies	Loans and receivables, carried at amortised cost	Financial assets carried at amortised cost

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ii. Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract asset and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

The Company determined that the impact of impairment allowance on the financial assets as at 1 April 2018 is not significant to the overall financial statements.

iii. Transition

The Company has not restated comparative information for the year ended 31 March 2018 as permitted by the transitional provisions of the standard. Therefore, the information presented for the year ended 31 March 2018 does not reflect the requirements of IFRS 9 and is not comparable to the information presented for the year ended 31 March 2019. There are no differences in the carrying amount of financial assets resulting from the adoption of IFRS 9 as at 1 April 2018.

For an detailed explanation of how the Company classifies and measures financial instruments refer note 3 (j).

Other amendments to IFRS which are effective for annual accounting period starting from 1 April 2018 did not have any material impact on the accounting policies, financial position or performance of the Company.

e) Standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on 1 April 2019 and earlier application is permitted. However, the Company has not early adopted any of these new or amended standards in preparing these financial statements. The significant standards the Company will apply from 1 April 2019 or later are as follows:

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A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below:

IFRS 16, Leases

The Company is required to adopt IFRS 16, *Leases* from 1 April 2019. The Company has assessed the estimated impact that initial application of IFRS 16 will have on its financial statements, as described below. The assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Company in 2019.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

i) Leases in which the Company is a lessee

The Company will recognise new assets and liabilities for its operating leases. The nature of expenses related to those leases will now change because the Company will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

ii) Leases in which the Company is a lessor

As at the reporting date, the Company has not entered into any contracts in which the Company is a lessor.

iii) Transition

The Company plans to apply IFRS 16 initially on 1 April 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 April 2019, if required, with no restatement of comparative information.

IFRS 16 may have significant impact on amounts reported and disclosures made in the Company's financial statements in respect to the operating leases. Additional disclosures will be made in the financial statements when the standard becomes effective. However, currently it is not practicable to provide a reasonable estimate of effects of the application of these standards until the Company performs a detailed review.

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3. Significant accounting policies

The Company has consistently applied the following accounting policies to all periods presented in these financial statements except the changes descried in note 2 (d).

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.

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

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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 losses 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) 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.

e) 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.

f) Revenue recognition

Information about the Company's accounting policies along with effect of initially applying IFRS 15 relating to contracts with customers is set out in note 2 (d).

g) 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.

h) 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.

i) Post employment benefits

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

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. The expected costs of these benefits are accrued over the period of employment.

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.

j) Financial instruments

Classification and measurements of financial assets

The Company determines the classification of financial assets based on the business model it uses to manage the financial assets and the contractual cash flow characteristics of the financial assets.

Business model assessment

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

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

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that

business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

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

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

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

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

The Company classifies its financial assets upon initial recognition into the following categories:

- Financial assets carried at amortised cost;
- Equity investments carried at fair value through other comprehensive income (FVOCI);
- Debt investments carried at fair value through other comprehensive income (FVOCI); and
- Financial assets carried at fair value through profit or loss (FVTPL).

Financial assets carried at Amortised cost:

A financial asset is carried at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows ; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest method. Impairment is recognised in the statement of profit or loss and other comprehensive income. Any gain or loss on derecognition is recognised in the statement of profit or loss and other comprehensive income.

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Reclassification of financial assets

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

The Company does not have instrument at FVOCI or FVTPL category as at the reporting date.

Derecognition of financial assets

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

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Impairment of financial assets

The Company recognises loss allowances for expected credit ("ECL") loss on financial measured at amortised cost.The Company applies a three stage approach to measure the expected credit loss as follows:

Stage 1: 12-month ECL
The Company measures loss allowances at an amount equal to 12-month ECL on financial assets where there has not been significant increase in credit risk since their initial recognition or on exposures that are determined to have a low credit risk at the reporting date.

Stage 2: Lifetime ECL- not credit impaired
The Company measures loss allowances at an amount equal to lifetime ECL on financial assets where there has been a significant increase in credit risk since initial recognition but are not credit impaired.

Stage 3: Lifetime EC- credit impaired
The Company measures loss allowances at an amount equal to lifetime ECL on financial assets that are determined to be credit impaired based on objective evidence of impairment.

Life time ECL is ECL that result from all possible default events over the expected life of a financial instrument. The 12 month ECL is the portion of life time expected credit loss that result from default events that are possible within the 12 months after the reporting date. Both life time ECLs and 12 month ECLs are calculated on either

an individual basis or a collective basis depending on the nature of the underlying portfolio of financial instruments.

Determining the stage of impairment

At each reporting date, the Company assesses whether a financial asset or group of financial assets is credit impaired. The Company considers a financial asset to be credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred or when contractual payments are 90 days past due.

Financial assets that are 30 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk.

Measurement of ECLs

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

Presentation of allowance for ECL in the statement of financial position

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

For certain financial assets carried at amortised cost and without significant financing element, IFRS 9 allows to apply simplified approach in calculating ECLs. Under this approach, the Comapany does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs.

Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in statement of profit or loss and other comprehensive income. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in statement of profit or loss and other comprehensive income. Any gain or loss on derecognition is also recognised in statement of profit or loss and other comprehensive income.

The Company's financial liabilities includes Due to Parent Company, Accounts payable and other liabilities and dividend payable.

Derecognition of financial liabilities

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The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in statement of profit or loss and other comprehensive income.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

k) 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.

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.

Measurement of ECL

The measurement of ECL on financial assets involves complex estimations. ECL is the probability weighted estimate of credit losses and is measured as the present value of all cash shortfalls discounted at the effective profit rate of the financial instrument. Cash shortfall represent the difference between cashflows due to the Company in accordance with the contract and the cashflows that the Company expects to receive. The key elements in the measurement of ECL include probability of default, loss given default and exposure at default.

Probability of Default (“PD”) is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the financial asset has not been previously derecognized and is still in the portfolio.

Exposure at Default (“EAD”) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities.

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Loss Given Default ("LGD") is an estimate of the loss arising in the case where a default occurs at a given time

5. Property, plant and equipment

By function, excluding capital work in progress

31 March 2019	**Net book value at 31 March 2018 KD'000**	**Additions/ (disposals and transfers), net KD'000**	**Depreciation KD'000**	**Net book value at 31 March 2019 KD'000**
Crude oil and general purpose	5,366,550	557,741	(319,723)	5,604,568
Gas collection and transmission	774,543	150,970	(49,980)	875,533
Drilling and exploration	111,441	-	(7,730)	103,711
Export operations	97	6,916	(69)	6,944
Mobile plant	459	1,012	(440)	1,031
Total	6,253,090	716,639	(377,942)	6,591,787

31 March 2018	**Net book value at 31 March 2017 KD'000**	**Additions/ (disposals and transfers), net KD'000**	**Depreciation KD'000**	**Net book value at 31 March 2018 KD'000**
Crude oil and general purpose	4,356,718	1,296,057	(286,225)	5,366,550
Gas collection and transmission	534,323	276,724	(36,504)	774,543
Drilling and exploration	119,171	-	(7,730)	111,441
Export operations	124	(18)	(9)	97
Mobile plant	975	(104)	(412)	459
Total	5,011,311	1,572,659	(330,880)	6,253,090

5. Property, plant and equipment (continued)

By Category 31 March 2019	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 2018	2,703,149	2,416,188	4,452,840	78,260	1,800	95,947	844,126	3,787	32,910	-	40,236	5,392,475	16,061,718
Additions to capital work in progress	-	-	-	-	-	-	-	-	-	-	-	1,857,106	1,857,106
Transfer from capital work in progress	14,521	79,240	597,951	1,008	-	6,916	17,548	143	-	-	34	(717,949)	(588)
Write off	(32,694)	(3,191)	-	(884)	-	-	(828)	(22)	(77)	-	(114)	-	(37,810)
At 31 March 2019	2,684,976	2,492,237	5,050,791	78,384	1,800	102,863	860,846	3,908	32,833	-	40,156	6,531,632	17,880,426
Accumulated depreciation and impairment losses													
At 1 April 2018	1,298,144	868,989	1,871,700	51,477	1,150	33,883	224,851	2,051	31,431	-	32,477	-	4,416,153
Charge for the year	68,841	83,794	172,586	10,439	248	5,766	32,340	396	745	-	2,787	-	377,942
Write off	(32,450)	(2,898)	-	(858)	-	-	(669)	(22)	(77)	-	(114)	-	(37,088)
At 31 March 2019	1,334,535	949,885	2,044,286	61,058	1,398	39,649	256,522	2,425	32,099	-	35,150	-	4,757,007
Carrying value													
At 31 March 2019	1,350,441	1,542,352	3,006,505	17,326	402	63,214	604,324	1,483	734	-	5,006	6,531,632	13,123,419

Exploration and evaluation costs included under drilling, exploration and other assets under construction amounted to KD 30,070 (31 March 2018: KD 32,651 thousands).

5 Property, plant and equipment (continued)

By category (continued)

By Category	Oil and gas properties					Other property, plant and equipment						Capital work in progress	
31 March 2018	**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 2017	2,388,801	2,038,685	3,673,528	66,887	1,800	94,295	779,545	3,716	33,062	7	37,708	4,921,537	14,039,571
Additions to capital work in progress												2,124,295	2,124,295
Transfer from capital work in progress	319,979	398,990	779,312	14,259	-	1,653	70,193	98	-	-	4,986	(1,653,357)	(63,887)
Write off	(5,631)	(21,487)	-	(2,886)	-	(1)	(5,612)	(27)	(152)	(7)	(2,458)	-	(38,261)
At 31 March 2018	2,703,149	2,416,188	4,452,840	78,260	1,800	95,947	844,126	3,787	32,910	-	40,236	5,392,475	16,061,718
Accumulated depreciation and impairment losses													
At 1 April 2017	1,236,935	799,108	1,737,359	40,781	902	28,190	198,738	1,789	30,808	7	32,106	-	4,106,723
Charge for the year	64,131	78,229	134,341	12,813	248	5,694	31,536	289	775	-	2,824	-	330,880
Write off	(2,922)	(8,348)	-	(2,117)	-	(1)	(5,423)	(27)	(152)	(7)	(2,453)	-	(21,450)
At 31 March 2018	1,298,144	868,989	1,871,700	51,477	1,150	33,883	224,851	2,051	31,431	-	32,477	-	4,416,153
Carrying value													
At 31 March 2018	1,405,005	1,547,199	2,581,140	26,783	650	62,064	619,275	1,736	1,479	-	7,759	5,392,475	11,645,565

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6. Intangible assets

31 March 2019	Seismic surveys KD'000	Others KD'000	Total KD'000
Cost			
At 1 April 2018 and 31 March 2019	163,679	2,126	165,805
Accumulated amortization and impairment losses			
At 1 April 2018	75,423	2,003	77,426
Amortised during the year	4,876	58	4,934
At 31 March 2019	80,299	2,061	82,360
Net book value			
At 31 March 2019	83,380	65	83,445

31 March 2018	Seismic surveys KD'000	Others KD'000	Total KD'000
Cost			
At 1 April 2017	99,792	2,126	101,918
Additions	63,887	-	63,887
At 31 March 2018	163,679	2,126	165,805
Accumulated amortization and impairment losses			
At 1 April 2017	70,942	1,931	72,873
Amortised during the year	4,481	72	4,553
At 31 March 2018	75,423	2,003	77,426
Net book value			
At 31 March 2018	88,256	123	88,379

7. Inventories

	2019 KD'000	2018 KD'000
Inventories at cost	296,389	267,991
Provision for obsolete and slow-moving items	(4,610)	(6,513)
	291,779	261,478
Classified in statement of financial position as:		
Construction inventories	172,267	156,586
Consumable inventories	119,512	104,892
	291,779	261,478

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8. Advances and other receivables

	2019 KD'000	2018 KD'000
Advances to contractors	484,264	444,639
Prepaid expenses	5,748	3,862
Staff advances	26,162	24,511
Deferred cost	-	64,009
Other receivables	26,747	23,218
Less:- Expected credit loss	(3,593)	-
	539,328	560,239

9. Due to the Parent Company, net

Due to the 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:

	2019 KD'000	2018 KD'000
At 1 April	(8,713,827)	(7,129,749)
Net revenue receivables (note 16)	3,947,451	3,142,706
Net funds transfer	(2,930,765)	(3,350,227)
Dividend distributed (note 14)	(407,484)	(329,621)
Contribution to shareholder (note 22)	(1,440,688)	(1,047,815)
Other movements	(2,188)	879
At 31 March	(9,547,501)	(8,713,827)
Non-current receivables		
Receivable from Parent Company (*relating to transfer of statutory reserve*)	15,094	15,094
	(9,532,407)	(8,698,733)

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 the 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

	2019 KD'000	2018 KD'000
Cash in hand	18	16
Cash at bank	5,134	7,549
	5,152	7,565

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11. Equity

Share capital

The authorized, issued and fully paid up share capital of the Company comprises of 30,188,291 (31 March 2018: 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, as amended, and its Executive Regulations and the Company's Articles of Association, 10% of profit for the year is transferred to 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 its Executive Regulations, 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 the statutory reserve. This has been approved by the shareholder.

12. Post employment benefits

	2019 KD'000	2018 KD'000
Balance at beginning of the year	447,450	347,799
Charge for post employment benefits	252,653	124,007
Payments made during the year	(83,672)	(24,356)
Balance at end of the year	616,431	447,450

Charge for post employment benefits includes the retrospective financial effect of Law No. 85 of 2017 for amendment to Law No. 6 of 2010.

13. Accounts payable and other liabilities

	2019 KD'000	2018 KD'000
Accounts payable	720,448	459,476
Contractor and suppliers retentions	205,717	190,225
Liquidated damages	202,869	155,961
Staff payables	65,842	54,695
Accrued expenses	27,992	49,139
Others	30,147	33,067
	1,253,015	942,563

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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 3,947,451 thousands (31 March 2018: KD 3,142,706 thousands) represent net sales by the Parent Company (note 16).

iii. Training costs charged by the Parent Company amounted to KD 5,033 thousands (31 March 2018: KD 7,256 thousands) (note 20).

iv. The Company extracted and transferred gas to Kuwait National Petroleum Company K.S.C., On behalf of the Parent Company for which no separate revenue arrangement in place (note 16).

Key management compensation

	2019 KD'000	2018 KD'000
Salaries and other employee benefits	1,152	1,064
	1,152	1,064

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

	2019 KD'000	2018 KD'000
Due from group companies:		
Kuwait National Petroleum Company K.S.C.	58,605	75,890
Kuwait Oil Tanker Company S.A.K.	5,131	6,018
Kuwait Foreign Petroleum Exploration Company K.S.C.	192	622
Kuwait Aviation Fueling Company K.S.C.	710	493
Petrochemical Industries Company K.S.C.	5,621	4,360
Kuwait Petroleum International Limited	907	358
Kuwait Gulf Oil Company K.S.C. (Closed)	4,266	3,565
Oil Sector Services Company K.S.C. (Closed)	160	164
Kuwait Integrated Petroleum Industries Company	3,479	1,607
	79,071	93,077

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:

	2019 KD'000	2018 KD'000
Gross revenue	20,997,081	16,716,519
Royalty	(4,199,416)	(3,343,304)
Fiscal levy	(12,430,272)	(9,896,179)
Marketing fee	(419,942)	(334,330)
Net revenue (note 9)	3,947,451	3,142,706

Applicable percentages on above allocation are disclosed under revenue recognition policy (see note 3(f)). In the absence of a separate revenue arrangement for exploration and extraction of gas, the above revenue deemed to be attributable to extraction of crude oil and gas at KD 3,894,107 thousands and KD 53,344 thousands respectively. This allocation is based on a relative standalone selling price basis that depicts the amount of consideration to which the Company expects in exchange for extracting the goods to the Parent Company.

The Company and the Parent Company is in the process of establishing a mechanism to determine the extraction charge for gas.

17. Total cost

Total cost consists of the following:

	Note	2019 KD'000	2018 KD'000
Total operating cost		1,968,088	1,788,661
Add: General and administration expenses	*20*	103,673	108,055
Less: Other operating income	*18*	(31,319)	(52,480)
Total cost		2,040,442	1,844,236

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

	2019 KD'000	2018 KD'000
Crude oil production	1,221,237	1,113,060
Gas production	365,013	293,679
Export operations	66,808	76,723
Abortive drilling expenditure	3,786	8,530
Depreciation, amortization and write off	383,598	352,244
Total cost	2,040,442	1,844,236

18. Other operating income

	2019 KD'000	2018 KD'000
Port fees	19,275	19,150
Other income	12,044	33,330
	31,319	52,480

19. Recoverable costs

	2019 KD'000	2018 KD'000
Kuwait National Petroleum Company K.S.C.	31,380	30,582
Kuwait Gulf Oil Company K.S.C.	11	154
Kuwait Petroleum Corporation	-	673
Kuwait Integrated Petroleum Industries Company K.S.C.C.	221	699
Kuwait Foreign Petroleum Exploration Company K.S.C.	-	(1)
Kuwait Oil Tanker Company S.A.K.	10	20
Group companies for medical services	126,213	104,898
	157,835	137,025

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

20. General and administrative expenses

	2019 KD'000	2018 KD'000
Utilities	47,987	45,043
Training costs (note 15)	5,033	7,256
Insurance	7,524	8,382
Medical costs	33,066	34,622
Others	10,063	12,752
	103,673	108,055

Training costs represent the Company's share of costs charged by the Parent Company.

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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 thousand (31 March 2018: KD 42 thousand) is subject to the approval of the shareholder at the general assembly meeting.

22. Contribution to the shareholder

In accordance with the 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:

	2019 KD'000	2018 KD'000
Within 1 year	9,432	1,482
Between 1 and 5 years	8,186	17,901
	17,618	19,383

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:

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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 low credit risk.

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

	2019 KD'000	2018 KD'000
Receivable from the Parent Company	15,094	15,094
Advances and other receivables	533,580	492,368
Amounts due from group companies	79,071	93,077
Cash and bank balances	5,134	7,549
	632,879	608,088

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.

The Company monitors changes in credit risk on these exposures by tracking published external credit ratings of the counterparties.

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, as amended, and its Executive Regulations.

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26. Commitments and contingencies

Commitments for future capital expenditure in relation to lump sum contracts and purchase orders amounted to KD 1,392 million (31 March 2018: KD 3,496 million).

27. Claims and litigations

In 2010, the Company signed a contract with a contractor with a value of KD 405 million for construction of a capital project. In 2015, the contractor completed the project. Subsequently, the contractor submitted a claim to the Company amounting to KD 750 million allegedly claiming price differences in certain materials used in the project. The Company's management had initiated necessary steps to resolve the dispute with contractor through the Company's Dispute Resolution Committee ("DRC"), however, the contractor did not accept the proposed solutions by DRC. Consequently, the contractor commenced an arbitration proceeding in London Court of International Arbitration ("the LCIA") seeking payment of claimed amount. Currently, the case is pending before LCIA for hearings and discovery proceedings. In 17 August 2018, LCIA issued arbitration order in favor of the Company.

The Company is also 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 which was remitted to the Parent Company directly.