شركة نفط الكويت
Kuwait Oil Company

إحدى شركات مؤسسة البترول الكويتية
A Subsidiary of Kuwait Petroleum Corporation

Annual Report

2019-2020

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HH Sheikh

Sabah Al-Ahmad Al-Jaber Al-Sabah

Amir of the State of Kuwait

HH Sheikh
Nawaf Al-Ahmad Al-Jaber Al-Sabah
Crown Prince of the State of Kuwait

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Chairman of the Board

Emad Sultan
Chief Executive Officer

Khaled Al-Khamees
Deputy Chairman

Wafaa Al-Zaabi
Board Member

Menahi Al-Enezi
Board Member

Ali Al-Awadi
Board Member

Khaled Al-Khayat
Board Member

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Chief Executive Officer

AHMAD ABDUL LATEEF AL-KHARRAZ
Manager (CEO Office)

SAUD FARAJ AL-SHAMMARI
Manager (Legal Affairs)

TALEB AL-KHARQAWI
Manager (Internal Audit)

ALI AL-KANDARI
Deputy Chief Executive Officer
(North Kuwait)

BADER AL-MUNAIFI
Deputy Chief ExecutiveOfficer
(South & East Kuwait)

MOHAMMAD AL-ZOUBI
Deputy Chief Executive Officer
(West Kuwait)

AHMAD AL-EIDAN
Deputy Chief Executive Officer
(Exploration & Gas)

KHALID AL-OTAIBI
Deputy Chief Executive Officer
(Major Projects & Technical Services)

NAYEF AL-ENEZI
Deputy Chief Executive Officer
(Drilling & Technical Support)

ABDUL WAHAB AL-MITHIN
Deputy Chief Executive Officer
(Commercial & Corporate Services)

BADER AL-ATTAR
Deputy Chief Executive Officer
(Planning & Finance)

QUSAI NASER AL-AMER
Deputy Chief Executive Officer
(Administration)

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FALAH MUTLAQ AL-AZMI MANAGER OPERATIONS (WK)	**AHMAD KH. AL-JASMI** MANAGER FIELDS DEVELOPMENT (WK)	**FAROUQ AL-HINDAL** MANAGER SUPPORT SERVICES (WK)	**ALI SAYED HASHEM** MANAGER EXPORT OPERATIONS	**SHAMLAN AL-ROOMI** MANAGER SUPPORT SERVICES EXPORT & MARINE	**SAMI AL-SAWAGH** MANAGER MARINE OPERATIONS

HAMAD AL-ZA'ABI MANAGER INNOVATION & TECHNOLOGY	**MOHAMMAD AL-QENAEI** MANAGER GAS FIELDS DEVELOPMENT	**HAMAD RASHID AL-ZUWAYER** MANAGER GAS OPERATIONS	**ABDULLAH ABDEL MOHSEN AL-MUTAIRI** MANAGER PRODUCTION & PROJECTS (GAS)	**AMEENA RAJAB** MANAGER OPERATIONS SUPPORT (GAS)	**MOHAMMAD DAWAS AL-AJMI** MANAGER EXPLORATION

ABDULLAH KHALID AL-ZAMAMI MANAGER MAJOR PROJECTS GROUP-I	**ABDULRAHMAN AL-HEJALI** MANAGER MAJOR PROJECTS GROUP-II	**YACOUB AHMAD DASHTI** MANAGER MAJOR PROJECTS GROUP-III	**SAIF SAAD AL-RASHEEDI** MANAGER PROJECTS SUPPORT SERVICES	**KHALED SULAIMAN AL-FOZAN** MANAGER INDUSTRIAL SERVICES	**AHMAD AL-ZA'ABI** MANAGER AHMADI PROJECTS	**BADER NASSER AL-QAUOD** MANAGER SOIL REMEDIATION

BADER MUTLAQ AL-AZMI MANAGER DEVELOPMENT DRILLING I	**ALI MOHAMMAD AL-SALEH** MANAGER DEVELOPMENT DRILLING II	**BADER AL-KHAYYAT** MANAGER DRILLING ENGINEERING	**SAUD JUMAH AL-FOUDARI** MANAGER DEEP DRILLING	**MUBARAK AL-MUTAIRI** MANAGER WELL SURVEILLANCE	**BANDAR AL-MUTAIRI** MANAGER TECHNICAL SUPPORT

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HASSAN ABDULLA AL-KANDARI MANAGER HUMAN RESOURCES	**ADEL ESSA AL-ANSARI** MANAGER TRAINING & CAREER DEVELOPMENT	**MOHAMMED ABDULAZIZ JAAFAR** MANAGER CONTRACTS MANPOWER KUWAITISATION	**MOHAMMED ABDUL JAWAD AL-BASRY** MANAGER PUBLIC RELATIONS & INFORMATION	**NOURI Y. AL-KHATRASH** MANAGER AHMADI SERVICES	**DR. EMAD DAWOOD AL-AWADH** MANAGER MEDICAL	**DR. AREF AL-ABBASI** MANAGER LONDON OFFICE


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KOC

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Introduction

Over the course of the 2019/2020 fiscal year, KOC overcame many challenges to maintain its production figures and remain a reliable supplier of energy to the world. Despite the emergence of the COVID-19 global pandemic, the Company persevered and registered a Crude Production Capacity of 2.806 Million BOPD and 490 MMSCFD of Non-Associated Gas production.

Over the same period, KOC drilled 383 new wells for Crude Oil and Non-Associated Gas throughout all of the Company's areas of operation by utilizing 148 drilling and workover rigs (80 drilling rigs and 68 workover rigs). In addition, four new hydrocarbon discoveries were announced during the year.

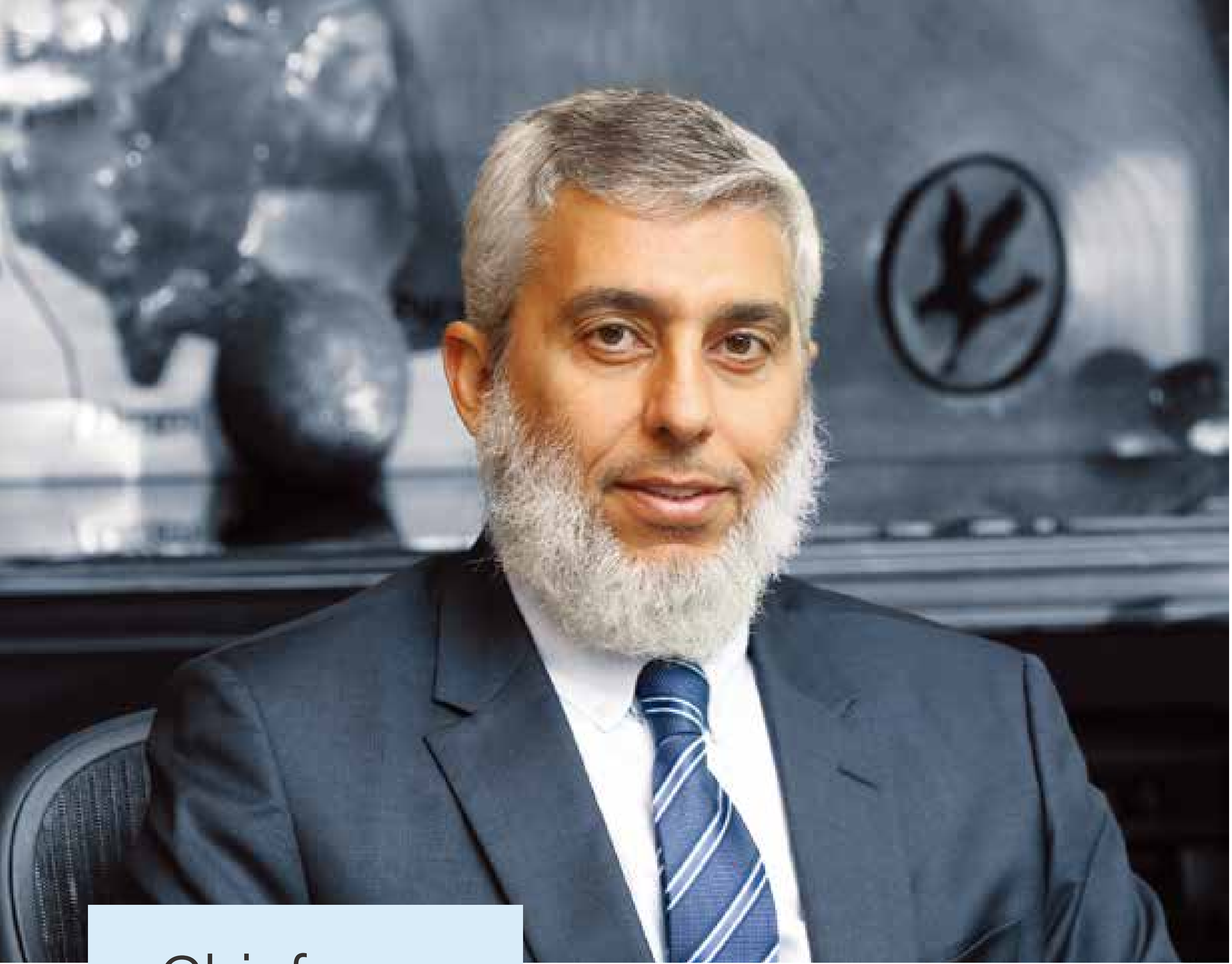
The KOC Offshore Drilling project and Heavy Oil program remain two of the most important undertakings for the Company, and the two new projects are expected to hold great importance for the Company's overall operations in the coming years. In this regard, KOC recently finalized an offshore drilling contract with a major oil service provider, which will allow future offshore production to become an important element of the Company's 2040 Strategy. Meanwhile, KOC has started the initial operating stages of the Heavy Oil project, with future shipments of heavy crude expected to play a significant role in KOC's overall production figures.

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 as contractors. The most recent figures indicate that 366 new Kuwaiti graduates were recruited for KOC positions while 3,780 Kuwaitis were hired to work under contracted positions within the Company.

In the area of Health, Safety, Security and the Environment, the Company strove to reduce its Lost Time Injury Frequency Rate (LTIFR), which reached 0.018 accidents per 200,000 working hours. In addition, the Company participated in numerous conferences and exhibitions in order to attain excellence in performance.

KOC also organized a number of initiatives and campaigns as part of its Corporate Social Responsibility efforts. Most importantly, KOC has been a critical component in the State of Kuwait's fight against COVID-19, with the Company lending its expertise and experience to various governmental bodies as required.

In this report, we describe the Company's performance and achievements within the framework of KOC's strategic objectives, and how the Company has risen to the challenge in the face of uncertainty during a global pandemic.



Chief Executive Officer's Message

On behalf of all KOC employees, I am proud to present this comprehensive Annual Report which you now hold in your hands. As you know, this past year has been an exceptionally challenging one for every nation on earth, as governments around the world enacted protective measures to help curb the spread of the Covid-19 virus. Kuwait's Oil and Gas Industry, and KOC in particular, was placed under the tremendous challenge of maintaining essential operations while the majority of our employees complied with government-mandated quarantine orders. With the help of God Almighty, our extended KOC family was able to persevere during this challenging time and overcome the many obstacles that were placed before us.

I would like to take this opportunity to commend each and every KOC employee who demonstrated their loyalty and commitment to our Company through their tireless work and selfless efforts. Their actions during this extremely difficult period demonstrated that the foundational elements of KOC's structure are stronger than ever, and that we are more prepared than ever to uphold our values and address future challenges in the decades to come.

KOC's commitment to the values on which our Company is built has helped us achieve many triumphs through our core oil and gas production operations, despite the difficult circumstances resulting from the fluctuating conditions of the global oil market, which has witnessed and continues to undergo a significant decline in prices. As a result, it was necessary for the oil exporting countries of the world to make difficult decisions, which included significant reductions of overall production figures. These measures have had far and wide-reaching impacts, with the State of Kuwait in particular being forced to consider how we will adapt to the new reality which the oil and gas industry has found itself in.

KOC has successfully overcome many hardships in the past, and as a result, we have been uniquely equipped with the knowledge and experience that is required to remain efficient and flexible in the face of today's current challenges. Despite the challenges, and in the face of great uncertainty, KOC employees were able to work together and innovate new solutions, which helped KOC remain productive.

In addition, we made a concerted effort to remain true to our conservation and sustainability efforts, with no sacrifices being made to our overall Corporate Social Responsibility initiatives. KOC's Senior Leadership realized that we must embrace a culture of beneficial change and instill new and evolving work methods into the hearts and minds of our employees. In this regard, we have launched new mechanisms to help improve matters related to Cost Optimization, by following up on and reviewing plans that aim to help us keep pace with developments and maintain our leading international position as a reliable supplier of energy to the world.

All of the aforementioned efforts have been accompanied by the continuation of our strategic plans for 2040, especially with regard to achieving sustainability in heavy and light oil production, enhancing non-associated gas production, raising the level of our portfolio management and other goals which we seek to support, with no compromises to the wellbeing of our Company and employees, regardless of outside circumstances.

It is my firm belief that despite the widespread fear, uncertainty, and complete shutdown of normal life routines which accompanied the Covid-19 virus, KOC has proven that we can succeed in the face of extreme trials and tribulations. As borders around the world closed and as the world essentially shut down, we at KOC were most certainly put to the test. Despite the great risks and great challenges, we continued our operations in order to secure the needs of the State of Kuwait and her inhabitants, and we will remain committed to protecting and preserving the interests of our beloved country.

With God's assistance, we have demonstrated our determination to stand in support of our nation with loyalty and integrity. Departments from KOC's various areas of operation excelled in their efforts to collectively confront the global pandemic by offering various forms of assistance to a number of Kuwaiti Institutions and Governmental Authorities. Indeed, KOC has been on the frontline of the battle which was being waged to stop the spread of the virus, with assistance offered wherever it was necessary to help protect the State of Kuwait. As a result, Kuwait's decisive efforts and uncompromised determination to proactively stop the spread of Covid-19 has garnered international commendation and praise for the comprehensive nature by which we addressed this issue.

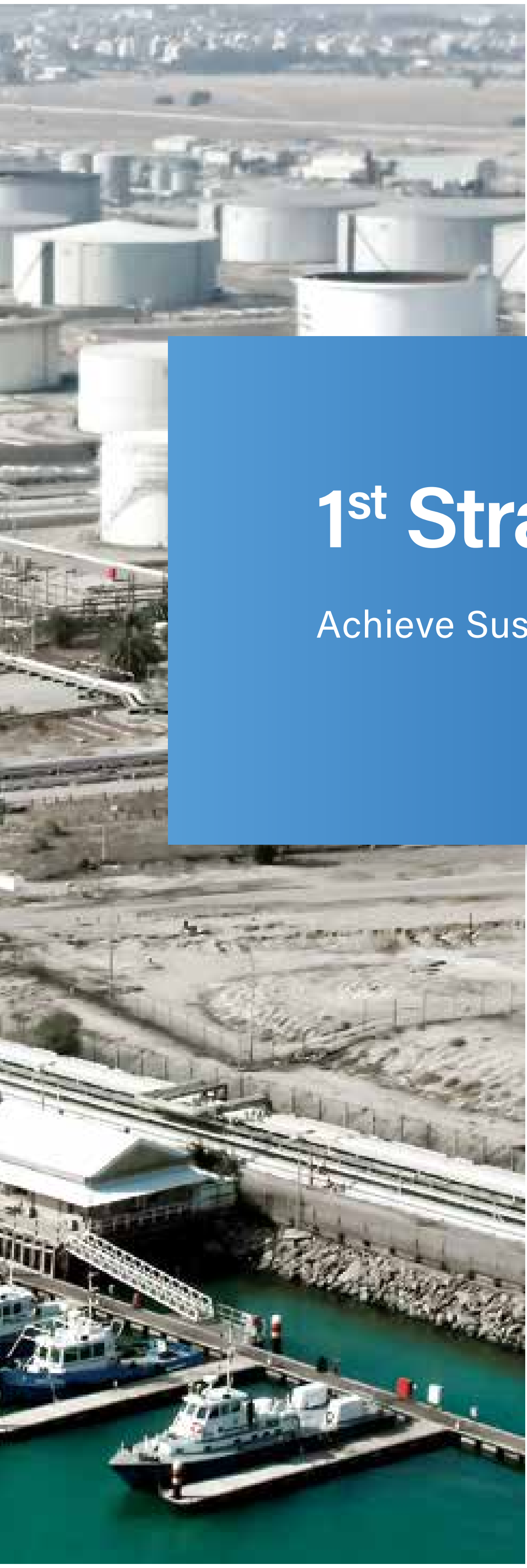
I would like to conclude by taking a moment to commend the incredible work ethics which were displayed by our dedicated employees, who spared no efforts during this difficult period to demonstrate their willingness and ability to take on one initiative after the other. Our KOC employees – which we consider a family – have presented the most commendable examples of cooperation and collaboration in the best interests of our Company, our oil sector, and the State of Kuwait as a whole.

Their efforts have been our nation's saving grace, so I call upon all of them to embrace the Cost Optimization Culture that will make us stronger in overcoming the future challenges, and I thank everyone who has taken the initiative to ensure KOC remains Kuwait's primary economic engine and a reliable supplier of energy to the world.

Sincerely,

Emad Mahmoud Sultan
CEO, Kuwait Oil Company

Kuwait Oil Company
Annual Report 2019/2020



1st Strategic Objective

Achieve Sustainable Crude Oil Production Capacity

▪ Crude Production Capacity

KOC's Average Crude Production Capacity reached 2.806 Million BOPD at the end of the 2019/2020 fiscal year, and the Company continues to make progress on plans to reach KOC's targeted Crude Production Capacity figures for the next fiscal year.

KOC overcame many technical challenges over the past year in order to maintain production throughout its areas of operation. In North Kuwait, the Company achieved an Average Crude Production Capacity of 635,000 BOPD. In South & East Kuwait (S&EK), Average Crude Production Capacity stood at 1.488 Million BOPD while operations in West Kuwait resulted in the production of 501,000 BOPD. Meanwhile, the production of Light Oil reached an average Production Capacity of 159,000 BOPD.

Over the past fiscal year, KOC has completed the construction of three major projects, with three other major projects nearing completion throughout KOC's areas of operation. The following table provides an overview of these important projects for KOC, which aim to provide technical solutions to future challenges in the coming years:

Area	Project	Status
North Kuwait	Sabriyah Mauddud (SAMA) – EOR Pilot	Construction is ongoing
	Effluent Water Treatment & Injection Plant (NK) – Phase IV	Construction is ongoing
South and East Kuwait	Gathering Center – 32	Construction is ongoing
	New Desalter Trains for Gathering Centers (9,10,19,21)	Construction is ongoing
West Kuwait	Umm Gudair Water Plant	Construction is ongoing
	Multi Phase Pumps	Construction is ongoing

In terms of Heavy Oil activities at KOC, the Company registered an average Crude Production Capacity of 23,000 BOPD. The production of Heavy Oil remains one of the Company's most important projects, and it is a critical component of KOC's strategic objectives for the future.

The initial operating stages of the Heavy Oil project are underway, and in October of 2019, gas was introduced to the central facility. In addition, the process of injecting water vapor into the required Heavy Oil wells began in mid-January of 2020, with the first artificial lift pump becoming operational on February 24, 2020. This was followed by the Heavy Oil Central Production Facility and facilities associated with Crude Oil processing operations becoming operational. On March 26, 2020, the delivery of Heavy Oil to the KOC South Tank Farm was initiated. By the end of April 2020, nearly 500,000 barrels of Heavy Oil were delivered to the South Tank Farm.

As a side note, it should be mentioned that KOC has updated the parameters of its Production Capacity Methodology so that figures remain in accordance with what is physically possible. For example, these new parameters take into account wells which have been shut down due to submersible pump failures, or those which require workover rigs.

▪ Export Operations

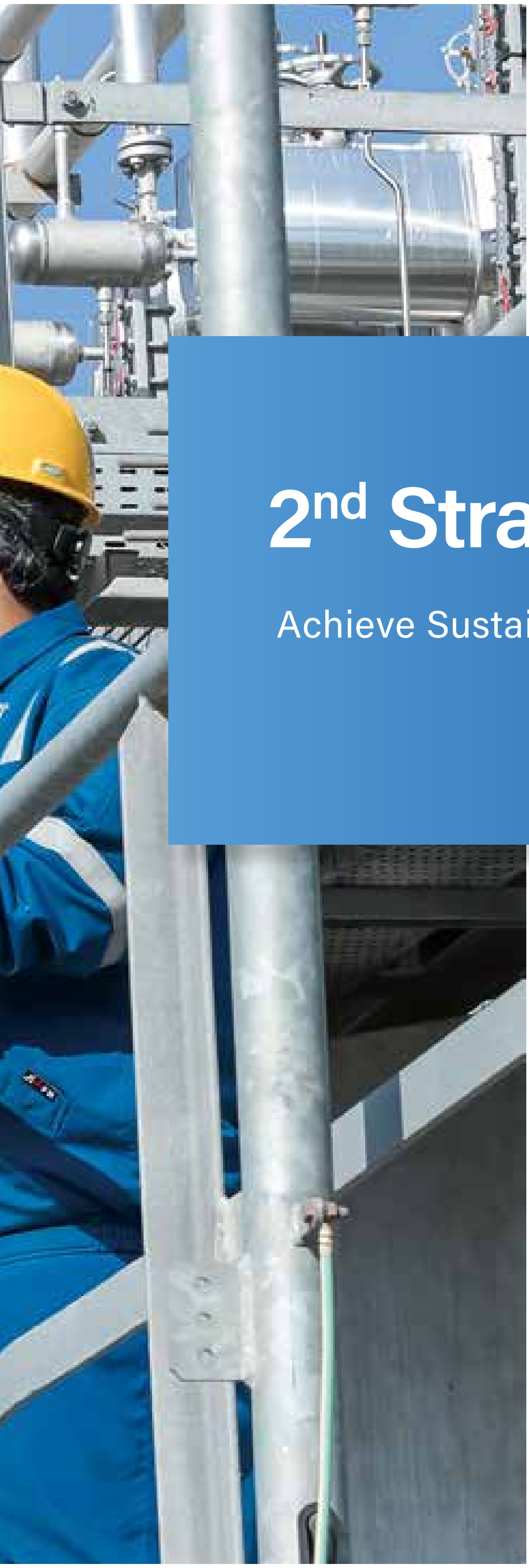
In December of 2019, the construction of KOC's new "Blue Water" berth was completed. The facility is a deep-water port which can be used to dock large ships and oil tankers, and a primary feature of the new facility is its ability to safely transfer large quantities of crude oil to tankers in a fast and efficient manner. The new berth also has the capability of supplying visiting ships with fuel. The construction of this new marine facility will increase KOC's ability to raise the efficiency of its export operations, which is a major component of the Company's 2040 strategic objectives.

Despite the hardships and challenges presented by the COVID-19 pandemic, Kuwait Petroleum Corporation (KPC) and KOC successfully completed all construction and operational preparations for the new marine-based export facility. In this regard, the successful export of two shipments of crude oil was delivered to oil tankers in March of 2020, marking the beginning of a new chapter for KOC's Export Operations.

▪ Drilling and Workovers (Excluding Light Oil)

The total number of wells that were drilled specifically for the production of oil (excluding Light Oil) included 356 new wells. In addition, 1,088 workover jobs were completed for the purpose of oil well maintenance.

Classification of Wells	Number of Wells Drilled
Cretaceous Development Wells	322
Jurassic Development Wells	19
Heavy Oil Development Wells	5
Exploratory Wells	10
Total	**356**



2^{nd} Strategic Objective

Achieve Sustainable Non-Associated Gas Production

▪ Production Capacity of Associated Gas and Non-Associated Gas

KOC is making every effort to achieve its strategic goal of sustainable Non-Associated Gas Production by 2040. In this regard, the total daily production of Associated Gas and Non-Associated Gas for the 2019/2020 fiscal year was 1.928 Billion SCFD, while production of Non-Associated Gas reached 490 MMSCFD compared to last year's figure of 444 MMSCFD. This increase was the result of several factors, the most important of which was an improvement related to shut-down procedures at facilities for maintenance operations. Improvements in shut-down procedures resulted in more time available for production operations and an overall improvement in the operations which take place at various KOC facilities. As a result, this has led to an increase in production capacity. It has also led to an increase in the number of operations that can take place which aim to improve the performance of oil wells, leading to increased rates of production.

Meanwhile, a major KOC achievement recently received international recognition by the London-Based "Green Organization" after the Company won the CSR Excellence Award in the "Sustainability/Emission Reduction" category. The award recognized the Company's successful effort to reduce Gas Flaring from 19.7% in 2008/2009 to 0.6% in the first quarter of the 2015/2016 fiscal year. The Award for Excellence in Corporate Social Responsibility honors leading international initiatives and has been in effect since 1994.

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

Over the course of the past fiscal year, KOC drilled 27 deep wells, which helped the Company reach its Non-Associated Gas production targets. In addition, 55 workover operations assisted the Company's efforts to maintain production at Non-Associated Gas wells.

Classification of Wells	Number of Wells Drilled
Deep Development Wells (Jurassic)	22
Deep Exploratory Wells (Jurassic)	5
Total	**27**

3rd Strategic Objective

Replace Reserves to Sustain Production

▪ Reservoir Assessment Studies

KOC maintained an increase in oil reserves over the course of the 2019/2020 fiscal year. The Company also registered a steady growth in reserves for Non-Conventional Hydrocarbon resources, which thereby increases the Company's Production Capacity. As a result, KOC was able to achieve a number of its 2040 strategic goals related to increasing reserves and growing production capacity.

In the field of Enhanced Oil Recovery (EOR), the Company successfully implemented the world's first single-well chemical traceability project for polymer injection technology, which in this case was used as a thickening agent in order to improve production operations. The enhanced production method utilized water with a high salt content that was produced from the KOC Early Production Plant (EPF-15), where oil saturation has been reduced in the Lower Fares Reservoir in Umm Niqa from 41% after injecting the water to 19% after injecting the polymer. This step will be followed by a multi-well field application for more accurate monitoring and evaluation of technical and economic feasibility parameters in preparation for the commercial application of the polymer injection technology.

In addition, the second phase of a project which aims to increase oil production by utilizing chemical injection technology was launched at the Sabriyah Mauddud Reservoir in November of 2019. This project holds special significance for KOC because it is the first project of its kind in the world which makes use of this technology in a carbonate reservoir. The second stage of the project will oversee the injection of treated water, which comes as a prelude to chemical injection approximately two years after the launch of the first phase of the project. This project, which makes use of highly advanced forms of technology, has strategic importance for the State of Kuwait because it maximizes the country's production capacity while reinforcing KOC's position as an innovative leader in the oil and gas world.

▪ Seismic Survey Operations

Seismic surveys are one of the most essential tools for KOC's onshore and offshore oil and gas exploration operations. Over the past fiscal year, important 3D seismic exploratory survey projects were initiated for the Kuwait Bay, Greater Burgan, and Khabrat Ali operational areas. The surveys were conducted successfully through the utilization of advanced and diverse technologies which documented the seismic survey data of the respective areas, and the data collected will contribute to an improvement of KOC's future exploratory operations.

KOC's seismic survey projects are important for the State of Kuwait because they do much in the way of updating and clarifying the country's oil reserves. In particular, the Kuwait Bay Offshore Project with its surrounding areas is an important focal point of these surveys, as any new reserves located there have the potential to enhance the State of Kuwait's position as a leading producer in the international oil and gas industry.

In this regard, KOC hosted several workshops over the past fiscal year which focused on the importance of seismic surveys, the most important of which was the "Seismic Multiples: Challenges and the Way Forward" workshop, which was attended by experts from 11 different countries. During the event, academics from universities and specialists from a range of regional and international oil companies presented 36 papers while 12 separate panel discussions were held.

▪ Offshore Exploratory Drilling Activities

KOC recently signed an offshore drilling contract for Kuwait's territorial waters with a major oil service provider in July of 2019. Several coordination meetings were held after the initial signing of the contract, where the responsibilities of each party were discussed with regard to facilitating the launch of marine drilling operations and the role that each party will play. The KOC Offshore Project for Kuwait Bay is one of the Company's most important projects currently being implemented within the framework of the Company's 2040 Strategy.

As part of the project, KOC will drill six Jurassic and Cretaceous exploratory wells. These wells will be drilled during the first phase of the project through two rigs. Overall, the project will include drilling support services, port management logistics, and vessels of various sizes and types for the transportation of personnel, equipment, and materials. The large size and far-reaching scope of this project marks the beginning of a new chapter for the State of Kuwait as it enters a new era of oil and gas production.

Moreover, the State of Kuwait added a new achievement to its record of accomplishments in international organizations after it was elected as a Council Member of the International Maritime Organization (IMO) of the United Nations in December of 2019. KOC, through its long history of excellence in performance with maritime operations, played a large role in ensuring the State of Kuwait was elected as an IMO Council Member. Officials from KOC's Marine Operations Group have supported Kuwait's effort to become an IMO Council Member, and they are also part of the official delegation which represents the State of Kuwait at the IMO.

▪ Onshore Exploratory Drilling Activities

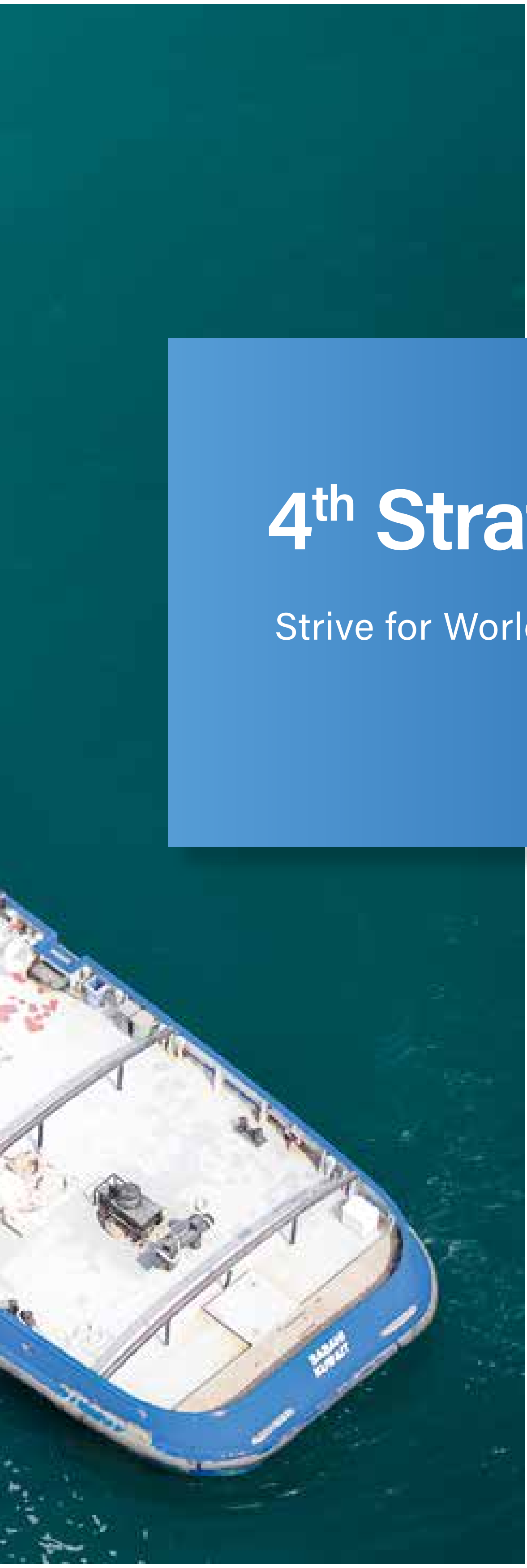
As mentioned previously in the Drilling Operations & Wells Workover table, many exploratory drilling operations were completed during the 2019/2020 fiscal year. These operations will assist in the effort to achieve the Company's strategic goals by adding reserves and increasing production. They include the following:

Cretaceous Layer

- Discovery in Lower Burgan in Bahrah Field (BH-128), with first oil result of (35 API)
- Presence of proved oil in Lower Burgan (BH-149), through well log interpretation

Jurassic Layer

- Discovery in Lower Marrat in Kahlolah Field (KA-07), with first oil result of (42 API)
- Discovery in Gotnia First Anhydrite in Sabriyah Field, with proved oil (42 API)



4th Strategic Objective

Strive for World-Class Operational Excellence

▪ Health, Safety, Security and Environment

One of KOC's top priorities is to achieve maximum levels of Health, Safety, Security, and Environmental protection. Ensuring the health of employees and protecting Kuwait's natural ecosystem remains a critical component of the Company's overall strategy. Therefore, KOC's efforts to improve matters related to health and the environment remain some of the most important goals of the Company's 2040 strategic objectives.

Health

KOC is deeply committed to providing the best possible health services to employees and patients at both Ahmadi Hospital and the Ahmadi Specialist Hospital. Recently, KOC launched an official website for Ahmadi Hospital which serves as the official online portal for all patients and employees. The website allows for easy and efficient communication between hospital staff and patients, and some of the services the site provides include the ability to reserve or cancel appointments, update patient data, and open new medical files. In addition, Ahmadi Hospital's Dental Department has moved to a new facility that was constructed adjacent to the Ahmadi Specialist Hospital.

The Company is proud to report that Ahmadi Hospital has achieved a new medical breakthrough by adopting new forms of revolutionary technology to treat uterine fibroids in women without the need to use radiation. This advanced technology is the first "MRgFUS" focused ultrasound system in Kuwait and the region. It utilizes a new medical solution known as "ExAlbate 2000", which has been approved by the US Food and Drug Administration (FDA) to treat uterine fibroids.

KOC is also proud to report that Ahmadi Hospital has registered a major medical accomplishment after two Kuwaiti doctors conducted a surgical operation which replaced a patient's shoulder joint. The success of this medical procedure marks the first time that such an operation has taken place locally, and it is significant because future operations of this nature can now be conducted in Kuwait, whereas patients who needed this procedure were previously sent abroad for treatment.

In June of 2019, KOC organized a blood donation campaign to coincide with the World Blood Donation Day. Over the years, KOC employees have been at the forefront of Kuwait's effort to encourage citizens and residents to donate blood. Meanwhile, KOC continues to allocate resources to the organization and implementation of far-reaching medical campaigns which contribute to increasing medical awareness among employees and the general public.

Safety and Security

In terms of safety, KOC continues to focus on reducing the Company's Lost Time Injury Frequency Rate (LTIFR), which reached 0.018 accidents per 200,000 working hours over the last fiscal year.

As matters related to Cybersecurity become increasingly important to the overall security of the Company, KOC recently organized its 2nd Annual Gartner Cybersecurity Event. Gartner is a global research and advisory firm which provides information, advice, and tools for leaders in IT from various industries. The event was attended by several senior officials from Kuwait's Oil & Gas sector, as well as a selection of local, regional and international experts. During the event, presentations were delivered and a series of discussions were held which touched on the latest trends in Cybersecurity, global risk management, and projects related to Cybersecurity which have been adopted in the Gulf region since 2019. The successful event featured the participation of more than 250 individuals from Kuwait's oil sector and beyond.

In order to confront security challenges and risks targeting the oil sector, KOC recently inaugurated the Oil Sector Information Security Management Center, which is the first facility of its kind for Kuwait's oil and gas industry. In part, the center aims to raise the level of local and regional cooperation in the effort to combat risks associated with Cybersecurity in the energy industry.

In a separate event related to Cybersecurity, a high-level delegation from Secureworks, a KOC partner, visited KOC and provided detailed explanations to Company officials which touched on the importance of robust protection measures for an organization's digitally-stored information systems. In part, the visiting delegation maintained that evolving forms of cyber-attacks require organizations like KOC to remain vigilant in their defensive practices while educating their employees about such threats and the ways in which those threats can be minimized.

Environment

As part of KOC's ongoing environmental protection efforts, the Company recently hosted the Kuwait Environmental Remediation Program (KERP) Forum. The event was held in cooperation with participating parties involved with KERP, which is the largest soil bio-remediation project of its kind in the world. The goal of the forum was to provide relevant information to individuals and organizations who wished to learn more about KERP, with the event featuring the exchange of information and strategies as they relate to soil remediation projects. In addition, the forum served as an opportunity for open communication with contractors and other specialists involved in the project. It also established new communication channels with various parties associated with KERP, in addition to developing and strengthening successful multiple-disciplinary task forces.

KOC is also proud to report that the Company recently organized a meeting with the Environment & Life Sciences Research Center, which is a subdivision of the Kuwait Institute for Scientific Research (KISR). During the meeting, opportunities for future collaboration between the two parties were discussed. KISR officials presented various aspects related to their future work plans, which cover studies associated with offshore oil platforms, pollution, microbial induced corrosion, bioremediation, and a new multi-purpose fishery and oceanography research vessel. Emphasis was placed on the importance of cooperation with KISR and the benefits that this cooperation achieves not only for the two organizations, but for the entire State of Kuwait.

5th Strategic Objective

Optimize Portfolio Management

KOC's future plans include the development of several reservoirs that are difficult and costly to exploit. Many of the Company's future hydrocarbon resources, such as Heavy Oil and oil produced from offshore reservoirs, will require unconventional, EOR, and other forms of advanced technology before they can be produced on a commercial scale. In addition, these new undertakings will also require thorough economic assessments and the implementation of strategic workflows.

The Company's future hydrocarbon opportunities require the development of standardized production forecasting models and cost allocation tools that will produce accurate economic evaluations and portfolio analyses. Moreover, the development of economic feasibility models will specifically determine which undertakings should be prioritized in the field. In this regard, cost optimization initiatives throughout all of the Company's areas of operation will become increasingly important.

The newly-deployed Corporate Portfolio Management System Project is a required initiative of KOC's 2040 Strategy which aims to study, prioritize, and select the most promising future investment opportunities. In part, the goal of the project is to identify new business opportunities which have the highest probabilities of future success, resulting in the efficient development of Company assets and maximum returns on investments. Going forward, this new project will require the coordination of current and future work mechanisms across various KOC Directorates in order to establish new systems and controls that will ensure the successful implementation of this initiative.

As part of an effort to develop this new project, KOC recently hosted a workshop which focused on implementing the Corporate Portfolio Management System. The workshop included a number of presentations which showcased the basics of the system and the benefits it will provide to the Company once it is applied. The project was initiated in October of 2018 by creating a single, integrated platform with supporting guidelines and business workflows which enable the integration of production, capital expenditure, operating expenditure, and issues pertaining to economic matters. The information generated by the Corporate Portfolio Management System will provide critical information on revenues, profitability, and cash flow generated. It will also identify potential areas which require cost optimization or cost reduction measures in order to determine the viability of developing various production opportunities.

In the coming year, the system will be expanded to include KOC's three main assets (North Kuwait, West Kuwait, South & East Kuwait), in addition to the Exploration & Gas Directorate, thus facilitating the decision-making process to support the realization of KOC's 2040 Strategy.

6th Strategic Objective

Facilitate Technology & Capability Transfer

▪ Technologies

For many years, KOC has been a proponent and early-adopter of new and advanced technologies which have the potential to increase production in cost-effective and environmentally-friendly ways. Part of the Company's 2040 strategic objectives call for the adoption of new forms of technology throughout KOC's areas of operation; more importantly, however, is the need to facilitate the proper understanding and usage of these technologies through the exchange of information and best practices. Some of KOC's newly-adopted technologies and knowledge-sharing activities follow.

KOC's "UG-0302 Well" was successfully drilled and landed in Burgan's third layer by using a new technology reservoir mapping application called "Earthstar Ultra-Deep Resistivity Tool." By utilizing this tool, KOC was able to overcome the uncertainties associated with oil water contact as much as possible in order to increase production and reduce the drilling of pilot wells. In addition, using this method has led to cost savings of approximately KD 190,000 and oil production of 2,340 BOPD, taking into account a 3% water cut of total production compared to the average production rate of 800 BOPD of dry oil in the field. In the future, the Company aims to eliminate the drilling of pilot holes whenever possible in order to increase production and reduce the drilling of experimental wells.

Meanwhile, a new pilot technology referred to as a "Pressure Relieving Device" has been successfully utilized to identify field radio frequencies, which allows for the tracking and monitoring of information from KOC oil fields. The utilization of this technology was conducted in cooperation with a KOC partner which offers oil and gas services.

As part of a Company-wide effort to share knowledge, utilize new technology, and improve research and development capabilities, KOC recently signed an agreement on strategic research and development with Kuwait University for a duration of five years. The agreement is intended to enrich research cooperation between the two sides in the field of reservoir studies and development, Heavy Oil, and gas.

At KOC, in-house knowledge-sharing activities and the promotion of best practices remain a valuable component of the Company's 2040 strategic goals. However, it is sometimes necessary for KOC employees to be exposed to new and developing industry practices on the international level. In this regard, a delegation from KOC recently visited the headquarters of a leading oil and gas service provider in Texas to learn more about the latest technology that is currently being utilized in the industry and to acquire the necessary expertise to implement these practices in the field. During their visit, the delegation toured the company's technology center and exchanged knowledge and experience in the field of development drilling.

▪ Human Skills and Capabilities

KOC strives to enhance the skills and unlock the potential of its employees by providing them with an attractive work environment, and the Company is constantly working toward the improvement off all aspects related to daily work in order to provide employees with the highest levels of job satisfaction. KOC also seeks to recruit Kuwaitis as part of its national employment mandate. The most important achievements made in this regard over the 2019/2020 fiscal year follow.

Recruitment and Kuwaitization

Over the past year, KOC made considerable efforts to facilitate the recruitment of 662 recent Kuwaiti graduates. The total number of Kuwaiti employees at KOC at the end of the fiscal year stands at 9,566 employees, including the medical and nursing staff out of a KOC total of 11,558 employees. Therefore, the percentage of Kuwaitis - including the medical and nursing staff - reached 82.8% (or 89.9% when the medical and nursing staff figures are excluded).

KOC has encouraged the private sector to hire Kuwaiti nationals whenever possible when recruiting new employees for Company contracts. As a result, approximately 3,780 Kuwaitis were hired under contracted positions, which thereby increased the percentage of Kuwaiti contractors at KOC in the 2019/2020 fiscal year.

Training and Development

One of KOC's top priorities is the provision of valuable training and development opportunities for Company employees. This includes the development of initiatives which oversee local and international training programs which offer specialized technical courses that aim to enrich and develop the scientific, technical, and research capabilities of KOC employees in order to improve the productive capabilities of the Company.

The Company aims 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 training through exchange programs at International Oil Companies (IOCs). Over the course of the 2019/2020 fiscal year, KOC employees have received a wide range of training opportunities on both the regional and international level.

Moreover, Company employees are often encouraged to offer their feedback and communicate their training needs to KOC's senior officials so that future training programs can be catered to future requirements. At KOC, the Company's senior leadership believes in the importance of developing the potential of its human resources through training programs which include, but are not limited to, the following:

▪ Developing the Skills of New Recruits with University Degrees & Diplomas

Promising new KOC recruits who have obtained university degrees or diplomas are sometimes selected for advanced training programs which take place on the international level. In coordination with the Kaizen Institute in the Netherlands and Germany, KOC selected 60 employees who will receive specialized training in order to pave the way for their development as future specialists and leaders.

▪ Leadership Training

Officials from KOC's higher management are often selected for inclusion in advanced training and development programs. For example, senior officials from KOC often take part in leadership training at internationally-recognized institutes such as Harvard University. In addition, many receive training through the Kaizen Institute at various locations throughout the world.

▪ Distinguished Competencies Development Program

The Distinguished Competencies Development Program was designed to inspire leaders and make them aware of the importance of internationally-competitive innovations. The program draws from selected experiences of Korean, Dutch, and German methodologies as they relate to work ethics, innovation, discipline, and participation in various activities such as group discussions, the ability to dialogue, cultivate new ideas, and turn them into actions.

▪ Specialist Development Program

The Specialist Development Program was designed to provide KOC's next generation of leaders with the expertise necessary to carry KOC into the future. The program is built on the foundational belief that senior KOC employees can impart their knowledge, expertise, and experience to younger employees in order to prepare them for future challenges.

▪ Talent Association

Special associations for talented KOC employees include the following:

- Harvard Hub Association
- Young Talent Development Chapter

As part of an effort to ensure KOC's future success, these associations were created to prepare current employees for the technical challenges associated with exploration and production which lie ahead. In addition to developing their technical expertise, current employees can also be prepared for future leadership positions through their participation in the Company's various training and career development programs.

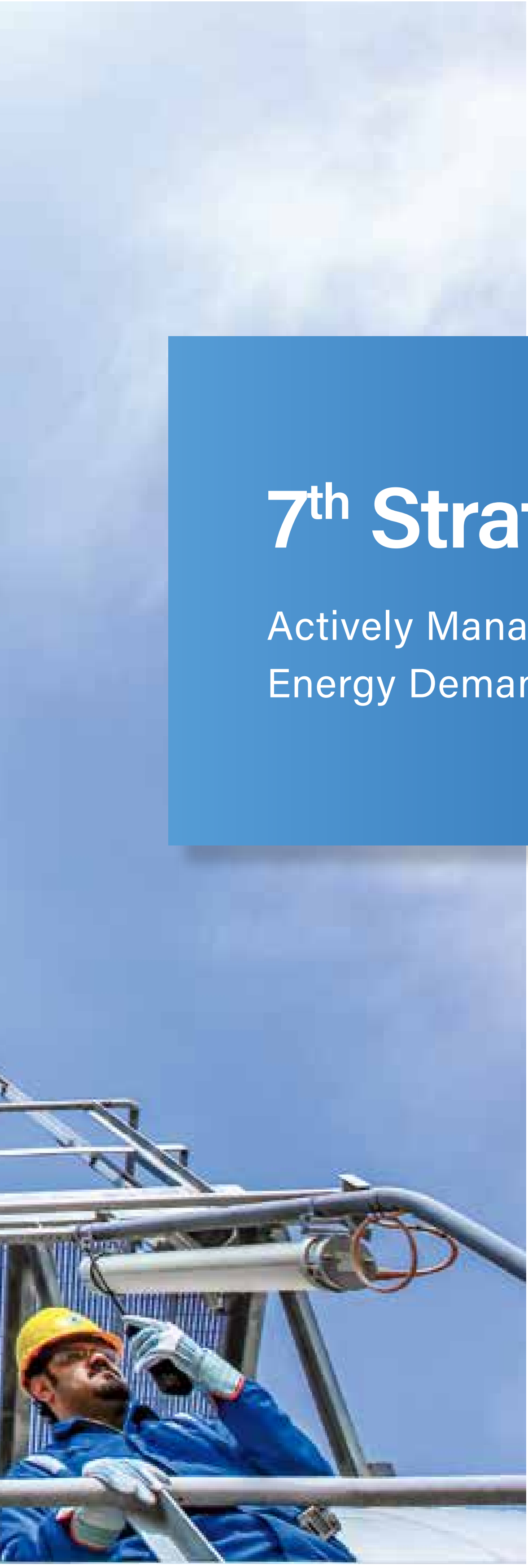
▪ Cooperation with Kuwait's Applied Institutes

KOC aims to promote further coordination with the State of Kuwait's Applied Institutes in order to provide them with information related to KOC's future business needs and requirements. For example, when provided with the necessary information from KOC, Kuwait's industrial training institutes can create specific programs which produce highly-trained graduates who are ready to allocate their newly-acquired skills in specific technical fields as required by the Company.

▪ Cooperation with Kuwait University and Private Universities

KOC continues to partner with Kuwait University and private universities in Kuwait as part of an effort to adequately prepare future KOC employees for specialized positions within the Company. Areas of cooperation include training and development programs, and plans are currently being developed to raise this level of cooperation to include Masters and PhD studies.


AL-SHEBAYA
KUWAIT



7th Strategic Objective

Actively Manage Stakeholders to Satisfy Kuwait's Energy Demand Efficiently

▪ Actively Manage Stakeholders

KOC continuously strives for excellence and advancement in its performance in order realize the objectives of the Company's 2040 strategic goals. The following information details the most important activities and achievements in this regard.

For the first time in its history, and as the first K-Company to receive such a rating, KOC received a "Good" overall rating from the insurance market with an industry score of more than 90 points. This evaluation reflects the confidence of the insurance market in the stability and reliability of the Company's production processes, the efficiency of its systems and procedures, and the skill of its workers, especially in the sectors of production, maintenance, inspection, and risk management.

Over the past fiscal year, KOC has sought to strengthen the relationship between Kuwait's oil sector and the State of Kuwait's governmental agencies overseeing financial matters. In this regard, a meeting was held recently which discussed the possibility of expanding cooperation between the Company and various Kuwaiti governmental authorities and institutions. In part, the discussions included proposals and possible methods which aim to create better efficiencies which can accelerate the Company's workflow.

Meanwhile, several visits by outside parties to KOC were conducted in order to familiarize them with some of the Company's best practices and procedures. In this regard, a delegation from Kuwait Gulf Oil Company (KGOC) visited KOC recently to review a number of the Company's best practices. The visit included a knowledge-sharing session where information related to asset control at KOC was discussed. The visit, which included the participation of KOC's Warehouse Management Team, was part of a Company effort to share knowledge and best practices with other K-Companies in order to create a culture of safety, efficiency, and productivity.

▪ Contribute to Enterprise and State

Over the course of the 2019/2020 fiscal year, KOC participated in a number of conferences, forums, and exhibitions as part of an effort to attain excellence in performance. In this regard, the Company organized a number of events and presented many technical papers at local and international conferences.

The Company also organized several initiatives and campaigns that serve to uphold KOC's social responsibility efforts for Kuwait's local community. The Company participated in activities such as health and awareness campaigns, in addition to activities which have national importance such as Kuwait's National and Liberation Day, which the Company continues to support through various activities, campaigns and celebrations.

Meanwhile, KOC participated in a number of conferences and forums over the course of the 2019/2020 fiscal year as part of the Company's effort to attain excellence in performance. In addition to organizing events at the local level, KOC participated in the following international conferences and exhibitions:

- Kuwait 4th Flow Measurement Technology Conference
- The International Society of Petroleum Engineers Conference and Exhibition in Canada
- Honeywell User Conference in the Netherlands
- The Middle East Oil & Gas Show and Conference (MEOS) in Bahrain
- Society of Exploration Geophysicists – USA
- Society of Petroleum Engineers – USA

KOC's Effort in the Fight Against COVID-19

As part of a KOC effort to assist the State of Kuwait's various institutions in any way possible in the fight against COVID-19, the Company has made its resources and expertise readily available to the Kuwaiti Government. From coordination efforts with the Ministry of Health to the distribution of food to those in need locally, KOC has utilized every tool at its disposal to ensure the Company does its part in the effort to contain the virus.

One of the Company's major achievements in the fight against COVID-19 includes the fast and efficient construction of a quarantine center in Ratqa Field in North Kuwait, which was then delivered to the Ministry of Health. The fully-equipped facility has played the important role of hosting Kuwaiti citizens returning from outside of the country, with a capacity of 564 beds for citizens and 172 beds for medical and nursing staff. In addition, a separate intake building has a capacity of 11 beds, and support services include the availability of 4 ambulances. The facility contains all of the health amenities and living requirements necessary for returning citizens during their mandatory quarantine period, including additional sports and leisure facilities aimed at encouraging patients to stay healthy and active.

In addition, KOC also completed construction of a facility which hosts patients infected with COVID-19 and houses medical and nursing staff, at the Kuwait Field Hospital in Mishref. The project was conducted in cooperation with the Kuwait Integrated Petroleum Industries Company (KIPIC). KOC and KIPIC have equipped the building with the necessary supplies and services, such as beds, air conditioning units, electricity, water, a communications network, and furniture. The facility includes 62 cabins and two halls for services and catering, and can accommodate approximately 50 doctors and 100 nurses, while the number of staff includes approximately 60 specialized staff members. The building includes wards with a capacity for 200 beds, as well as 40 Intensive Care Unit beds and 19 emergency beds.

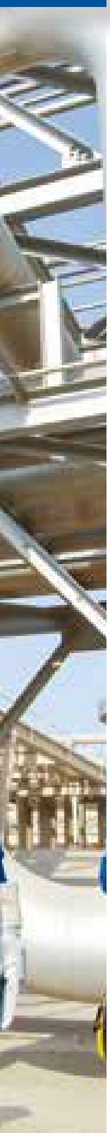
KOC's Medical Group has developed an emergency plan for Ahmadi Hospital, which is home to a highly qualified and experienced medical and nursing staff. The hospital also utilizes the world's latest, state-of-the-art medical equipment. Ahmadi Hospital has allocated a complete ward with 31 beds to accommodate any additional patients in the event that Jaber Hospital exceeds its capacity.

Meanwhile, the KOC Guesthouse in Ahmadi has been prepared to host any patients under quarantine in the event that sites designated by the Ministry of Health reach their full capacity. The Medical Group has also finalized a course for industrial health specialists from various departments of the Company in order to train them on how to correctly sterilize buildings and facilities in order to create a safe working environment for staff and patients.

KOC's Aspirations to meet Strategic Objectives for 2020/2021

This Annual Report has outlined the significant accomplishments registered by KOC over the 2019/2020 fiscal year. These significant undertakings could not have taken place without the concerted efforts of all KOC employees and Company business partners. While KOC has made significant strides toward the realization of its 2040 strategic objectives, the Company continues to remain focused on the future work that is required to ensure the success of our operations. In this regard, a number of goals for the next fiscal year include the following:

- Manage crude oil production levels and follow guidelines from the Ministry of Oil as they relate to the State of Kuwait's OPEC commitments while maximizing the output of lower production costs and crude streams to optimize costs.



- Continue building production capacity of crude oil in accordance with KOC's strategic objectives. KOC also looks forward to continue implementing projects which increase production, such as Gathering Center 31 (GC-31) in North Kuwait. KOC also looks forward to the commencement of construction on Gathering Center 32 (GC-32) in the area of operations in South & East Kuwait. GC-32 will oversee the production of sour crude oil from Burgan's Minagish Field. The facility is expected to come online during the 2020/2021 fiscal year.

- Implement an intensive drilling program to develop newly explored oil reservoirs.

- Focus on water treatment, handling, and injection operations for reservoirs to increase production capacity.

- Sustain and increase the production of Non-Associated Gas from 500 Million to 1 Billion Cubic Feet Per Day. This will be accomplished by improving the productivity of the three Jurassic Production Facilities, in addition to continuing the development of the fourth and fifth facilities over the course of the fiscal year.

- Develop Heavy Oil reservoirs in North Kuwait by raising the production capacity in Ratqa Field in the Lower Fares Reservoir and achieve production capacity equivalent to 60 MBOPD. In addition, KOC will continue to develop the Umm Niqa Lower Fares Field to increase its production capacity to 25 MBOPD.

- Begin implementing the offshore drilling project to support KOC's production capacity.

- Enhance production operations through the utilization of advanced forms of technology:

  - 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.

- Advance forward with crude oil segregation projects according to type, such as Heavy Oil (Lower Fares and Umm Niqa), Medium Heavy Oil (Ratawi and East Umm Gudair), in addition to Kuwait Export and Kuwait Super Light Oil.

- Continue the reduction of Gas Flaring to 1% or less throughout KOC's areas of operation.

- Ensure integrity of staff and continuity of operations under restrictions imposed due to the COVID-19 pandemic.

- Continue using innovative IT tools to allow remote work for KOC staff to ensure continuity of business while restrictions are in place due to COVID-19.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Financial Statements and Independent Auditor's Report

For the year ended 31 March 2020

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Kuwait Oil Company K.S.C.
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 2020, 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 2020, 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 (tSAs). 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 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 malarial 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 2020 that might have had a material effect on the business of the Company or on its financial position.

Safi A. Al-Mutawa

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of KPMG Safi Al-Mutawa & Partners Member firm of KPMG International

Kuwait: 30 April 2020

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

Statement of financial position
as at 31 March 2020

	Note	2020 KD'000	2019 KD'000
Assets			
Property, plant and equipment:			
Crude oil and general purpose		5,533,993	5,604,568
Gas collection and transmission		1,045,332	875,533
Drilling and exploration		95,781	103,711
Export operations		13,044	6,944
Mobile plant		4,833	1,031
Capital work in progress		7,779,169	6,531,632
Total property, plant and equipment	*5*	14,472,152	13,123,419
Right-of-use asset	*6*	853,965	-
Intangible assets	*7*	78,522	83,445
Construction inventories	*8*	224,434	172,267
Receivable from Parent Company	*10*	15,094	15,094
Non-current assets		15,644,167	13,394,225
Consumable inventories	*8*	114,163	119,512
Advances and other receivables	*9*	625,203	539,328
Amounts due from group companies	*16 (b)*	51,756	79,071
Cash and cash equivalents	*11*	8,735	5,152
Current assets		799,857	743,063
Total assets		16,444,024	14,137,288
Equity			
Share capital – authorized, issued and fully paid shares of KD 1 each	*12*	30,188	30,188
Shareholder's current account	*12*	2,114,791	2,114,791
Statutory reserve	*12*	15,094	15,094
Total equity		2,160,073	2,160,073
Liabilities			
Due to Parent Company, net	*10*	10,832,001	9,547,501
Post-employment benefits	*13*	667,309	616,431
Lease liabilities	*2(d)*	644,756	-
Non-current liabilities		12,144,066	10,163,932
Accounts payable and other liabilities	*14*	1,407,870	1,253,015
Lease liabilities	*2(d)*	335,529	-
Dividend payable	*15*	396,486	560,268
Current liabilities		2,139,885	1,813,283
Total liabilities		14,283,951	11,977,215
Total equity and liabilities		16,444,024	14,137,288

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 2020

	Note	2020 KD'000	2019 KD'000
Revenue:			
Revenue (net of royalty, levy and marketing fees)	*17*	3,290,211	3,947,451
Operating cost (cost of production):			
Contract services		(625,192)	(676,732)
Employee cost		(718,829)	(836,063)
Material cost		(76,851)	(71,695)
Depreciation, amortization and write off	*5,6&7*	(507,721)	(383,598)
Total operating cost	*18*	(1,928,593)	(1,968,088)
Other operating income	*19*	32,919	31,319
Recoverable costs	*20*	138,562	157,835
Cost of production		(1,757,112)	(1,778,934)
Deferred cost recognized		-	(64,009)
Total cost of sales		(1,757,112)	(1,842,943)
Gross profit		1,533,099	2,104,508
General and administrative expenses	*21*	(110,013)	(103,673)
Net operating profit		1,423,086	2,000,835
Interest expense		(7,187)	-
Interest income		164	163
Directors' remuneration	*22*	(42)	(42)
Net profit before contribution to shareholder		1,416,021	2,000,956
Contribution to the shareholder	*23*	(1,019,535)	(1,440,688)
Net profit and total comprehensive income for the year (transferable to Parent Company)	*15*	396,486	560,268

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 2020

	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 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 15)	-	-	-	(560,268)	(560,268)
Balance at 31 March 2019	30,188	2,114,791	15,094	-	2,160,073
Balance at 1 April 2019	30,188	2,114,791	15,094	-	2,160,073
Net profit	-	-	-	396,486	396,486
Total comprehensive income for the year	-	-	-	396,486	396,486
Transactions with owner of the Company, recognized directly in the equity					
Distribution to owner of the Company (note 15)	-	-	-	(396,486)	(396,486)
Balance at 31 March 2020	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 2020

	Note	2020 KD'000	2019 KD'000
Cash flows from operating activities			
Net profit		396,486	560,268
Adjustments for:			
Abortive drilling expenditure	*18*	1,301	3,786
Interest expense	*2(d)*	7,187	-
Provision for obsolete and slow moving inventories		1,183	-
Depreciation, amortization and write off	*5,6&7*	507,721	383,598
Contribution to the shareholder	*10*	1,019,535	1,440,688
Provision for post employment benefits	*13*	86,578	252,653
		2,019,991	2,640,993
Changes in:			
- consumable inventories		5,349	(14,620)
- advances and other receivables		(85,875)	20,911
- receivable from the Parent Company	*10*	(3,290,211)	(3,947,451)
- other movements in the Parent Company balances	*10*	5,668	2,188
- accounts with group companies		27,315	14,006
- accounts payable and other liabilities		154,855	311,040
Cash used in operations		(1,162,908)	(972,933)
Post employment benefits paid	*13*	(35,700)	(83,672)
Net cash used in operating activities		(1,198,608)	(1,056,605)
Cash flows from investing activities			
Acquisition of property, plant and equipment	*5&6*	(1,480,141)	(1,857,106)
Abortive drilling	*18*	(1,301)	(3,786)
Changes in construction inventories		(53,350)	(15,681)
Net cash used in investing activities		(1,534,792)	(1,876,573)
Cash flows from financing activities			
Payment of lease liabilities including interest	*2(d)*	(252,257)	-
Funding from the Parent Company	*10*	2,989,240	2,930,765
Net cash generated from financing activities		2,736,983	2,930,765
Net change in cash and cash equivalents		3,583	(2,413)
Cash and cash equivalents at beginning of the year		5,152	7,565
Cash and cash equivalents at end of the year	*11*	8,735	5,152

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

1. Reporting entity

Kuwait Oil Company K.S.C. ("the Company") is a wholly owned subsidiary of Kuwait Petroleum Corporation ("the Parent Company" or "KPC"). The Parent Company is wholly owned by the Government of 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 center. Prior to 1 April 2007, the Company was reporting to the Parent Company as a cost center 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 23).

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 30 April 2020 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 Group's annual financial statements in which IFRS 16, *Leases* have been applied. Changes to significant accounting policies are described in Note 2 (d).

b) Basis of measurement

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

c) Functional and presentation currency

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

d) Changes in significant accounting policies

IFRS 16 Leases

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

(i) Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Company now assesses whether a contract is or contains a lease based on the definition of a lease.

(ii) As a lessee

As a lessee, the Company leases many assets such as rigs, heavy equipment and motor vehicles and helicopters. The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognises right-of use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

Leases classified as operating leases under IAS 17

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

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

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets value below KD 20,000; and
- used hindsight when determining the lease term.

(iii) As a lessor

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

(iv) Impact on transition

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

	KD'000 **1 April 2019**
Assets	
Right-of-use assets	669,797
Liabilities	
Lease liabilities	669,797

When measuring lease liabilities for leases that were classified as operating leases, the Company discount lease payments using its incremental borrowing rate at 1 April 2019. The weighted average rate applied is 3.5%.

Set out below, are the carrying amounts of the Company's right-of-use assets and lease liabilities and the movements during the year ended 31 March 2020:

	Right-of-use assets	**Lease liabilities**
As at 1 April 2019	669,797	669,797
Additions	529,471	529,471
Depreciation charged to profit and loss	(80,986)	-
Depreciation charge capitalized	(264,317)	-
Finance cost charged to profit and loss	-	7,187
Finance cost capitalized	-	26,087
Lease payments	-	(252,257)
As at 31 March 2020	853,965	980,285

The current and non-current portion of lease liability is set out below:

	KD'000
Current	335,529
Non-current	644,756
As at 31 March 2020	980,285

Amendments to IFRS 9: Prepayment Features with Negative Compensation

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

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

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

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.

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%

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

Revenue from exploration and extraction of crude oil and gas

The Company recognizes the revenue, when it loads the crude oil on the designated vessel at the port of Kuwait for its 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.

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 does not recognize deferred cost.

g) Leases

Policy applicable from 1 April 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 April 2019.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right of use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right of use asset reflects that the Company will exercise a purchase option. In that case the right of use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- amounts expected to be payable under a residual value guarantee; and
- Payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right of use asset, or is recorded in profit or loss if the carrying amount of the right of use asset has been reduced to zero.

Significant judgement in determining the lease term of contracts with renewal options

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

The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of IT equipment and employee cars that are considered of low value (i.e., below KD 20,000). Lease payments on short-term leases and leases of low- value assets are recognised as expense on a straight-line basis over the lease term.

Policy applicable before 1 April 2019

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payment made under operating leases are charged to the statement of profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

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.

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 Company 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

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.

l) Standards and interpretations issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 April 2020 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments to IFRS 3).
- Definition of Material (Amendments to IAS 1 and IAS 8).
- IFRS 17 Insurance Contracts.

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.

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 2020	**Net book value at 1 April 2019 KD'000**	**Additions/ (disposals and transfers), net KD'000**	**Net depreciation (additions and transfers) KD'000**	**Net book value at 31 March 2020 KD'000**
Crude oil and general purpose	5,604,568	276,790	(347,365)	5,533,993
Gas collection and transmission	875,533	230,976	(61,177)	1,045,332
Drilling and exploration	103,711	-	(7,930)	95,781
Export operations	6,944	6,748	(648)	13,044
Mobile plant	1,031	3,531	271	4,833
Total	6,591,787	518,045	(416,849)	6,692,983

31 March 2019	**Net book value at 1 April 2018 KD'000**	**Additions/ (disposals and transfers), net KD'000**	**Net depreciation (additions and transfers) 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

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

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

5. Property, plant and equipment (continued)

By Category

31 March 2020	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)	Computers (KD'000)	Drilling, exploration and other assets under construction (KD'000)	Total (KD'000)
Cost												
At 1 April 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
Additions to capital work in progress	-	-	-	-	-	-	-	-	-	-	1,770,546	1,770,546
Transfer from capital work in progress	11,827	101,714	328,947	7,153	-	7,042	24,882	995	1,317	39,132	(523,009)	-
Internal transfers	(9,153)	12,967	-	(10,505)	-	-	5,200	14	(527)	2,004	-	-
Write off	(29,421)	(172)	-	(1,115)	-	(439)	(512)	(27)	(114)	(494)	-	(32,294)
At 31 March 2020	2,658,229	2,606,746	5,379,738	73,917	1,800	109,466	890,416	4,890	33,509	80,798	7,779,169	19,618,678
Accumulated depreciation and impairment losses												
At 1 April 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
Charge for the year	69,697	101,404	195,759	10,572	209	6,620	30,669	600	298	5,215	-	421,043
Internal transfers	3,050	1,921	-	(11,873)	-	-	5,411	14	(527)	2,004	-	-
Write off	(28,824)	(170)	-	(1,090)	-	(354)	(454)	(27)	(112)	(493)	-	(31,524)
At 31 March 2020	1,378,458	1,053,040	2,240,045	58,667	1,607	45,915	292,148	3,012	31,758	41,876	-	5,146,526
Carrying value												
At 31 March 2020	1,279,771	1,553,706	3,139,693	15,250	193	63,551	598,268	1,878	1,751	38,922	7,779,169	14,472,152

Exploration and evaluation costs included under drilling, exploration and other assets under construction amounted to KD 40,092 (31 March 2019: KD 30,070 thousands).

5 Property, plant and equipment (continued)

By category (continued)

By Category 31 March 2019	Oil and gas properties: Plant and machinery (KD'000)	Oil and gas properties: Tankage, pipelines and jetties (KD'000)	Oil and gas properties: Wells and surveys (KD'000)	Other property, plant and equipment: Service plant (KD'000)	Other property, plant and equipment: Drilling plant (KD'000)	Other property, plant and equipment: Marine craft (KD'000)	Other property, plant and equipment: Building and roads (KD'000)	Other property, plant and equipment: Office furniture and equipment (KD'000)	Other property, plant and equipment: Lorries and trailers (KD'000)	Other property, plant and equipment: Motor vehicles (KD'000)	Other property, plant and equipment: Computers (KD'000)	Capital work in progress: 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

6. Right of use assets

	Rigs (KD'000)	Heavy equipment (KD'000)	Motor vehicles and helicopters (KD'000)	Total (KD'000)
Cost				
At 1 April 2019	655,737	-	14,060	669,797
Additions	526,101	3,370	-	529,471
At 31 March 2020	1,181,838	3,370	14,060	1,199,268
Accumulated depreciation and impairment losses				
At 1 April 2019	-	-	-	-
Charged to profit and loss	76,486	1,312	3,188	80,986
Charged to capital work in progress	264,317	-	-	264,317
At 31 March 2020	340,803	1,312	3,188	345,303
Carrying value				
At 31 March 2020	841,035	2,058	10,872	853,965

Amounts recognised in profit or loss

	31 March 2020 KD'000
Expense relating to short term leases	89,223
Expense relating to leases of low value assets	14,492

7. Intangible assets

31 March 2020	Seismic surveys KD'000	Others KD'000	Total KD'000
Cost			
At 1 April 2019 and 31 March 2020	163,679	2,126	165,805
Accumulated amortization and impairment losses			
At 1 April 2019	80,299	2,061	82,360
Amortised during the year	4,892	31	4,923
At 31 March 2020	85,191	2,092	87,283
Net book value			
At 31 March 2020	78,488	34	78,522

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

8. Inventories

	2020 KD'000	**2019 KD'000**
Inventories at cost	342,806	296,389
Provision for obsolete and slow-moving items	(4,209)	(4,610)
	338,597	291,779
Classified in statement of financial position as:		
Construction inventories	224,434	172,267
Consumable inventories	114,163	119,512
	338,597	291,779

9. Advances and other receivables

	2020 KD'000	**2019 KD'000**
Advances to contractors	584,701	484,264
Prepaid expenses	2,119	5,748
Staff advances	22,172	26,162
Other receivables	20,025	26,747
Less:- Expected credit loss	(3,814)	(3,593)
	625,203	539,328

10. 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:

	2020 KD'000	2019 KD'000
At 1 April	9,547,501	8,713,827
Net revenue receivables (note 17)	(3,290,211)	(3,947,451)
Net funds transfer	2,989,240	2,930,765
Dividend distributed (note 15)	560,268	407,484
Contribution to shareholder (note 23)	1,019,535	1,440,688
Other movements	5,668	2,188
At 31 March	10,832,001	9,547,501
Non-current receivables		
Receivable from Parent Company *(relating to transfer of statutory reserve)*	(15,094)	(15,094)
	10,816,907	9,532,407

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.

11. Cash and cash equivalents

	2020 KD'000	2019 KD'000
Cash in hand	18	18
Cash at bank	8,717	5,134
	8,735	5,152

12. Equity

Share capital

The authorized, issued and fully paid up share capital of the Company comprises of 30,188,291 (31 March 2019: 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.

13. Post-employment benefits

	2020 KD'000	2019 KD'000
Balance at beginning of the year	616,431	447,450
Charge for post-employment benefits	86,578	252,653
Payments made during the year	(35,700)	(83,672)
Balance at end of the year	667,309	616,431

In prior year, the charge for post-employment benefits includes the retrospective financial effect of Law No. 85 of 2017 for amendment to Law No. 6 of 2010.

14. Accounts payable and other liabilities

	2020 KD'000	2019 KD'000
Accounts payable	767,484	720,448
Contractor and suppliers retentions	234,138	205,717
Liquidated damages	277,648	202,869
Staff payables	86,307	65,842
Accrued expenses	30,257	27,992
Others	12,036	30,147
	1,407,870	1,253,015

15. 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 10).

16. 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 20.

ii. All of the Company's net revenue for the year amounted to KD 3,290,211 thousands (31 March 2019: KD 3,947,451 thousands) represent net sales by the Parent Company (note 17).

iii. Training costs charged by the Parent Company amounted to KD 4,971 thousands (31 March 2019: KD 5,033 thousands) (note 21).

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 18).

Key management compensation

	2020 KD'000	2019 KD'000
Salaries and other employee benefits	883	1,152
	883	1,152

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

	2020 KD'000	2019 KD'000
Due from group companies:		
Kuwait National Petroleum Company K.S.C.	29,600	58,605
Kuwait Oil Tanker Company S.A.K.	6,698	5,131
Kuwait Foreign Petroleum Exploration Company K.S.C.	260	192
Kuwait Aviation Fueling Company K.S.C.	418	710
Petrochemical Industries Company K.S.C.	4,806	5,621
Kuwait Petroleum International Limited	386	907
Kuwait Gulf Oil Company K.S.C. (Closed)	5,821	4,266
Oil Sector Services Company K.S.C. (Closed)	110	160
Kuwait Integrated Petroleum Industries Company	3,657	3,479
	51,756	79,071

17. 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:

	2020 KD'000	2019 KD'000
Gross revenue	17,501,128	20,997,081
Royalty	(3,500,226)	(4,199,416)
Fiscal levy	(10,360,668)	(12,430,272)
Marketing fee	(350,023)	(419,942)
Net revenue (note 10)	3,290,211	3,947,451

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 3,225,610 thousands (2019: KD 3,894,107 thousands) and KD 64,601 thousands (2019: 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.

18. Total cost

Total cost consists of the following:

	Note	2020 KD'000	2019 KD'000
Total operating cost		1,928,593	1,968,088
Add: General and administration expenses	*21*	110,013	103,673
Less: Other operating income	*19*	(32,919)	(31,319)
Total cost		2,005,687	2,040,442

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

	2020 KD'000	2019 KD'000
Crude oil production	1,014,819	1,200,644
Gas production	367,129	359,633
Export operations	114,717	92,781
Abortive drilling expenditure	1,301	3,786
Depreciation, amortization and write off	507,721	383,598
Total cost	2,005,687	2,040,442

19. Other operating income

	2020 KD'000	2019 KD'000
Port fees	18,712	19,275
Other income	14,207	12,044
	32,919	31,319

20. Recoverable costs

	2020 KD'000	2019 KD'000
Kuwait National Petroleum Company K.S.C.	21,152	31,380
Kuwait Gulf Oil Company K.S.C.	(109)	11
Kuwait Petroleum Corporation	334	-
Kuwait Integrated Petroleum Industries Company K.S.C.C.	79	221
Kuwait Oil Tanker Company S.A.K.	-	10
Group companies for medical services	117,106	126,213
	138,562	157,835

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

21. General and administrative expenses

	2020 KD'000	2019 KD'000
Utilities	57,819	47,987
Training costs (note 16)	4,971	5,033
Insurance	9,484	7,524
Medical costs	28,147	33,066
Others	9,592	10,063
	110,013	103,673

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

22. Directors' remuneration

Board of Directors' remuneration of KD 42 thousand (31 March 2019: KD 42 thousand) is subject to the approval of the shareholder at the general assembly meeting.

23. Contribution to the shareholder

In accordance with the reporting structure of the Company as a profit center (see note 1 and 10), 72% of the net profit for the year is payable to the Parent Company.

24. Operating leases

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

	2020 KD'000	2019 KD'000
Within 1 year	-	9,432
Between 1 and 5 years	-	8,186
	-	17,618

25. Financial instruments

Financial risk management

Overview

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

- credit risk
- market risk
- liquidity risk

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

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

a. Credit risk

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

The Company's total sales are to the Parent Company inside Kuwait and, therefore, there is low credit risk.

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

	2020 KD'000	2019 KD'000
Receivable from the Parent Company	15,094	15,094
Advances and other receivables	623,084	533,580
Amounts due from group companies	51,756	79,071
Cash and bank balances	8,735	5,134
	698,669	632,879

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.

26. 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.

27. Commitments and contingencies

Commitments for future capital expenditure in relation to lump sum contracts and purchase orders amounted to KD 1,516 million (31 March 2019: KD 1,392 million).

28. Claims and litigations

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.

29. 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.

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